

# INDICATIVE POLL THE FUTURE OF BIRDCAGE WALK

Institution of  
**MECHANICAL  
ENGINEERS**

January 2022

**The Real Estate Strategy Group (RESG) was created to provide expert direction on creating an inclusive, modern, functional HQ, right-sized for our future needs, whilst addressing current maintenance challenges at Birdcage Walk. You may have already heard or read about this from the consultation process that has been underway over the past year and may be aware that we will be conducting a Member Ballot.**

Before we initiate the Member Ballot, based on the feedback already received, the Trustee Board have decided to conduct an indicative poll, to further inform the final Member Ballot.

One Birdcage Walk is the Institution's most significant asset and forms the centre of our operations. It is also home to the majority of our staff team, so it is vitally important that any decisions taken regarding its future are well considered and are informed and supported by its members.

## Background

The building is owned by the Charity. Our Real Estate Strategy Group (RESG), headed by Trustee Helena Rivers whose expertise is in the heritage building sector, has looked at options for the building.

It is not immediately obvious but our HQ comprises broadly two parts: 1 Birdcage Walk (including 1, 3 & 5 Storey's Gate to the rear) and 3 Birdcage Walk (including 8-12 Old Queen Street to the rear). Almost all areas used by members, including the Library, Lecture Theatre, Reception, and the main meeting rooms, lie within 1 Birdcage Walk, which was our first headquarters in London, ~50 years after our founding in Birmingham.

The Institution bought 3 Birdcage Walk in 1955 from the Government, formally joining it to 1 Birdcage Walk in 1960. In recent years

3 Birdcage Walk has been used as offices for staff and tenants but its configuration of small offices is unsuitable to the needs of the Institution. IMechE is a changing organisation with evolving office and building needs. The move to digital working, digital events and expansion of our national and global membership base has changed our office, venue and headquarters needs.

We do not need the space within 3 Birdcage Walk, especially as the increase in flexible working as a result of the pandemic has reduced the amount of staff space we need.

The Institution does not have the funds to pay for the refurbishment and modernisation costs, which are now critical, and estimated at £16-20M.

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We have three broad options for addressing the refurbishment and modernisation of Birdcage Walk:

1. Retain Birdcage Walk and fund the renovations through selling a 250-year lease on 3 Birdcage Walk, or by raising a mortgage.
2. Sell Birdcage Walk and buy a new headquarters building in London and smaller regional offices.
3. Sell Birdcage Walk, invest the proceeds, and become a fully virtual organisation with no central facilities.

This is the most radical option, which members expressed little support for during the consultation. It would require huge operational changes to the investigated and options evaluated, far more than simply relocating. Due to the time pressures of finding a solution to the urgent building work, RESG did not look in detail at this option and so we cannot provide further operational or financial information.

It should be noted that the consultation did expose a desire for a greater regional presence. This will be explored whichever option is finally selected, for example through increased sharing of facilities with other institutions.

## Options

### Option 1 – Retain the building

To raise the funding for the refurbishment, the Institution can either raise a mortgage on the entire property or sell a 250-year lease on 3 Birdcage Walk.

Selling the lease or raising a mortgage would allow us to retain our iconic building and to keep our central London location. During the works we would relocate to alternative office accommodation. Once complete we would have a refurbished building, better suited to our future requirements, whilst retaining our central London location.

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#### Option 1a - Sell a 250-year leasehold on 3 Birdcage Walk

IMechE would retain 1 Birdcage Walk. The funds raised would cover the costs of refurbishment and modernisation to 1 Birdcage Walk and raise additional capital which could be invested to generate income. Depreciation costs would increase substantially due to the estimated £16M costs of refurbishment.

#### Option 1b- Raise a mortgage

Raise a £22m mortgage to refurbish the whole building to a basic minimum standard, but with no upgrade to member facilities. This option would allow IMechE to retain the entire building and to rent the unused space in 3 Birdcage Walk to generate income.

This has the advantage of creating a long-term revenue stream to cover part of the mortgage repayments, but with significant development and letting risk. However, depreciation costs would increase substantially due to the costs of refurbishment, estimated at £22M

There would be significantly adverse cashflow from the capital repayments and interest and it would expose the IMechE to considerable financial risk.

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## Option details

	Option 1a	Option 1b
Member space	London	London
Events space	Yes, improved	Yes, as now
Library	Yes	Yes
Value of property & investments relative to today	Reduced by 25-35% due to splitting the site (the whole site is worth 15-20% more than 1 and 3 Birdcage Walk separately) and the refurbishment adding less to the market value of 3BCW than it costs.	Broadly equivalent to current value
Impact on annual expenditure	Adverse £0.1-£0.4M p.a. (depending on sale price for 3BCW)	Significantly adverse (~£1M p.a.)
Impact on free reserves against target requirements.	Favourable £1-6M (depending on sale price for 3BCW)	Significantly adverse (>£15M) by year 10

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## Option 2 – Sell the whole building and buy a new headquarters

If we were to sell the whole building we could use these funds to invest in a new headquarters, designed to meet our current and future office and venue needs. We would consider staying in London, or moving to a

'hub and spoke' model of a small London HQ and a number of small regional offices.

We would have a substantial surplus from the sale of the building once we have relocated. This surplus would be invested to generate an income, and the income used to better achieve our strategic goals.

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### Option 2a - Sell all of BCW and relocate to a new office in London

The sale would raise a significant amount of money and allow IMechE to retain a London headquarters, keeping the majority of the staff together on one site and giving a central home to the profession. The surplus funds would be invested to generate an income.

### Option 2b - Sell all of BCW and operate a small London headquarters and smaller regional offices

This model would allow IMechE to raise a significant amount of money and to develop a physical regional presence in a small number of UK locations. There would be a slightly greater surplus than in option 2a, which would be invested to generate an income.

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## Option details

	Option 2a	Option 2b
Member space	London	For illustrative purposes - London, Edinburgh, Cardiff, Belfast, Sheffield
Events space	Yes, but smaller 120 seat lecture theatre. Financial provision for hiring larger theatre as required	Smaller meetings only and no lecture theatre. Financial provision for hiring event space as required
Library	No	No
Value of property & investments relative to today	Broadly equivalent to current value but with majority investments and minority property	Broadly equivalent to current value but with large majority investments and small minority property
Impact on annual expenditure	Significantly positive (~£1.25M -£1.75M p.a.)	Significantly positive (~£1.5M -£2.25M p.a.)
Impact on free reserves against target requirements.	Highly positive (over £70M)	Highly positive (over £80M)

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## Our Recommendations

### **Option 1a - Sell 250-year leasehold on 3BCW**

The Trustees and Real Estate Strategy Group consider this the most viable option, and the preferred option.

RESG's strong recommendation is to sell a 250-year lease of 3 Birdcage Walk to provide funds to refurbish 1 Birdcage Walk and generate a cash surplus. This option also has the backing of our Finance Board, Audit & Risk Committee and Strategy Committee, and will implement members' wishes to retain Birdcage Walk as our headquarters.

Using space more efficiently will enable us to accommodate all staff space and member areas within 1 Birdcage Walk without any need for 3 Birdcage Walk.

This option can only proceed if we can achieve an acceptable lease sale value, so before any decision is taken on refurbishment, we will know the actual offers received for 3BCW and whether they are sufficient for our plans.

### **Option 1b - Raise a mortgage**

Due to the very high level of financial, development and letting risk, the Trustee Board do not consider this a viable option and strongly advise against it.

### **Option 2a - Sell all of BCW and relocate to a new smaller HQ in London**

Trustees consider this a financially viable option, but are concerned that it may alienate a significant proportion of the membership who wish to remain at Birdcage Walk.

### **Option 2b - Sell all of BCW and relocate to a small London HQ with smaller regional offices**

Trustees do not consider this a viable option as, during the consultation, there was no consensus about where the regional hubs would be located – the locations used in the option detail are illustrative only – and London is usually the most convenient place to travel to from within and outside the UK. There is also additional operational risk in running multiple sites.

### **Option 3 - Sell all of BCW, and become a fully virtual organisation with no headquarters**

The operational risk in this option is considered high but has not been looked at in detail. This would involve a significant change in the way that IMechE operates, and Trustees do not consider this a viable option.