

## Leeds Canal Basin project

1. In the first quarter of 1987 BWB and a developer formed a joint venture company called Leeds Canal Basin (Developments) Limited (LCBD). The developer already had a 99-year lease from BWB on the Leeds Canal Basin land which it had purchased in 1973. The initial capitalization of LCBD is set out in the table below.

### Initial capitalization of LCBD

	£'000
Developer's leasehold interest	765
BWB freehold interest	<u>285</u>
Total	1,050
Cash contribution by BWB	<u>450</u>
Grand total	<u>1,500</u>

2. The initial objective of LCBD was to redevelop the whole site which included a (Grade II listed) warehouse, railway arches and open car-parking space. The warehouse was to be converted into a hotel and public house. The open car park was to have a roof constructed over it on which craft and market stalls would be erected. The railway arches were to be refurbished as retail outlets. The estimated capital cost of the proposal was £1.442 million.

3. Finance for the original proposal was to be from two sources. The first was to be the cash injection of £450,000 by BWB (over and above BWB's £285,000 freehold interest, which is not shown in BWB's accounts) as its share of the joint venture capital. The second was to be bank overdraft. It was anticipated that bank finance would be required for the first six years after which LCBD's bank account would have been in credit producing considerable income from interest receivable. The original proposal to the BWB Board said that apart from the initial cash injection of £450,000 no further financial support from BWB would be required.

4. In the event the original plan was not proceeded with although planning consent had been granted by Leeds City Council in 1988. Under pressure from the Leeds Development Corporation (LDC) LCBD decided to plan for a more comprehensive development. Planning consent for this was given in September 1990.

5. A number of steps were also taken by BWB and the developer to restructure their investments. This involved the incorporation of a neighbouring site originally partly owned by the developer and an injection of a further £400,000 by BWB. After the restructuring at the end of 1991 the value of LCBD was estimated at £3.586 million (excluding any liability for repair of the warehouse) with BWB owning 49 per cent as before. BWB also contributed an easement and a freehold site valued in total at £200,000. This brought BWB's investment in the project to a total of £1.335 million.

6. A financial appraisal of the restructuring indicated an increased value of £685,000 and an internal rate of return of a little more than 8 per cent in a DCF analysis. The result is highly sensitive to the assessed value of the LCBD land holding and to the treatment given to the bridge easement and freehold grant which were part of BWB's contribution.

7. A small part of the site together with the listed warehouse were sold to a second developer. The value of land currently owned by LCBD (ie excluding that part of the original site sold to the second developer) is estimated at £2.815 million and is based on cash offers made in 1991. BWB's share of this under the joint venture is £1.379 million. By comparison the contribution of BWB to the venture amounts to £1.335 million, comprising £850,000 in cash, £285,000 for the site and £200,000 for the other non-cash items. On this basic calculation BWB's project account shows a modest surplus. Further development value relating to the railway arches might increase that surplus. The transfer of liability for repair to the warehouse to the second developer has also to be taken into account.