

T Mark Hall Foundation

Investing in the future of British Go

*Registered Office:
26 Groby Lane,
Newtown Linford,
LE6 0HH*

*September 2020.
board@tmhallfoundation.org.uk*

EXTRAORDINARY GENERAL MEETING 13 SEPTEMBER 2020

Letter from the Board

Introduction

In July we sent you a Newsletter¹, giving you an update on the progress in establishing a permanent London Mind Sports Centre. Since then there has been further progress, and we are rapidly approaching a major decision point when we have to decide whether or not to make an offer to purchase a building. The proposal is that the T Mark Hall Foundation will invest £400,000 in this project. This represents about 90% of the Foundation's current assets, and would be a momentous decision. The Board are therefore seeking your agreement that we can finalise the negotiations, and to proceed with the purchase if these final negotiations are successful.

It must be stressed that a "Yes" vote does not represent an unequivocal commitment to proceed; it gives the Board permission to finalise the necessary agreements and to make the proposed investment.

History

T Mark Hall died in 2013. and left the majority of his estate, worth around £350,000 to the T Mark Hall Foundation, with the wish that it be used to establish a London Go Centre. Good investment performance means that the Foundation currently has assets of around £457,000.

The Foundation undertook research in 2015/2016. We established that a Go Centre was impracticable, but that a MindSports Centre might be. We contacted the Bridge and Chess organisations; Bridge was not interested and chess showed initial enthusiasm, but this seemed to tail off. The feasibility study was completed in 2017, but the untimely death of Roger Huyshe and the waning of enthusiasm from the Chess community meant that work stopped.

Meanwhile, Gerry Gavigan negotiated an agreement with the Young Chelsea Bridge Club to sublet part of their premises for the establishment of the London Go Centre.

¹ <http://www.tmhallfoundation.org.uk/sites/tmhallfoundation.org.uk/files/Newsletter%203.pdf>

Development of a Mind Sports Centre

In 2019 David Parry, on behalf of the Young Chelsea Bridge Club, put together a proposal to purchase the YCBC premises in Shepherd's Bush for an estimated £800,000. The TMHF was asked for its support, and we agreed in principle to put £250,000 towards the purchase.

Developments were slow – the building owners were unresponsive – and meanwhile an alternative option came onto the market. This was an old Salvation Army Building. It is now proposed that it is purchased, and turned into a Mind Sports Centre.

The Salvation Army Building

The building is in Ravenscourt Park, adjacent to the tube station (this is the first station west of Hammersmith on the District Line). The area is considered by the bridge community to be preferable to Shepherd's Bush as being "more salubrious".

The proposal is to purchase the building as freehold (guide price £1.95M). Currently this building has 2 floors. The eventual intention is to fully refurbish the building, inserting a third floor, but at the time of writing there are insufficient funds to finance this refurbishment. Further funds are being sought, but if these are not forthcoming we will utilise one floor (with a floor area of 2,400 square ft., approximately equivalent to the existing premises in Goldhawk Road) for Mind Sports, the other floor will be let at a commercial rate. In the event that additional funds can be obtained, then a third floor will be inserted and two floors will be used for Mind Sports, with the third being let at a commercial rent.

The floor(s) to be used for Mind Sports will be let to an operating company, which will probably be a charity to take advantage of tax reliefs. This operating company (tentatively named Mind Sports Company) will sublet the building to the Young Chelsea Bridge Club, to the London Go Centre and possibly other Mind Sports Organisations.

The London Mind Sports Centre will support Bridge, Chess and Go (all three organisations have expressed an interest), and possibly other Mind Sports or similar (Backgammon, etc.). It would hope to host the Mind Sports Olympiad, for example.

Timetable of Events

The expected timetable of events is as follows:-

- Sep 13 TMHF EGM
- Sep 16 Formal offer to purchase
- Sep 30 Decision on whether our offer has been successful. This is an estimate as it is entirely in the hands of the seller. They are a charity and their Trustees may need to meet to confirm, so it may take longer.
- Oct 30 Surveyor's report received
- Nov 30 exchange contracts
- Dec 15 complete purchase

In early 2021 a minor refurbishment will be undertaken, with occupation of the building targeted for Easter 2021. In the event that sufficient funds for a major refurbishment (with insertion of an additional internal floor) are raised, this timescale will be extended.

Finances

At the moment the YCBC pays £45,000/annum rent to its landlord. It is also responsible for building maintenance, etc. as well as business rates, heating, lighting etc.

Under the current proposal:-

- The TMHF will invest £400,000² towards the purchase and refurbishment of the building, and will receive an appropriate percentage of the equity in a new company (“NewCo”) which will be a Limited Company, with a single asset (the building), and receive rent from the tenants (the commercial tenant and the Mind Sports Centre). Current estimates are that MSC Ltd. will pay £40,000/annum and the Commercial Tenant £80,000/annum. This will result in an estimated minimum yield of 3% (after expenses and tax, and an allowance for under-occupancy), i.e. £12,000/annum to TMHF.
- It is expected that most or all of this income of £12,000/year will be recycled to support the London Go Centre (which will itself pay rent for its use of the premises).
- NewCo will be a classical limited company, with the TMHF being one of a number of shareholders. The TMHF may also appoint one of the Directors. Discussions on governance of this company have only just started, and will need to be concluded to our satisfaction before the £400,000 is invested.
- MSC Ltd will be a charity (or similar) with tax benefits (e.g. reduction in business rates.) It is currently envisaged that there will be three Directors (to be nominated by Bridge, Chess and Go).
- The LGC will be part of the Mind Sports Centre. It may be a shareholder in MSC or it may be a tenant (to be discussed).
- Maintenance will be the responsibility of the tenants, not of NewCo.

TMHF Assets

As at 1 September 2020, the TMHF assets were as follows:-

• Current Account (Bank)	£ 5,082
• Deposit Account (Bank)	£ 205
• Prospect Wealth Management	£102,167
• Interactive Investor	£350,000 ³
• Total	£457,454

It is noted that most of the assets are invested in worldwide stock markets with a degree of volatility. The assets are all easily realisable without significant costs.

The Foundation’s liabilities are:-

- £24,000 tax liability, payable on sale of its investments.
- £5,000 payable to the London Go Centre in October 2020
- £5,000 payable to the London Go Centre in October 2021

² The Foundation has already invested £3,333 of this amount, to be used for expenses associated with the purchase (legal costs, survey costs, etc).

³ At time of writing the stock market is showing considerable volatility, and this value is an approximate value representative of the value of the portfolio over the past few days.

- £5,000 payable to the London Go Centre in October 2022
- £5,000 payable to the London Go Centre in October 2023

although it is envisaged that the 2022 and 2023 payments (and possibly the 2021 payment) will be renegotiated if the move to the Salvation Army Building actually occurs.

The tax liability derives from the capital gains on our investments, which will need to be sold in order to finance the investment in NewCo. These capital gains will be taxed at the Corporation Tax rate (currently 19%). Payment will need to be made towards the end of 2021.

In addition, the Foundation has administrative costs of around £1,000/per year.

The Directors consider that these liabilities will be easily covered by the residual money left after the £400,000 investment is made.

On the assumption that the transfer to the new building, including any refurbishment of it, is completed by the end of 2021, and that after that date any support that the Foundation provides to the LGC is covered by the 3% return on the £400,000 investment, this will leave a sum of approximately £30,000 to be used for other Go-related projects.

Current Position

The TMHF has contributed a 1/3rd share of £10,000 to fund incidental costs, chiefly legal costs, towards making an offer for the Building and ancillary issues (e.g. setting up “NewCo”).

The TMHF has agreed in principle, subject to Member agreement, to invest a total of £400,000 towards purchase of the Building.

David Parry has currently received pledges of £2.1M (including the TMHF contribution). This is sufficient for the building purchase, but not for the refurbishment to create 3 floors. He is seeking additional pledges.

Offers to purchase need to be made by September 16. It is envisaged that an offer of around £1.75M will be made.

LGC operating agreement

Negotiations are on-going with David Parry to replicate the operating agreement that LGC has with YCBC for use of the new centre. We are working to finalise that, hopefully before the EGM. In any case this agreement will need to be finalised to the Directors’ satisfaction before the final commitment to invest the money is made.

Risks

There is a possibility that the building is worth less than the purchase price. We believe that the price is reasonable because:

- A previous offer of £2.5M had been made for the building, but the offer did not proceed.
- The price is consistent with estimated rental yields, i.e. if the entire building (4,800 sq feet) was let at £40/sq ft/year this would give an overall income of nearly £200,000 or a yield of 10% before tax and expenses, which is in line with yields elsewhere in the property field. We therefore consider that the price being asked is reasonable, but

Company Limited by Guarantee, Registered in England and Wales No. 9274117

before the building is purchased we will be obtaining a Surveyor's Report which will include a valuation.

The investment in the building, while secure (as it is an investment in bricks and mortar) will be illiquid and difficult to sell (and any sale may be at a discount to its actual value).

The estimated commercial yield of £40/sq ft/year may not be achieved. The estimated yield is supported by publicly available information on rents demanded for other offices in the vicinity, but we do not know what will be the long-term effects of the Coronavirus outbreak.

There is a risk that it will not possible to find a suitable tenant for the commercial side of the building. In the worst case the TMHF will receive only £5,000/year from the rent provided by MSC and the residual sum of £30,000 will be able to finance the London Go Centre for a period of 3 - 5 years.

We are relying heavily on the expertise of David Parry, a member of the YCBC. David has professional experience in this area (and is clearly trusted by the Bridge community) but we have not done full due diligence on him (he does own property investment companies and Gerry Gavigan has visited his offices). Nor have we obtained independent advice on the estimated costs, nor commercial rental yield (though there is comparable data from nearby properties and a CBRE⁴ professional within the chess community has agreed that £40/sq. ft./per year is a reasonable estimate for a commercial yield).

Planning Permission for change of use may not be granted. David Parry is of the view that the changes required are minor, and change of use permission has previously been granted to the Salvation Army.

The TMHF will be a minority shareholder in NewCo, with between 13 and 20% of the equity. It will therefore have a major stake, but will be subject to the whims of other investors. We will seek to ensure that the Articles of NewCo protect our position.

There is a risk that there will be a major downturn in worldwide stock markets⁵ which will adversely affect the value of TMHF's investments before they are liquidated. We do not intend to liquidate the investments before have confirmation that our offer has been accepted.

Is this too "London-centric?"

We recognise that some Members may see this proposal as being too "London-centric" and that insufficient funds are being spent to support Go in the rest of the country.

We would remind Members that the source of the Foundation's funds is the estate of T Mark Hall, who specifically wished for a "London Go Centre" to be established; the Directors believe that this proposal would have the full-hearted support of T Mark Hall were he still alive.

⁴ CBRE is a major property services company- according to Wikipedia, the largest real estate services company in the world.

⁵ Although our investments are all in the UK stock market, the underlying investments are worldwide: less than 10% of the equity is actually in UK companies.

In the event that the proposal goes ahead, the Foundation would have around £30,000 to spend on supporting Go throughout the country; it is not envisaged that the London Go Centre would require additional financial support.

If the Proposal is Rejected

We currently have good relations with the Young Chelsea Bridge Club, and we have what is probably a “below market” rent for the existing YCBC premises. A rejection of this proposal could jeopardise this relationship (and would probably ensure that a London Mind Sports Centre would not happen in the foreseeable future); there is no Plan B to establish a more permanent home for the LGC.

However, if the proposal were rejected, the Foundation’s assets would remain to support Go.

Recommendation

The Directors recommend that you vote in favour of the resolution, as they all intend to do, subject to the new LGC operating agreement being satisfactory.

This Statement has been approved by the Directors on 7 September 2020.