A. EUGENE KOHN
ARTHUR I SEGEL
ANDREW TERRIS

Back to the Future: Redeveloping Unilever House

As Steve Williams looked out of his office window and down onto the Greenpeace protestors dressed as orangutans blocking the entrance to his building, he couldn't help but wonder whether this was all a big mistake, and if Paul Preston had been right. Is this what Niall Fitzgerald, co-chairman of Unilever PLC, wanted when he had directed Williams to be in charge of leading the redevelopment of Unilever House? It certainly would've been easier to move out of the center of London and close to Heathrow Airport, where other large multi-national companies, such as GlaxoSmithKline (GSK) and Coca-Cola, had recently relocated.

Instead, Unilever had decided to stay and redevelop a 70-year-old historically registered building in the City of London that sat on a foundation of coal ash, an Elizabethan palace, and a Roman fort. As if those construction issues weren't worrisome enough, now the architects were proposing demolishing all but the front façade (50% of the building), and creating a twenty-first century palace—complete with "flying carpets" and a grand atrium that housed three giant "space trumpets" suspended from the roof. Was this really the only way to transform a bureaucratic corporate office culture into a reinvigorated and lean corporate strategic "core" of key decision makers? Or would these grand design visions simply further reinforce the sense of arrogance and remoteness of the corporate center—the very issue that this redevelopment was supposed to fix? And how would Unilever ever pay for all of this?

As Unilever's general counsel, Williams had received his first corporate real estate construction project, and tomorrow he was scheduled to present his recommendation to Fitzgerald for both the proposed financing for Unilever House and the interior design of the building. As Williams sat in the comfort of his office suite on the executive eighth floor, he pondered the options and scale of the decisions he faced. Maybe a quick drink at the Blackfriar pub, located across the road at Queen Victoria street, would help him clarify the issues? However, the idea of traversing the mass of costumed orangutans quickly ended that idea, and left him alone with the future of Unilever House as his focus for the afternoon.

Senior Lecturer A. Eugene Kohn, Professor Arthur I Segel, and Research Associate Andrew Terris prepared this case. The authors would like to thank Michelle Pattison of Unilever for all her help in preparing the case. While this case is based on actual events, certain details described were fictionalized for purposes of the case study. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

The History of Unilever House[1]

Overlooking the Thames at the junction of Victoria Embankment, New Bridge street, and Queen Victoria street, the current site of Unilever House was in the bounds of the old City of London. The area had been consistently inhabited by Londoners for over 3,000 years and had been a Roman fort, the site of Henry VIII's royal gardens, and a workhouse for the unemployed. In the late nineteenth century, Sir Polydore de Keyser acquired the site near Blackfriars Bridge and built the Royal Hotel. The hotel quickly became known as de Keyser's Hotel, as de Keyser's influence—he was elected both Alderman and Lord Mayor of London after the hotel's opening—grew throughout the city. The hotel fell out of favor during the early part of the twentieth century, and in 1921, Lord Lever, the CEO of Lever Brothers Ltd., leased the building and renamed it Lever House.

In 1929, the merger between Lever Brothers Ltd., a British soaps and fats business, and the Anglo-Dutch company Margarine Union created the Unilever corporation. The newly formed company was forced to demolish the existing building and build a new headquarters that could contain the expanded workforce in London. The official opening of Unilever House occurred in July 1932, a little more than two years after the demolition of the original Lever House. The City's Lord Mayor attended the opening, and the new building stood eight stories high, with a curved façade that faced the Thames River and a grand main entrance that welcomed all visitors who entered the building. The floors were built out in an open-plan style that was modern for its era, and the response from the public and employees to the building's classic architecture and pleasant, airy workspace was overwhelmingly positive.

"Like a Mistress"

By the beginning of twenty-first century, Unilever House was no longer such a pleasant place to work. The building had, as a result of constant meddling, slowly morphed into a space with poor amenities, high operating costs, and a design that was at odds with the demands of a global organization.

Corporate decisions made during the second half of the twentieth century had shifted the layout of the building and removed much of its earlier charm. The original entrance had been blocked off to create an executive dining room—now all employees and visitors entered the building through a nondescript side door. An interior refurbishment in the 1970s used an Art Deco theme, which many now felt was visually jarring and out of place with the building's classic façade. To meet the demands of the changing workforce, most floors in the building had been partitioned off into an eclectic mass of offices and cubicles that were stuck together with little regard for consistent design or workplace interaction.

The result was a corporate atmosphere where employees were isolated from each other. Long corridors lined with closed office doors were the norm, and daily interaction between employees was minimal. The amount of collaborative and open space was almost zero. Steve Williams remarked, "The atmosphere was that of a penal institution. People were working in silos and living in cells—it was stuck somewhere between a monastery and a museum." The convoluted, insulated floor design meant human resources could never get an exact count of the number of employees who worked in the building. It was simply estimated that approximately 1,000 people worked at Unilever House. One senior executive insisted, "You could die in offices here and nobody would know." The current

[1] Information for this section is based on information provided in "Unilever House," Information Guide No. 2, Unilever Archives & Records Management, accessed September 2010.

layout also isolated the senior management from the rest of the company. The top floor (eighth floor) had contained exclusively executive management offices ever since the refurbishment in the 1980s and the whole floor housed just eight senior executives and their assistants. Without a direct reason to visit an executive, employees would never venture there; employees would go for years at the company without ever setting foot on the "executive" floor.

Another issue was the haphazard partitioning of offices, which allowed most employees poor access to natural light. In contrast to the executive suites on the eighth floor (which had grand views of the city and full access to windows), the offices in the back of the building (which housed the majority of employees) were dreadfully dark and enclosed. To compound the problem, the staff canteen (which had served as an air raid shelter in World War II) was located below ground in the basement, so that many employees had no access to natural light throughout the workday.

Unilever House was also inefficient and expensive to run. The building was underutilized and had a poor ratio of net usable space. It averaged approximately 325 square feet per employee, while buildings in London averaged approximately 150 sq ft per employee. Property consultants estimated that Unilever could easily fit another 1,500 employees in the building if the interior was reconfigured properly. In addition, none of the previous refurbishments had properly addressed issues related to operating the building, and most services were nearing the end of their useful life. Keith Goulborn, head of Unilever's Property Development, remarked, "Unilever House was a lovely piece of architecture, but in property terms wasn't fit for a purpose. It was like a mistress—beautiful, expensive, yet difficult to live with all of the time."

A Catalyst for Change

In early 2003, Niall Fitzgerald, co-chairman of Unilever, decided that change was necessary. One of the leading suppliers of fast-moving consumer goods (FMCG) in the world, Unilever had recently struggled to meet its ambitious growth targets under the much-trumpeted Path to Growth program, and the company faced increasing impatience from investors at the returns being generated. A general perception was that Unilever wasn't changing fast enough. Fitzgerald believed the company's fragmented and bureaucratic culture was partly to blame for its relatively disappointing performance. Williams observed that "a lot of analysts and competitors saw us as a stolid business that was hierarchical and overly analytical. The place was seen as a bit like working for the Civil Service."

Niall Fitzgerald's vision was that a change in corporate offices would be the catalyst for change in the company; he wanted to lead from the top and from the front. Williams explained:

> Niall walked into my office and told me that we had to make a change to our corporate headquarters. He was clear that the corporate office in London was cumbersome and too big. He declared all options were on the table. Niall had recently given a presentation asking 'Is the corporate headquarters even necessary?' His point was that over 50% of our sales now came from the emerging markets, and people [were] traveling most of the work week to be closer to our customers. He was clear that our current setup was antiquated and maybe we should even be thinking about a small headquarters in Singapore, since that is where the future growth would be.

Fitzgerald's directive to Williams was clear. First, it was time to make Unilever's "core" central office leaner and more efficient. Any Unilever corporate office, regardless of where it was located, should house a maximum of 450 people. The rest of the employees had to get back out in the field and closer to where the products were sold. Second, the right office space had to force Unilever to become less hierarchical, more collaborative, and more transparent. If Unilever was to compete effectively, it had to begin working more collectively.

Move or Redevelop?

Steve Williams was named head of the project, and an executive steering committee was formed to help him execute on Fitzgerald's vision. Though Williams's background was not in real estate, he knew Unilever House intimately. He had begun his career as a corporate attorney in London and had joined Unilever almost twenty years earlier. Currently the company's general counsel, Williams had spent the majority of his corporate life working in Unilever House and his office currently resided on the eighth floor.

The steering committee initially evaluated a variety of options. The possibilities spanned from a minor renovation to moving to a new building in a different part of London, a different country, or perhaps even a different continent. The committee initially considered minor renovations because the capital outlay would have been relatively small and the disruption to employees minimal. Certain partitions could be torn down and the layout of each floor renovated into a more open design for a relatively small sum. However, the committee dismissed that option, believing that this moment was an opportunity to make a significant impact and address many operating inefficiencies. The committee also dismissed a potential move to a different country or continent, unanimously agreeing that Unilever, as a European company, needed its headquarters to continue to be located in London, at least for the foreseeable future.

The steering committee decided its three main choices were: (i) stay in Unilever House and significantly redevelop the building, (ii) lease space in an office building in Canary Wharf, or (iii) lease space in an office building in Chiswick near Heathrow Airport. To help formulate the details of each option, Unilever contracted with Stanhope PLC, a London-based developer, and Kohn Pedersen Fox (KPF), an international architecture firm, to help provide initial cost estimates and project recommendations.

Staying Put

For John Bushell, the lead architect at KPF in charge of the Unilever proposal, the decision was clear. "In my first meeting with Niall Fitzgerald, he asked me directly what I thought he should do. I had been waiting outside his office for an hour before we were able to see him. His office was on the top floor and whilst waiting I had been enjoying the spectacular views of London. I said to him, 'You have some of the best views in the city and this is one of the great landmarks in London; you shouldn't move from here.'" The views from Unilever House were particularly stunning because the building was constructed prior to the formation of the City's planning commission. Thus, it technically breached the "St. Paul height limitation," which kept new buildings below certain heights to keep sight lines to St. Paul's Cathedral unobstructed.

The location of Unilever House in central London had other clear benefits. The building was situated steps away from the Blackfriars Underground station, which had connections with multiple commuter lines, including the Circle and District Underground lines. Bus services from the east and west made stops just a short walk from the property. The commute to Blackfriars was easy and simple for the vast majority of the workforce, and the site was an attraction tool to recruit young employees who would enjoy working in a landmark building in London.

Redeveloping the existing building was also the most sustainable of the options. Maintaining and renovating existing buildings was environmentally efficient since a good portion of the building was preserved and did not have to be replaced. Choosing to redevelop the building would allow Unilever to point to its corporate commitment to environmental sustainability.

However, redeveloping Unilever House would logistically be the most difficult of the three options. It would require two complete moves of the approximately 1,000 employees currently working in the building: first to a temporary office space during the construction phase, and then back to Unilever house for half of the employees—as well as a separate move to another office space for the employees who wouldn't be returning. Unilever would also be taking on construction risk with a 70-year-old building that sat on reclaimed river soil. In its initial presentation, Stanhope stated that additional pilings would have to be driven into the ground to support any redevelopment construction; work of this kind clearly ran the risk of cost and time overruns.

Redeveloping also meant that Unilever would be taking on leasing risk. The total site footprint was 49,500 sq ft, and initial plans estimated that the redevelopment would provide approximately 250,000 sq ft of net usable space. The steering committee estimated that three floors (plus the ground floor and one floor for the cafeteria) could house the 450 employees they wanted to keep in the corporate center. Four floors of space would have to be leased to other tenants, which would force Unilever to take on the risk and operational headache of subleasing the space. However, Unilever estimated that it would receive decent rental income from subleasing the estimated 100,000–110,000 sq ft of available space for £40–45 per sq ft.

Moving On

Logistically, it would be much easier to sell Unilever House and simply lease space in either Canary Wharf or Chiswick. By selling the building, Unilever would not have to take on any construction or subletting risk. However, Unilever's brokers estimated that Unilever House would sell for £25–30 million—essentially for little more than the site value given how of the out-of-date the building was in its current form.

Canary Wharf was the "hot" place to move in London. In the previous five years, Canary Wharf had become a prestigious hub for professional services firms in London, such as Credit Suisse and the law firm Clifford Chance. Unilever's leasing brokers estimated that they could negotiate a 20-year lease in a brand new office building for approximately 100,000 sq ft of space at £40 per sq ft with six months of free rent and £20 per sq ft in tenant improvements. Unilever calculated that it would have to invest an additional £13 million to build out the floors to its specifications.

However, Canary Wharf would create a difficult commute for employees. An internal survey found that the majority of Unilever's employees lived in West London, and traveling by public transport to Canary Wharf would present a more complicated and lengthy commute. There was also a worry that Unilever, a consumer-focused company, did not fit with the image of the high-profile professional banks and service firms that currently tended to locate in Canary Wharf. For those firms, the imposing skyscrapers and the feel of a "gated community for investment bankers" (Canary Wharf was accessed through one gated security checkpoint) promoted a sense of prestige and exclusivity. But were those the corporate values that Unilever wanted to signal to its customers and employees?

Leasing space in an office park close to Heathrow Airport, on a site in the suburb of Chiswick, was appealing on many levels. A 20-year lease for approximately 100,000 sq ft was available at £36 per sq ft with 12 months free rent, and £20 per sq ft in tenant improvements. The operating costs of a building in Chiswick would also be marginally lower than in the City, and the location would provide both easy access for international travel and a level of discretion that wasn't possible in the center of London.

A move to Chiswick would also likely remove the headache of the corporate protests that Unilever House seemed to occasionally attract, as well as the questions of whether it was appropriate for a FMCG company to even be housed in a luxury building in London. A number of Unilever's competitors had already made a similar choice: Proctor & Gamble was based in Weybridge, GlaxoSmithKline in Chiswick, and Nestlé in Croydon. All three companies were located on the fringe of London with easy airport access. Some members of the steering committee argued that staying in London sent an inappropriate message to customers and partners—that the company was willing to spend lavishly on office space instead of creating cheaper and better products for their customers. In addition, they argued that it was probably just as sustainable to lease space at Chiswick since employees wouldn't have to take the long taxi rides to and from London when traveling.

However, for some, moving to Chiswick would be a disappointment. Nicknamed "the Sheds" because of their lack of architectural style, such office buildings were viewed by many senior executives as cookie-cutter boxes with no charm. Why would Unilever leave an iconic building on the banks of the Thames, a building in which it had been born, to become just another company working in a faceless, bland office building, a glimpse from a motorway?

Paul Preston's Plea

A strong advocate of moving to a new location was Paul Preston. Paul was a member of the steering committee and was the most vocal in opposition to the redevelopment option. An accountant by trade, Paul had worked at Unilever for over 40 years and was now a senior vice president in charge of leadership development in human resources. He had grown up professionally in the status-conscious, hierarchical corporate culture of Unilever. He explained, "I still remember the day as a young man that I rushed home to tell my mother that I had 'earned my arms.' As recognition of my promotion, Unilever staff had walked in and made a presentation in front of all my colleagues. I was given a chair with arms to replace my previous simple seat that was armless. This was how the company functioned. It was all about displays of status and hierarchy." Paul believed that such a corporate culture had no place in the modern corporate world and had been one of the key drivers of the internal movement to force a change in Unilever's culture.

Paul sent a memo to the entire steering committee just weeks before the final decision was to be made (see **Exhibit 3**). The gist of the memo was clear. Staying in Unilever House would be a terrible mistake and missed opportunity for the company. If the leaders wanted to transform the corporate culture in a drastic manner, the only option was to move to a new building. Staying in Unilever House would signify an inability to break with the past traditions, regardless how much the interior of the building was gutted and changed.

Paul's argument was buoyed by the economics of the decision. Based on the information provided by their leasing brokers, Unilever's internal finance team was able to compare the three options. Using an internal cost of capital of 7%, staying in Unilever House had the lowest net present value (see **Exhibit 4**). If the decision was to be based solely on economics, moving to Chiswick would be the preferred choice.

The Decision

This was not the first time Unilever had faced the difficult decision of what to do with a flagship corporate building. In 1952, Lever Brothers constructed the Lever House at 390 Park Avenue in midtown Manhattan. The building was hailed as a brilliant work of creative architecture and quickly became internationally renowned. It provided a wonderful working environment with plenty of access to daylight, and the unique ground floor structure (which housed no tenants) innovatively connected with the street through a plaza and a series of walkways. Unilever had been the original tenant occupying the whole building. However, Unilever sold the building in the 1990s and relocated its U.S. operations outside the city in New Jersey. Steve Williams viewed that decision as a cautionary tale. He remarked, "I believe leaving Lever House was a short-sighted decision and I was concerned about making a similar mistake. In New York, we sold our building and now we're out in New Jersey, in Tony Soprano's world, and we should still be on Park Avenue in a building with our name on it."

In the end, Paul's pleas and the internal financial analysis were not strong enough to convince Williams and the rest of the steering committee. In its final decision, the steering committee believed that staying in Unilever House best allowed the company to celebrate its unique history and impart its corporate values to its customers. It recommended to Fitzgerald that the company redevelop Unilever House. Williams explained his reasoning:

> I still remember flying into Heathrow; it was just around the time we were trying to decide to stay or to go. The plane was coming in over the city, the sun was setting and the light was hitting the Thames beautifully. As we came in along the river, we passed Tower Bridge, Tower of London, Lloyds building, Unilever House, Southbank, and Parliament. It was at that moment that I realized—this is a landmark building and part of London's history. I thought to myself, are we the generation so driven by numbers that we would move away? If the founders of our company had the confidence and foresight to build it, are we so lacking in confidence that we are to leave it?

Choosing the Developer and Architect

Once the choice was made to stay in Unilever House, the steering committee had to select the project's developer. Stanhope, like many other London-based developers, was eager to win the business. Paul Lewis, a director at Stanhope, explained, "This was a project we really wanted to do. Even when we were advising Unilever on the initial decision of whether to move, we were always hoping that they would decide to stay and choose us to do the redevelopment. This is an iconic building in London and we knew that getting the project would give us a lot of visibility as a firm." Though Unilever held a competitive process and asked three development firms to pitch ideas, Stanhope's presentation was the clear winner.

First, Stanhope proposed an innovative construction process to ensure that the whole project was as "green" as possible. A special distribution center would be set up outside London where materials would be consolidated prior to shipment to the construction site. This would reduce the amount of traffic into London and the total number of shipments required. Stanhope also presented a plan to recycle almost all the original building materials (such as furniture and carpet) during the construction process.

Second, since this was a development-for-fee project (the developer would retain no ownership in the building), Stanhope's principals suggested an unusual incentive structure that would help align their interests with Unilever's desire to have a spectacular building built on-time and on-budget. After some brief discussion, an initial list of five separate incentives was proposed (see **Exhibit 5**). Stanhope would be eligible to receive £200,000 for each incentive that Unilever deemed Stanhope had achieved at the end of the project.

Finally, Stanhope also agreed to a somewhat unusual reporting relationship with Unilever. Most development contracts were structured so that the developer held final say in how the interior of the building would be structured. However, Unilever was adamant that it retain control on all final design specifications so that it could be confident the building would end up exactly as it hoped. For this project, Stanhope agreed to allow Unilever to change the internal workings of the building as Unilever saw fit. This meant that though KPF would be technically under contract to Stanhope, the architects would really be directly working for Unilever to achieve the company's goals.

Paying for Renovations

Stanhope's initial estimates projected the total construction costs to be £110.8 million for the construction of the building core (CAT A) and internal fit-outs (CAT B) under a guaranteed maximum price contract (see **Exhibit 6**). Unilever's finance team suggested the company consider participating in a sale-leaseback transaction to provide the financing.

Sell the Building?

Sale-leasebacks were a popular transaction for many companies because they allowed companies to raise capital outside of the traditional debt and equity markets. Sale-leasebacks removed the risk inherent in owning property and, by selling assets held on its balance sheet at book value, a company could deploy capital in areas that were more aligned to the company's core business. According to the finance team, the sale-leaseback transaction would be a smart deal that would free up capital for Unilever and generate a positive response from equity analysts and investors.

For investors evaluating a sale-leaseback transaction, the key investment criteria were usually the credit of the tenant and the collateral of the building itself. Because sale-leasebacks promised payments over a fixed time frame, investors typically compared the potential return from a sale-leaseback to the purchase of a corporate bond. However, a sale-leaseback investment did have one advantage over corporate bonds, in that rent adjustments (usually structured either as a fixed percentage increase or inflation-indexed) were built into a large number of leases. The key risk for investors was the potential default of the tenant. In the case of default, the owner of the building would be forced to re-lease the space—which could vary in difficulty depending on the space's quality and build-out, as well as the real estate market.

Because Unilever was a high-quality tenant (rated A+ by Standard & Poor's and A1 by Moody's) with a stable operating business, Williams had expected strong investor interest. Unilever engaged two separate brokerage firms to source potential investors, and if a sale-leaseback investment was executed, Unilever agreed to pay two-thirds of the commission to the brokerage company that had sourced the winning bid, with the remaining one-third of the fee going to the other brokerage house.

After a lengthy marketing process, Unilever received ten initial bids from interested investors. A second round of bids yielded two bids that the steering committee found most attractive. In both offers, Unilever would pay £10.0 million in rent in year 1, and the rent would be a triple-net lease (meaning Unilever would pay all operating expenses, taxes, and utilities related to running the building). The buyer would cover the total expected construction costs of £110.8 million, and the additional cash proceeds would be for the purchase of the freehold itself (the land and the building). The payment for the freehold to Unilever would be made in two equal installments. The first installment would come right away, and the second installment would come when Unilever moved into the building.

The first offer, from a British bank, was for a total of £182.1 million. The lease would last 20 years and every five years there would be a rent review period; the rent would be adjusted (upwards only) to match what a third-party appraiser estimated to be current "market rent." The offer also contained a valuation and a rating trigger covenant. If the building's nominal value fell below 75% of its original valuation at the time of sale, Unilever would be deemed in default of the lease. And, if Unilever's corporate debt was downgraded by both Moody's and Standard & Poor's, Unilever would also be deemed in default.

The competing offer came from a private equity investor group located in Ireland. This closely held firm had recently made a few small-scale investments in London and many large-scale developments in Dublin. The company's offer of £176.7 million for a 20-year lease was slightly less in absolute monetary terms (see **Exhibit 7**). However, its proposal offered something slightly different in that it had no rating or valuation covenants. There were also no market rent adjustment periods. Unilever's lease payments would simply rise at 2.5% per year automatically for the whole 20-year lease.

In addition to providing a cheap source of capital, the finance team explained that the sale-leaseback transaction would remove a lot of risk for Unilever and would provide tax benefits on the disposal of Unilever House. As Keith Goulborn remarked, "By securing financing before starting construction, we would remove all the ownership risk of property values going down. I think that's the smart move; Unilever should not be in the property business." The only real risk Unilever would retain was the risk of having to sub-lease four floors of the building.

A week earlier, Williams had held a meeting with Niall Fitzgerald to update him on the two final offers. Fitzgerald's criticism had been harsh and the pressure to defend the potential sale-leaseback decision had been intense. Fitzgerald argued that remaining the owner of a building had many advantages and that a sale-leaseback meant that Unilever would be selling the very building that it had just decided it so desperately didn't want to leave. In his opinion, ceding control of Unilever House seemed foolish.

The terms of the sale-leaseback meant that Unilever would have no renewal rights at the expiry of the lease, and twenty years from now Unilever might be looking for a new location once again. Selling the building also meant that the building would no longer be owner-occupied, so Unilever would have to design and build out the space in a manner that not only was acceptable to the new owners but also retained a flexible layout that would be functional for other potential tenants.

Other Options

Williams knew that funding the construction from Unilever's balance sheet was certainly an option. Unilever had cash on hand (see **Exhibit 8**) and could afford to internally finance the construction. It could even borrow the total funds for construction at the current borrowing rate of 2.5% (net of taxes). Both options would allow Unilever to retain control of the building. These options would also allow Unilever the possibility of engaging in a sale-leaseback transaction after construction on the building was finished. The London property market was continuing to rebound from its recent lows in 2001, and property valuations were increasing throughout the city. Construction would take approximately two years, and if Unilever timed the market well, it might be able to sell the building at an even higher price than now. Investors would likely be willing to pay a premium for not having to take on construction risk and for being able to purchase a redeveloped building. The rents Unilever could get for subletting the space could also be higher in two years if the market continued to improve.

However, the London property market was notoriously volatile. Rents and valuations had oscillated in extremes during the last ten years (during the last market downturn, rents had fallen over 60% from peak to trough), and Williams was hesitant to get caught on the wrong side of the cycle. As Keith Goulborn described it, "Every ten years in London real estate there are two years of feast, four years of famine, and the rest the time things are only OK."

Flying Carpets and the Eighth Floor

Regardless of how the steering committee decided to finance the project, large decisions remained regarding the design and construction of the new Unilever House. The architects' most recent proposal was certainly ambitious (see **Exhibit 9**); the drawings for the redeveloped building had a grand atrium running through the core of the building, transparent walls on each floor to allow visibility into work spaces, and a back wall made of 100% glass that would offer spectacular views of greater London. The architects envisioned four "flying carpets" that would act as both walkways between floors and as impromptu meeting spaces for employees. A grand art sculpture by young, up-and-coming British artist Conrad Shawcross, called "Space Trumpets," would hang in the atrium from the building's roof and rotate at certain times during the day. As John Bushell described it, "this was a design to celebrate Unilever's past, while simultaneously acknowledging a new era for the company." The classic façade of the building would remain to face the Thames, and the transparent wall in the back of the building would face the city and promote a new sense of the future. The transition from the "old outside" into the "new, future-looking inside" would represent the journey Unilever, as a business, needed to take.

Unilever would continue to occupy the fifth, sixth, seventh, and eighth floors. During the initial design process there had been some discussion of "inverting the hierarchy" of Unilever's corporate culture by moving the executives from the eighth floor and using that space for the company cafeteria, meeting rooms, and a roof garden for outdoor space in good weather. No clear decision had yet been reached on that issue and that design was still on the table, although Williams expected considerable resistance, if only because executives benefited from having a private space for meetings that often required high levels of sensitivity. The current design under review kept the executive offices on the eighth floor and placed the cafeteria and communal work spaces on the ground floor. The fifth, sixth, and seventh floors would be exclusively employee work space, and the vast majority of employees would work in an open layout. Below ground a gym, wellness center, and dentist's offices would be available for all employees. The original front entrance of the building would be re-opened, and all employees and visitors would enter the building into a large atrium space which also housed reception, conference rooms, the cafeteria, and a public exhibition space for local artists. Bushell's vision was for the building to become a "destination" for both tourists and residents of London, and help make Unilever House a public space beyond just an office building.

The design was intended to address the goal of creating an open, transparent environment that would revitalize employees and company culture. But Williams wondered if some of the proposed features were a good idea. The grand atrium reduced a large part of the net usable area in the building, which would have a direct impact on the amount of floor space Unilever could sublease to other tenants. In addition, Stanhope estimated that tearing down the whole back wall and replacing it with glass was going to significantly drive up construction costs by "at least a few hundred thousand pounds." Was this all just a waste of money, or would this design actually change the way Unilever worked and increase the overall value of the building and rents Unilever could garner from sub-tenants?

The level of proposed transparency throughout the new building also worried Williams. Would people really feel comfortable with this level of openness, or would they feel like they were in a perpetual fishbowl? And did Unilever really want to turn its office building into a place for tourists to spend their afternoons? Instead of increasing productivity, perhaps this setup would distract employees and actually make it harder to get work done.

Williams also questioned how people would react to the extreme shift of the building's layout. Except for the most senior executives, everybody would be losing their offices. People had worked their whole professional lives to achieve that level of status, and now it would be taken away. Williams wondered if some key employees would be turned off by their sudden loss of prestige and decide they didn't want to work for Unilever anymore.

Furthermore, Williams couldn't help but think about how every five or ten years a new "management" strategy and workplace design swept through the corporate world. Open floor plans and maximum transparency were the current concepts *du jour*. But, what happened if ten years from now corporations all returned to the idea that people were supposed to have offices to maximize productivity? Was KPF's design flexible enough for future change, or could the interior of building be obsolete in the future?

Tomorrow's Meeting

Williams had some tough decisions to make before his meeting with Fitzgerald tomorrow morning. He felt strongly that the recent criticism regarding the downsides of the sale-leaseback was misguided. Did it really matter what happened to the building 20 or 25 years from now? Nobody in the steering committee would even be working at Unilever by then; Williams himself would be almost 80 years old! Quite frankly, most of them would probably not even be *alive* in 25 years, so it was hard to believe this was really their problem to consider. He was steadfast in his belief that the sale-leaseback transaction was the right path to pursue, but was still undecided as to which of the two offers he should recommend to Fitzgerald.

The issues and options regarding the proposed design of the building were just as difficult. As he spread KPF's sketches across the meeting table in his office, Williams knew that this redevelopment had the potential to be a spectacular project—but there were a lot of constituents to please. Williams had to make sure that the building was the impetus for corporate change that Fitzgerald desired, that it enabled the required culture change, that it was the kind of place Unilever's employees liked coming to work, that it was attractive and flexible for potential sublease tenants, and that it made economic sense.

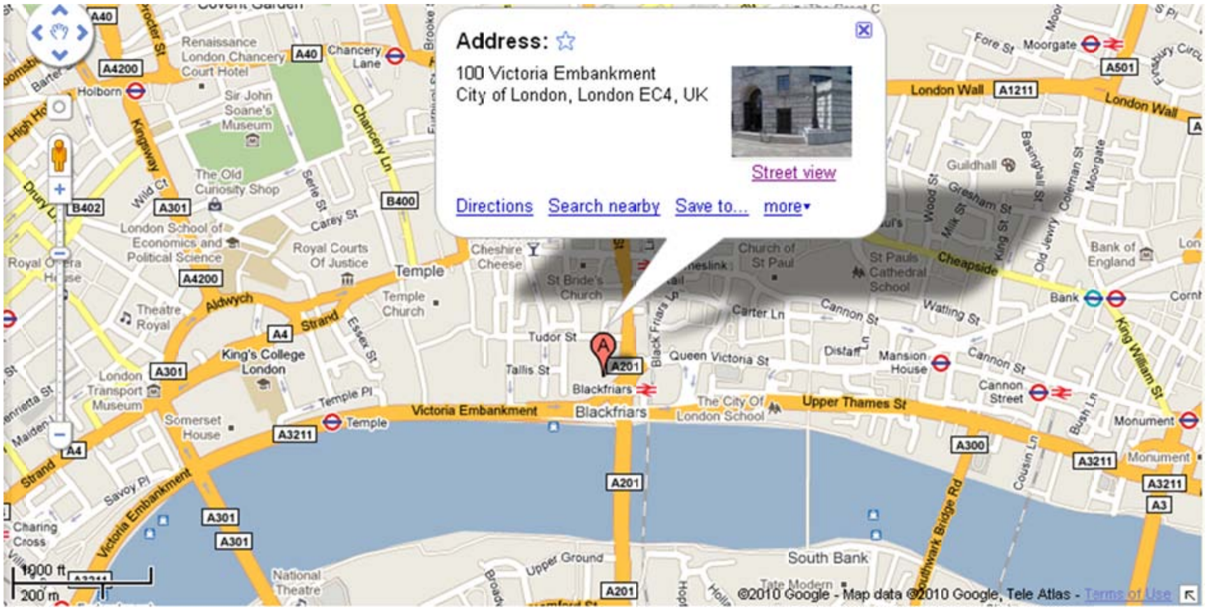
Williams wondered: Was staying in the choke-center of town, knocking down a historically listed building, selling the freehold, sharing the occupancy with other tenants, denying private space to employees, and "democratizing" the work space the right direction for Unilever's future?

Exhibit 1 Greenpeace Protests at Unilever House

Greenpeace protesters dressed as orangutans demonstrate outside Unilever's central London headquarters.

Source: David Batty, "Unilever targeted in orangutan protest," the *Guardian*, April 21, 2008, http://www.guardian.co.uk/environment/2008/apr/21/wildlife, accessed December 2010.

Exhibit 2 Unilever House Location and Appearance Prior to Redevelopment



Source: Map data ©2010 Google, Tele Atlas; building photograph from company documents.

Exhibit 3 Memo from Paul Preston to Steve Williams

To: Steve Williams

From: Paul Preston

Subject: Unilever House Decision

Steve –

This brief memo is intended to outline my thoughts on the current decision we face regarding Unilever House. Before a final recommendation is made by you and the Steering Committee, I wanted to provide my personal insights on this topic.

We all agree that the corporate culture at Unilever needs to be transformed. We have to become more transparent and less hierarchical. It is my firm belief that we can only accomplish this goal if we move from Unilever House. Our old corporate culture is too closely connected with this building and we must break away from it in order to accomplish the transformation that we all seek.

Many in this company believe that the history of Unilever House is a key aspect of our company that must be embraced. I disagree with this sentiment. I believe that it's great to have history, as long as it has *value*. Consumers, at the end of the day, can't give a toss about our history.

We are a company that makes consumer goods. If what matters most are our brands, is housing 450 people in a luxury building really the best business decision for Unilever? Moving a small "strategic core" of employees outside the choke-centre of London is more aligned with our company's goals. Some people worry that we will not be able to recruit employees effectively if we are not in central London. I think that argument is foolish. If we are a great company, we will find talent regardless of where we are located.

This is an opportunity to do something big—to completely change the corporate culture in a manner not seen in this company in a very long time. Let us not shirk from this responsibility and make the bold decision to leave our past behind and to show others what the new Unilever can become.

Kind regards,

Paul Preston

Source: Casewriters.

Exhibit 4 Unilever NPV Analysis of Redevelopment vs. Lease

Market Assumptions																									
Inflation	2.5%																								
Exit Cap Rate @ Sale	8.5%																								
Selling Costs	1.5%																								
Sublet Assumptions																									
Total Sq. ft for Subletting	108,543																								
Rent per sq. ft	£42.50																								
Stabilized Occupancy of Subletted Space	80.0%																								
Rent-up period	1.0 Year																								
Free Rent Concession	2.0 Years																								
All Figures in Millions (£)																									
Year		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Base Rent Index (Inflation Indexed)					*100.0%*	*102.5%*	*105.1%*	*107.7%*	*110.4%*	*113.1%*	*116.0%*	*118.9%*	*121.8%*	*124.9%*	*128.0%*	*131.2%*	*134.5%*	*137.9%*	*141.3%*	*144.8%*	*148.5%*	*152.2%*	*156.0%*	*159.9%*	*163.9%*
"Market Rent" for Redeveloped Unilever House (millions)					£10.0	£10.3	£10.5	£10.8	£11.0	£11.3	£11.6	£11.9	£12.2	£12.5	£12.8	£13.1	£13.4	£13.8	£14.1	£14.5	£14.8	£15.2	£15.6	£16.0	£16.4
Redevelop - Internally Financed																									
Operating Expenses		0.0	0.0	0.0	(4.8)	(4.9)	(5.1)	(5.2)	(5.3)	(5.5)	(5.6)	(5.7)	(5.9)	(6.0)	(6.2)	(6.3)	(6.5)	(6.6)	(6.8)	(7.0)	(7.2)	(7.3)	(7.5)	(7.5)	(7.6)
Temporary Accomodation Fees		0.0	(3.1)	(6.1)	(6.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Construction Costs		0.0	(6.8)	(41.8)	(46.7)	(3.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Professional Fees		0.0	(5.3)	(3.7)	(3.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Sublet Income (Including Storage Rent & Service Fees)		0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.1	5.3	5.4	5.5	5.7	5.8	5.9	6.1	6.2	6.4	6.6	6.7	6.9	7.1	7.2	7.4	
Sale Proceeds		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	101.8	
Unleveraged Cash Flow		**0.0**	**(15.2)**	**(51.6)**	**(60.8)**	**(8.1)**	**(5.1)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.2)**	**(0.3)**	**(0.2)**	**(0.3)**	**(0.2)**	**(0.2)**	**(0.3)**	**(0.3)**	**(0.2)**	**(0.3)**	**101.7**	
NPV @ 7% Cost of Capital	**(£97.27)**																								
Canary Wharf - Lease																									
Cash Proceeds from Sale		0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Operating Expenses @ Unilever House until Move		0.0	(3.0)	(3.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Rent		0.0	0.0	0.0	(2.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	
Fit out Costs		0.0	(8.7)	(4.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Operating Expenses		0.0	0.0	0.0	(3.8)	(3.9)	(4.0)	(4.1)	(4.2)	(4.3)	(4.4)	(4.5)	(4.6)	(4.7)	(4.9)	(5.0)	(5.1)	(5.2)	(5.4)	(5.5)	(5.6)	(5.8)	(5.9)	(6.1)	
Unleveraged Cash Flow		**0.0**	**(11.7)**	**17.7**	**(5.8)**	**(7.9)**	**(8.0)**	**(8.1)**	**(8.2)**	**(8.8)**	**(8.9)**	**(9.0)**	**(9.1)**	**(9.2)**	**(10.0)**	**(10.1)**	**(10.2)**	**(10.3)**	**(10.5)**	**(11.3)**	**(11.4)**	**(11.6)**	**(11.7)**	**(11.9)**	
NPV @ 7% Cost of Capital	**(£79.00)**																								
Chiswick - Lease																									
Cash Proceeds from Sale		0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Operating Expenses @ Unilever House until Move		0.0	(3.0)	(3.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Rent		0.0	0.0	0.0	0.0	(3.6)	(3.6)	(3.6)	(3.9)	(4.0)	(4.0)	(4.0)	(4.0)	(4.4)	(4.5)	(4.5)	(4.5)	(4.5)	(5.0)	(5.1)	(5.1)	(5.1)	(5.1)	(5.6)	
Fit out Costs		0.0	(8.7)	(4.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Operating Expenses		0.0	0.0	0.0	(3.1)	(3.2)	(3.3)	(3.3)	(3.4)	(3.5)	(3.6)	(3.7)	(3.8)	(3.9)	(4.0)	(4.1)	(4.2)	(4.3)	(4.4)	(4.5)	(4.6)	(4.7)	(4.8)	(5.0)	
Unleveraged Cash Flow		**0.0**	**(11.7)**	**17.7**	**(3.1)**	**(6.7)**	**(6.8)**	**(6.9)**	**(7.3)**	**(7.5)**	**(7.6)**	**(7.7)**	**(7.8)**	**(8.3)**	**(8.5)**	**(8.6)**	**(8.7)**	**(8.8)**	**(9.4)**	**(9.6)**	**(9.7)**	**(9.9)**	**(10.0)**	**(10.6)**	
NPV @ 7% Cost of Capital	**(£65.83)**																								

Source: Casewriters.

Exhibit 5 Incentive Goals for Stanhope PLC

Goal	Criteria	Bonus
Delighted	Unilever are delighted with the performance of the team and the quality of the completed building	£200,000
Dignity	The building respects and embraces the dignity of our workforce. It promotes a healthy interaction between our employees and celebrates the value of our work	£200,000
Transparent	The building achieves the desired level of transparency, openness and clarity of workspace envisioned at the project's inception	£200,000
Iconic	Building wins a Civic Award within first 12 months of opening	£200,000
Inspiring	The building inspires our employees in our pursuit of excellence and shared corporate vision	£200,000

Source: Casewriters.

Exhibit 6 Projected Construction Budget

(All figures in millions)

Demolition/Site Preparation	£6.0
Offices Shell and Core	51.8
Offices Category A/B Works	10.0
External Works	2.2
Total Category A Construction Costs	**70.0**
Total Category B Construction Costs	20.0
Total Pre-Ancillary Construction Costs	**90.0**
Guaranteed Maximum Price Margin (6% of Category A Costs)	4.2
Ancillary Costs	4.2
Post-Completion Costs	0.1
Total of Construction Costs	**98.5**
Total Professional Fees	12.3
Total Cost (Not Including Financing Costs)	**£110.8**

Source: Company documents.

Exhibit 7 Comparison of Sale-Leaseback Offers

	British Bank	**Private Equity Firm**
Total Cash Proceeds (millions)*	£182.1	£176.7
Rent Due @ Year 1 (millions)	£10.0	£10.0
Operating Expenses	Paid by Unilever	Paid by Unilever
Lease Term	20 years	20 years
Annual Rent Increase (per year)	N/A	2.5%
Optional Lease Break	Year 10	Years 5, 10 & 15
Market Rent Review**	Years 5,10, & 15	None
Key Covenants	Valuation & Rating Trigger***	None
Renewal Rights	None	None

Notes:

*Investor is responsible for all costs related to construction and transformation of Unilever House

** Market Rent Reviews were upward only - rents would be reset every 5 years to "market level" rent only if such rent was above current building rent

***If Unilever's corporate rating was lowered or if the notional value of the building fell below 75%, Unilever would be in default on the lease

Source: Casewriters.

Exhibit 8 Unilever Balance Sheet (for Year Ending 2003)

(All figures in EUR 000's)

	12/31/2003
ASSETS	
Total Cash & Short-Term Investments	3,345.0
Total Receivables	4,693.0
Inventory	4,175.0
Prepaid Exp.	551.0
Deferred Tax Assets (Current)	637.0
Total Current Assets	**13,401.0**
Net Property, Plant & Equipment	6,655.0
Long-term Investments	199.0
Goodw ill	13,457.0
Other Intangibles	4,256.0
Other Long-Term Assets	490.0
Total Assets	**38,458.0**
LIABILITIES	
Accounts Payable	3,707.0
Accrued Expenses	2,894.0
Short-term Borrow ings	320.0
Curr. Port. of LT Debt	7,114.0
Curr. Income Taxes Payable	728.0
Other Current Liabilities	2,311.0
Total Current Liabilities	**17,074.0**
Long-Term Debt	8,466.0
Minority Interest	440.0
Pension & Other Post-Retire. Benefits	4,249.0
Def. Tax Liability, Non-Curr.	747.0
Other Non-Current Liabilities	1,562.0
Total Liabilities	**32,538.0**
Total Preferred Equity	130.0
Common Stock	512.0
Additional Paid In Capital	1,530.0
Retained Earnings	6,190.0
Comprehensive Inc. and Other	(2,442.0)
Total Equity	**5,920.0**
Total Liabilities And Equity	**38,458.0**

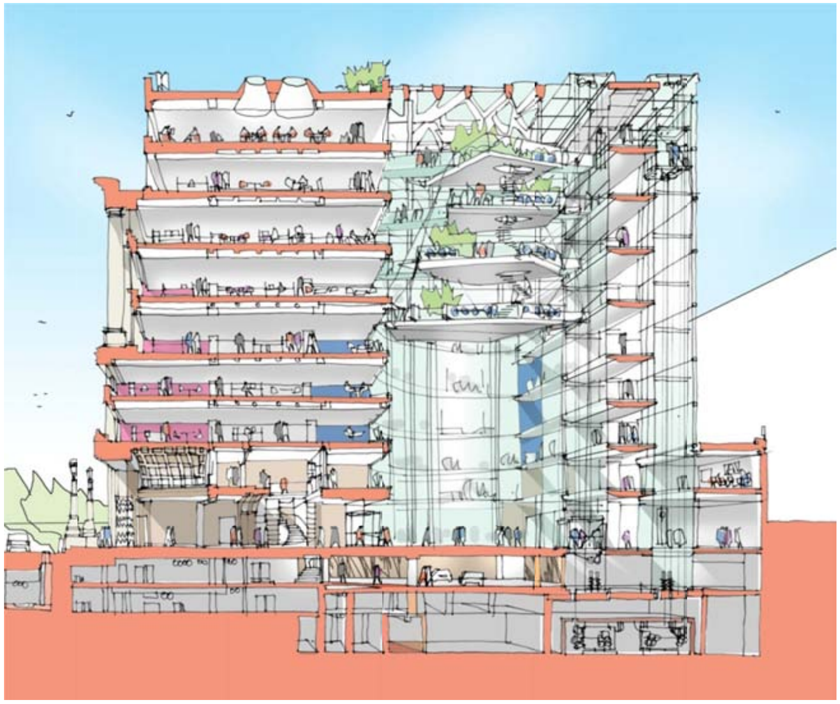
Source: Capital IQ.

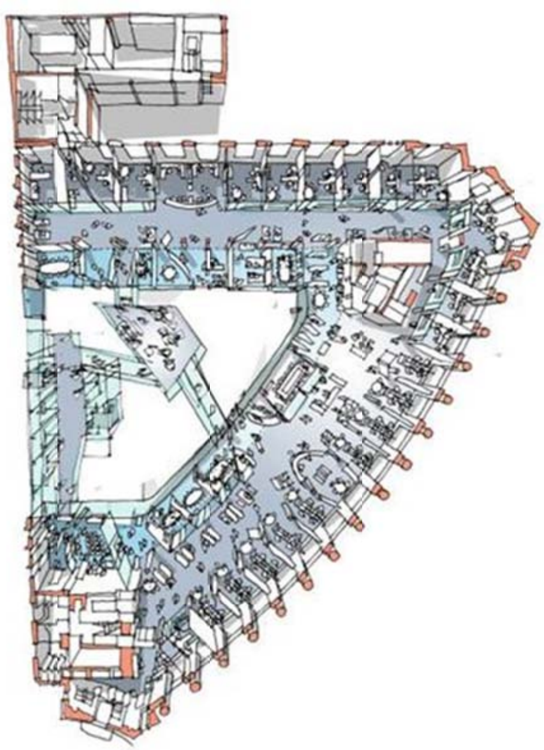
Exhibit 9 Kohn Pedersen Fox (KPF) Sketches of New Unilever House

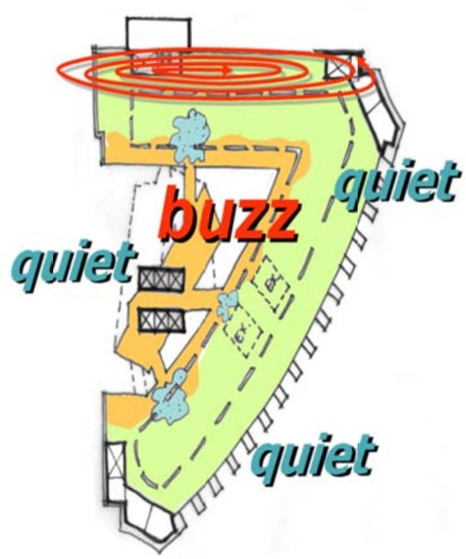
Layout of Ground Floor

Source: Company documents.

Exhibit 9 (continued) Kohn Pedersen Fox (KPF) Sketches of New Unilever House



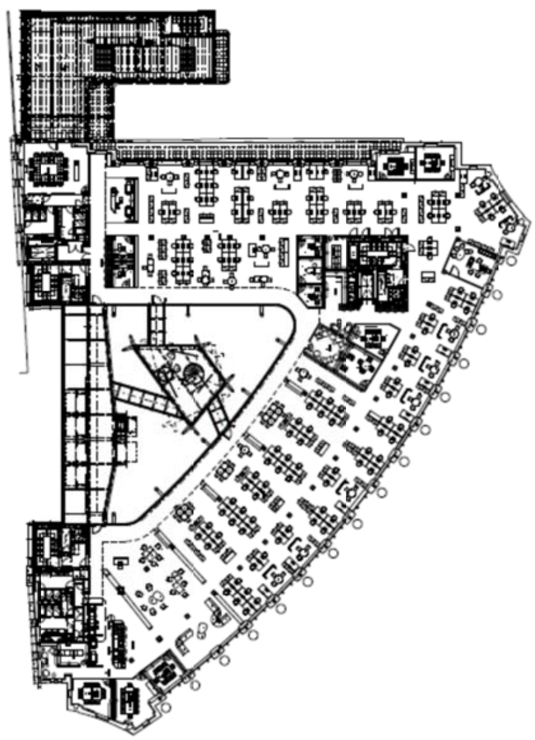




Clearly defines zones of shared collaborative space in the centre of the building preserving the perimeter area as space for quiet and concentration

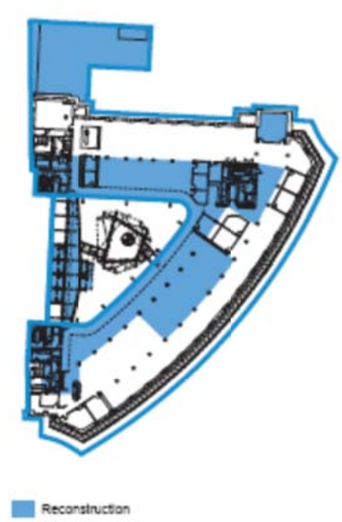
Source: Company documents.

Exhibit 9 (continued) Kohn Pedersen Fox (KPF) Sketches of New Unilever House



OLD

NEW



Source: Company documents.

Exhibit 10 Unilever Internal Project Objectives

- Increasing efficiency
  - Reducing cost
  - Increasing occupancy levels
  - Making the most of Unilever space
- Increasing effectiveness
  - Adding value
  - Increasing productivity
  - Supporting, attracting and retaining
  - Making the most of Unilever people
- Increasing expression
  - Using space to communicate Unilever values
  - Consistency and differentiation (brand)
  - Cultural cohesion

Source: Company documents.

Exhibit 11 Excerpts from Valuation and London Market Report

Demand

"The general economic climate is one of improving confidence. . . . In the second half of 2003, there were some improvements as business confidence showed signs of recovery with identified requirements for space by organizations in the City moving up to around 4 million square feet. More recently there has been an improving sentiment with stock market recovery, an increase in merger and acquisition activity . . . and a general improvement in confidence on the back of strong performance in the economy. . . . over the next four years the anticipated rise in employment levels in the City as well as improved business and economic climate in the UK and globally should result in a gradual increase in take up."

Supply

"Availability across the City market has been rising steadily since the end of 2000. . . . availability rate currently stands at around 14% from a low of 5% in 2000. . . . with the development cycle now winding down and little new construction scheduled to start over the next two years we can anticipate overall availability levels to begin to decline from the end of 2004 onwards."

Rental Levels

"Prime rents have fallen from a high of £62.50 per sq ft in 2001 to currently stand at approximately £47.50 per sq ft representing a fall of approximately 25%. This is not nearly as severe when compared with the last recession when prime rents fell from £72.00 per sq ft to a low of £30.00 per sq ft. . . . There is now a perception that we have reached the bottom of the market which has spurred a lot of new requirements from tenants eager not to miss out on relatively favorable market conditions . . . Recent research now predicts a period of significant rental growth between now and 2007 equivalent between 10.9% per annum in net effective terms. These forecasts predict headline rents reaching £57.50 per sq ft in the City by 2007."

London City Core (Supply and Demand)

Year	Availability (sq meters)	Absorption (sq meters)
1998	660,000	410,000
1999	780,000	330,000
2000	240,000	660,000
2001	730,000	320,000
2002	1,100,000	290,000
2003	1,240,000	280,000
2004 (Estimated)	1,460,000	360,000

Source: Company documents.

Exhibit 12 Comparable Sale Transactions

Address	Date	Price (in millions)	Rent psf	Net Initial Yield
Alban Gate, 125 London Wall	Jul-04	£270.0	£45.0	6.00%
Thames Court, Upper Thames Street	Jul-04	£130.0	£41.0	6.10%
Corn Exchange, 55 Mark Lane	Jul-04	£95.5	£37.0	6.44%
1 King William Street	Jul-04	£60.0	£46.0	5.90%
The Helicon, South Place	Jun-04	£91.0	£52.0	7.00%
280 Bishopsgate	Jun-04	£242.0	£55.6	6.00%
33 Old Broad Street	Jan-04	£129.5	£42.0	5.89%
Alder Castle, 10 Noble Street	Nov-03	£57.0	£45.5	7.00%
Aviva Tower, 1 Undershaft	Nov-03	£237.0	£52.0	6.59%
36 Queen Street	Nov-03	£23.0	£43.5	7.82%
Lacon House, 84 Theobald Road	Nov-03	£95.0	£28.0	6.25%
Christchurch Court, 15 Newgate Street	Oct-03	£200.0	£46.5	6.50%
30 Finsbury Square	Sep-03	£98.0	£47.5	5.80%
Northcliffe House	Aug-03	£100.0	£43.0	6.40%
Alban Gate, 125 London Wall	Jun-03	£240.0	£52.5	6.50%
Winchester House Great Winchester St	Apr-03	£100.0	£47.5	6.50%
Globe House, Temple Place	Mar-03	£154.0	£55.0	6.61%
1 Great St. Helens	Dec-02	£42.0	£56.0	6.08%
100 Leadenhall St	Dec-02	£87.6	£55.0	6.75%
Average			***£46.9***	***6.43%***

Source: Company documents.