

The Price of Risk: Planning, Infrastructure and Community-Building

Lecture by
Peter Freeman at LSE
16 October 2019



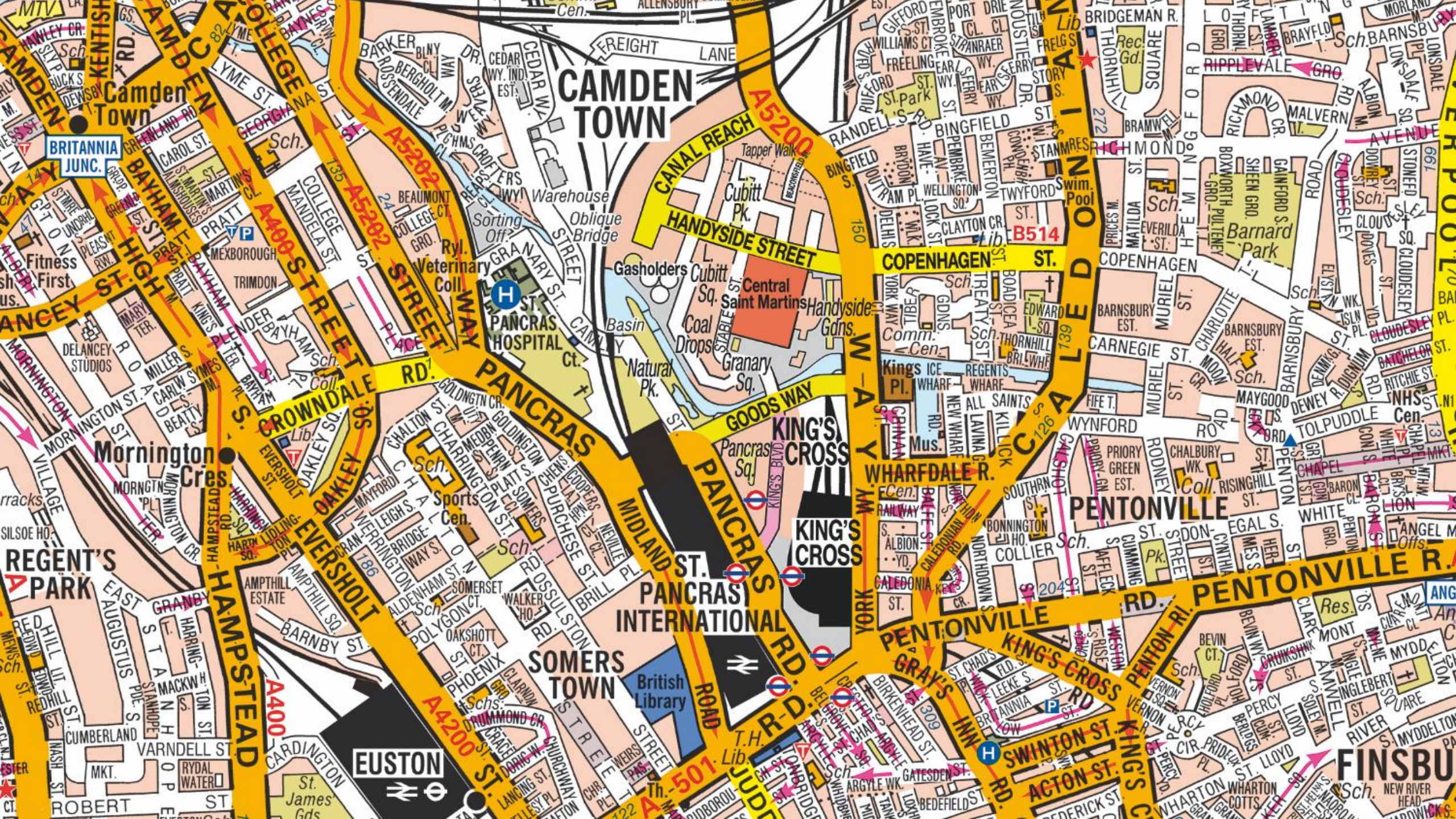












THE MASTERPLAN

23 OFFICE BUILDINGS
17 RESIDENTIAL BUILDINGS
500,000 SQ FT OF RETAIL
HOTEL, CULTURE, LEISURE AND EDUCATION



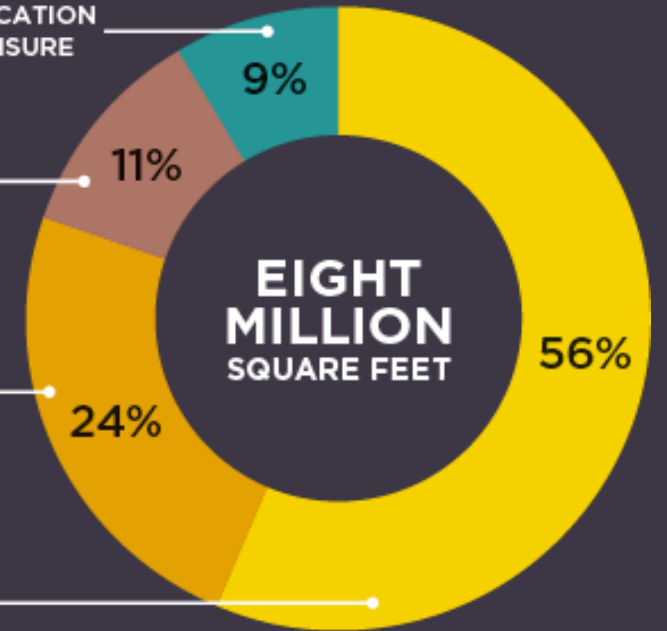
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500,000 SQ FT OF RETAIL
HOTEL, CULTURE, LEISURE
AND EDUCATION

CULTURE, EDUCATION
HOTEL AND LEISURE

RETAIL

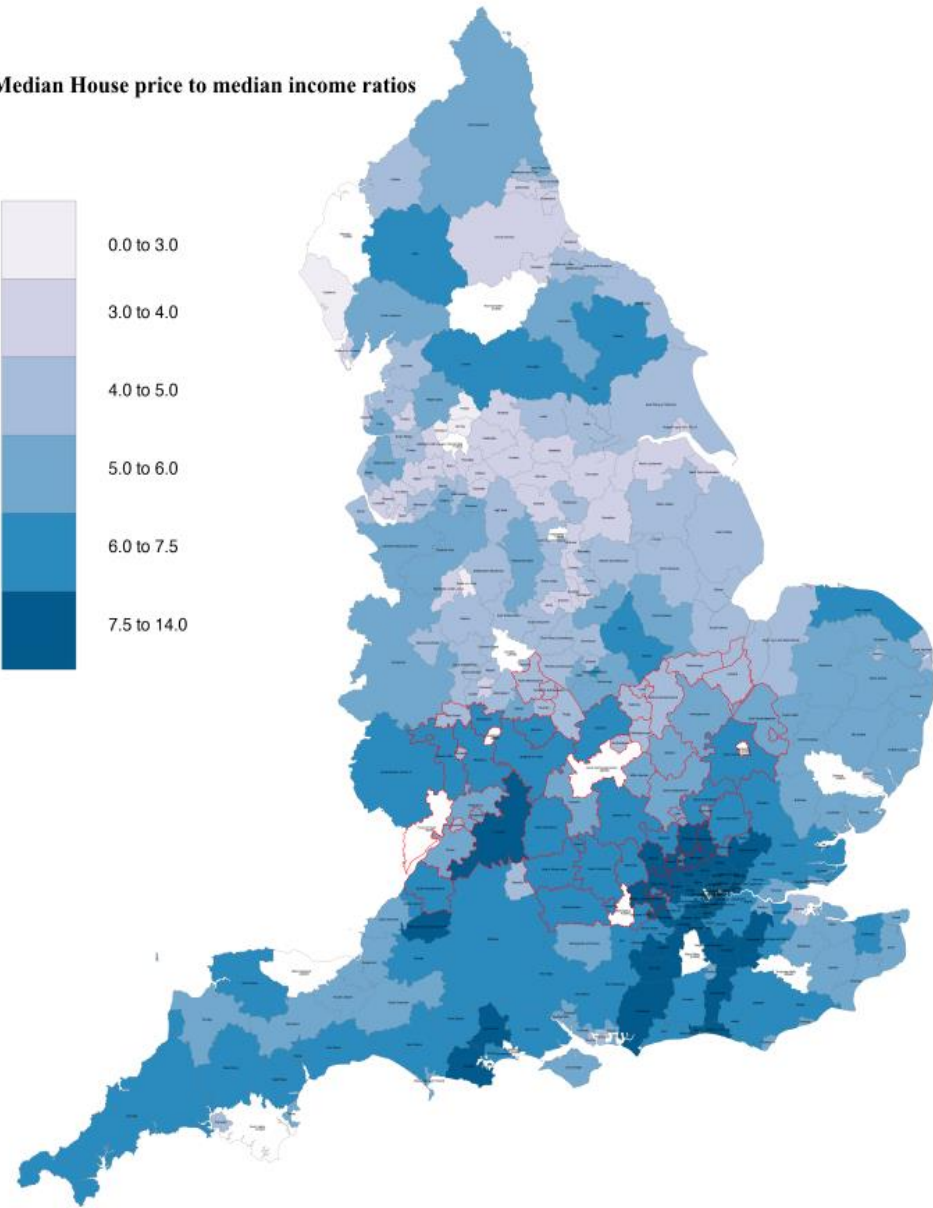
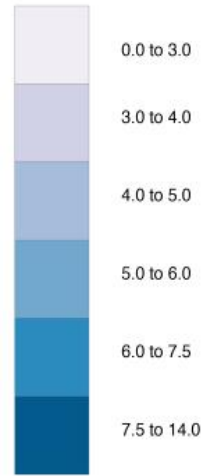
RESIDENTIAL

OFFICES





Median House price to median income ratios





DEVELOPMENT RISK

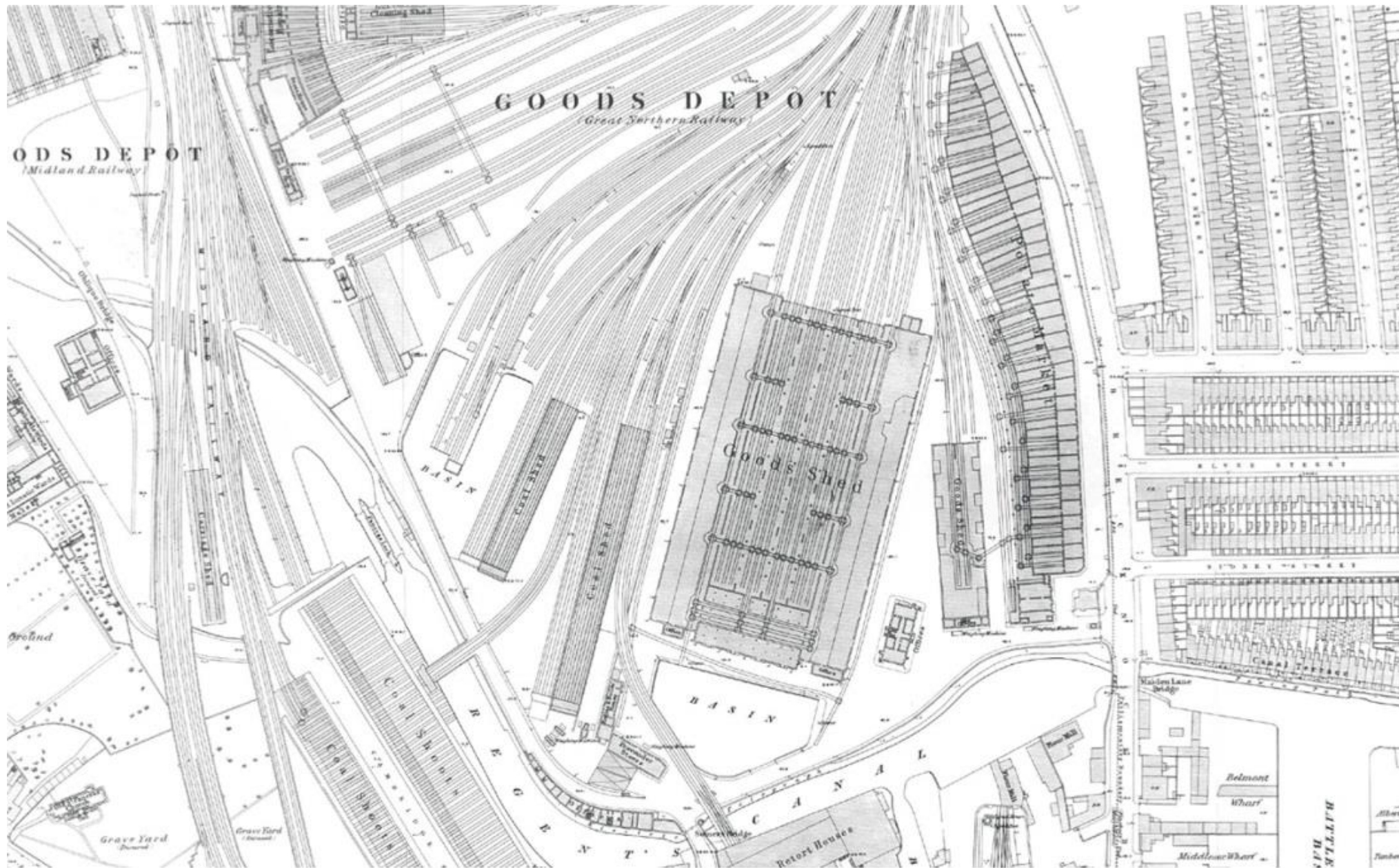
- Major new development is perceived as very risky (unattractive)
- RISKS
 - Site assembly
 - Planning
 - Contamination
 - Delivery of “promised” “complementary” infrastructure
 - Construction (time and cost)
 - Occupier demand
 - Investor demand
 - Finance rates
- PLUS Positive cashflow too far away
- PLUS Corporates prefer repeat business to one-offs.
- HIGH RISK ⇒ HIGH RETURN (OR AVOID!)

IRR'S AND COMPOUND RETURNS

	2%	6%	10%	13%	20%
YEARS					
1	1.02	1.06	1.10	1.13	1.20
3	1.06	1.19	1.33	1.44	1.73
5	1.10	1.34	1.61	1.84	2.49
10	1.22	1.79	2.59	3.39	6.19
15	1.35	2.40	4.18	6.25	15.41
20	1.49	3.21	6.73	11.52	38.34

MIXED-USE LONG TERM DEVELOPMENT

SHORT TERM INCOME			X
CAPITAL GROWTH +/-	✓		
LIQUIDITY			X
PORTABILITY			X
SCALEABILITY		•	
PLEASURE	✓		
VOLATILITY		•	
MANAGEMENT EASE			X
INVESTMENT FEE/OVERHEAD			X
CORPORATE SOCIAL RESPONSIBILITY	✓		



Ordnance Survey Map 1874 (surveyed 1871)



Photo]

[A. H. Gosford

Looking across the station yard at the north end of Kings Cross, showing, from left to right, the arrivall departure and suburban platforms













A NEW DESTINATION



EATING OUT





INFRASTRUCTURE



100% OF HEAT AND AND HOT WATER NEEDS WILL BE GENERATED ON SITE

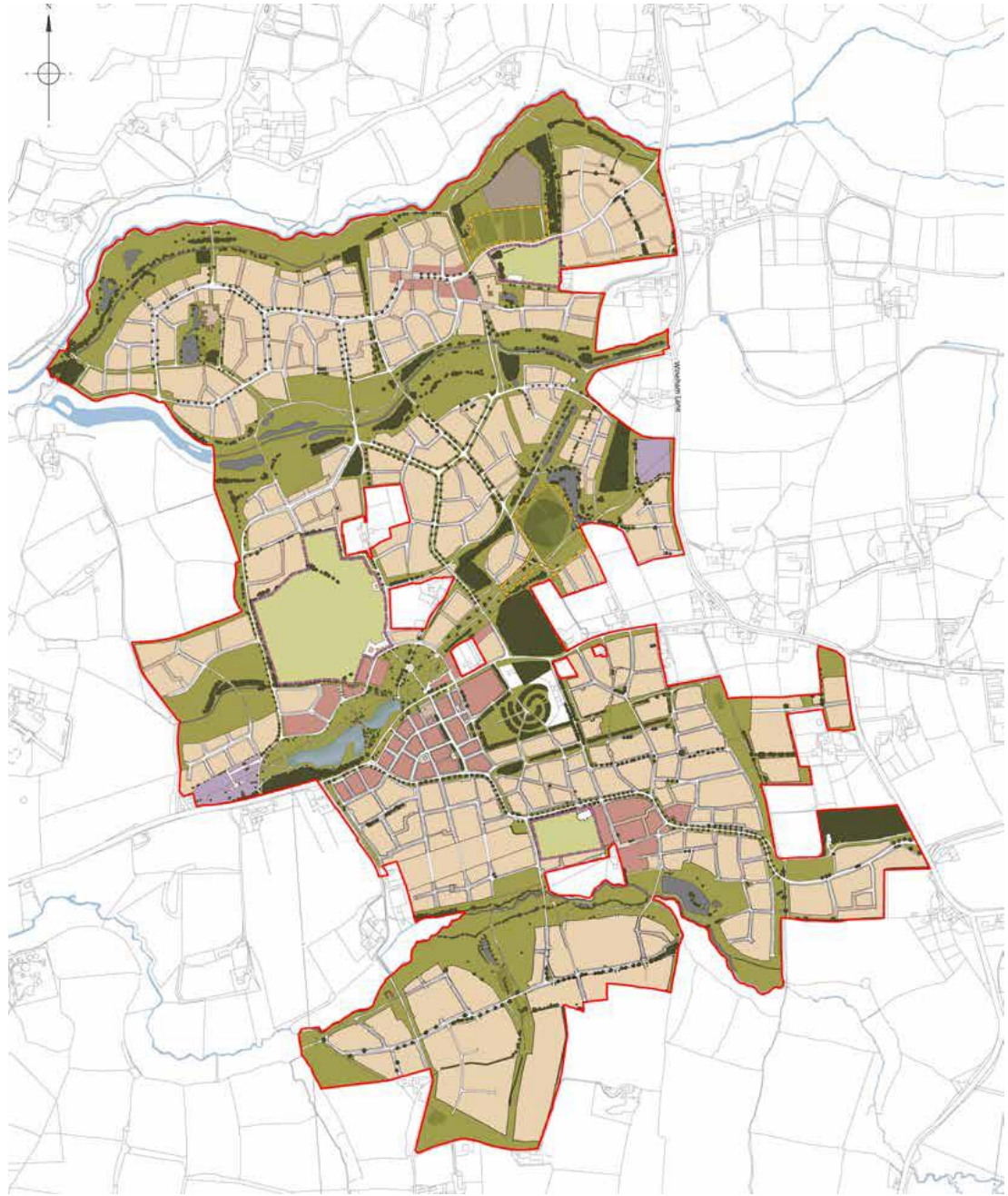
RESIDUAL APPRAISAL

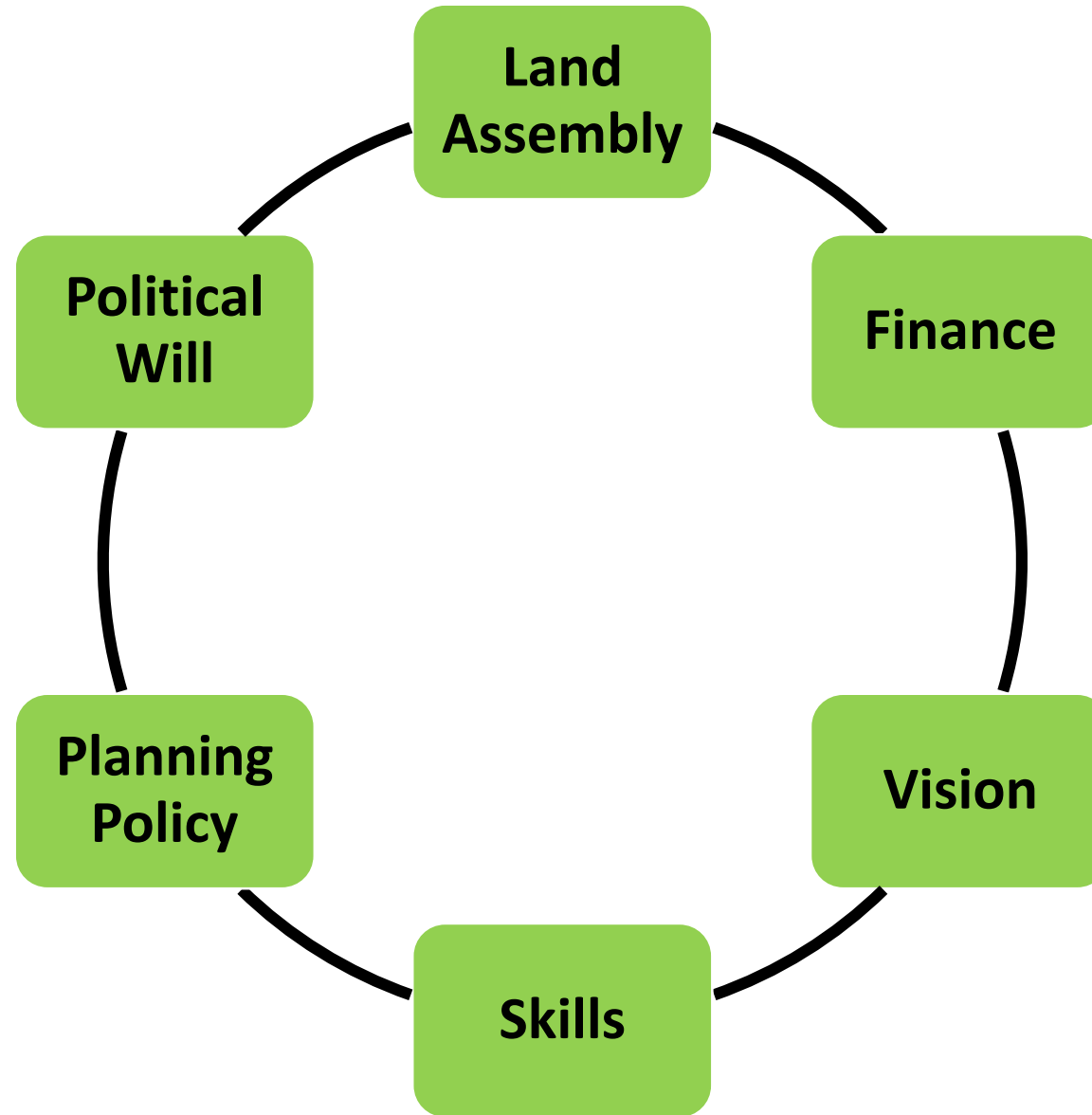
END VALUE	12,000,000
PROFIT/RISK MARGIN – 20% ON COST	(2,000,000)
AVAILABLE FOR TOTAL COSTS	10,000,000
MINUS CONSTRUCTION/FEES & INTEREST	(6,000,000)
RESIDUAL FOR LAND (INCL. SDLT, ACQUISITION FEES, INTEREST)	4,000,000
MINUS SDLT, ACQUISITION FEES, LAND INTEREST	(600,000)
RESIDUAL LAND VALUE	3,400,000

CURRENT VALUE OF £1 AT GIVEN DISCOUNT RATE

	2%	6%	10%	13%	20%
YEARS					
1	0.98	0.94	0.91	0.88	0.83
3	0.94	0.84	0.75	0.69	0.58
5	0.91	0.75	0.62	0.54	0.40
10	0.82	0.56	0.39	0.29	0.16
15	0.74	0.42	0.24	0.16	0.06
20	0.67	0.31	0.15	0.09	0.03







Thank you