

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

Lecture by
Peter Freeman at LSE
16 October 2019



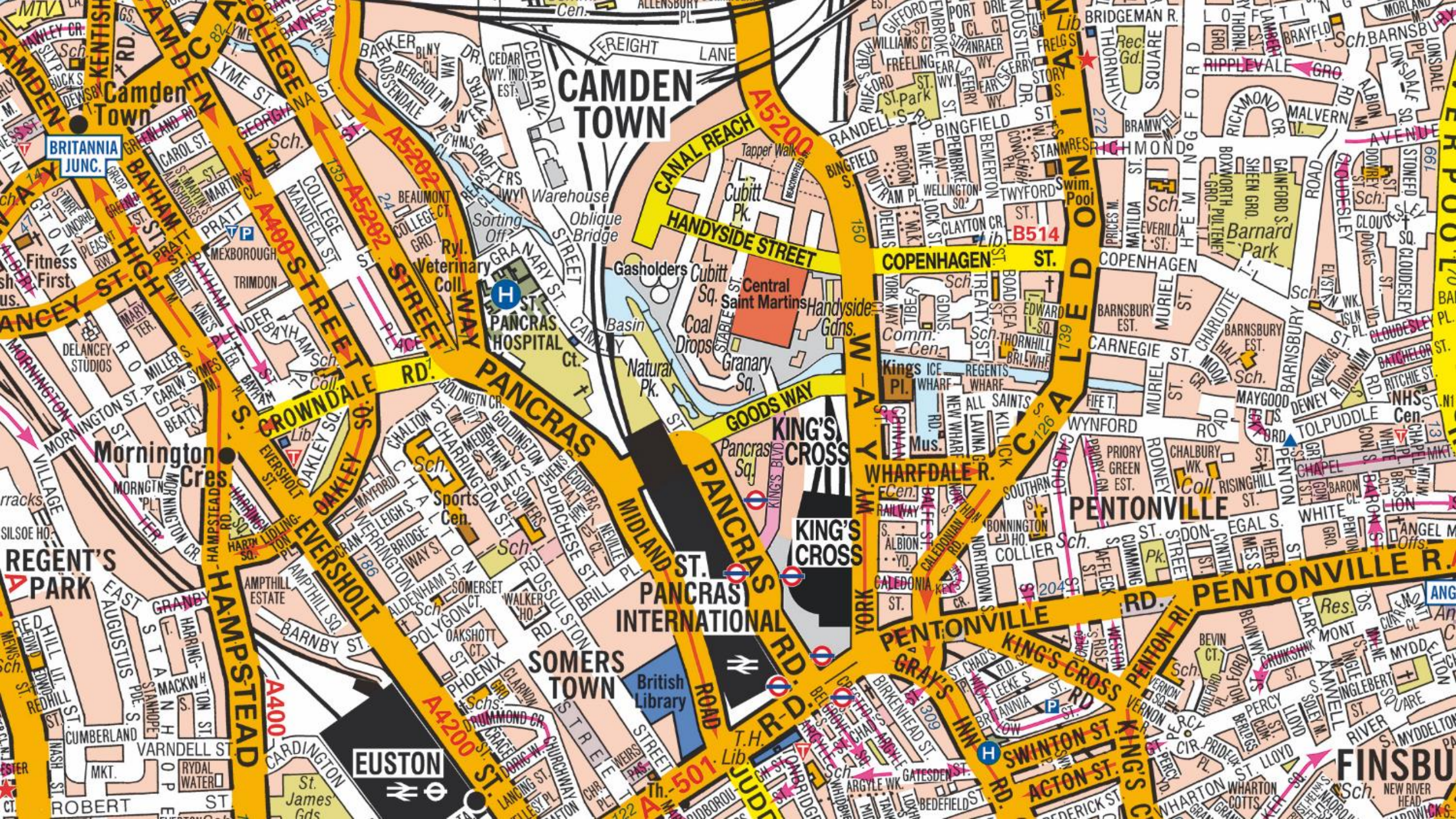










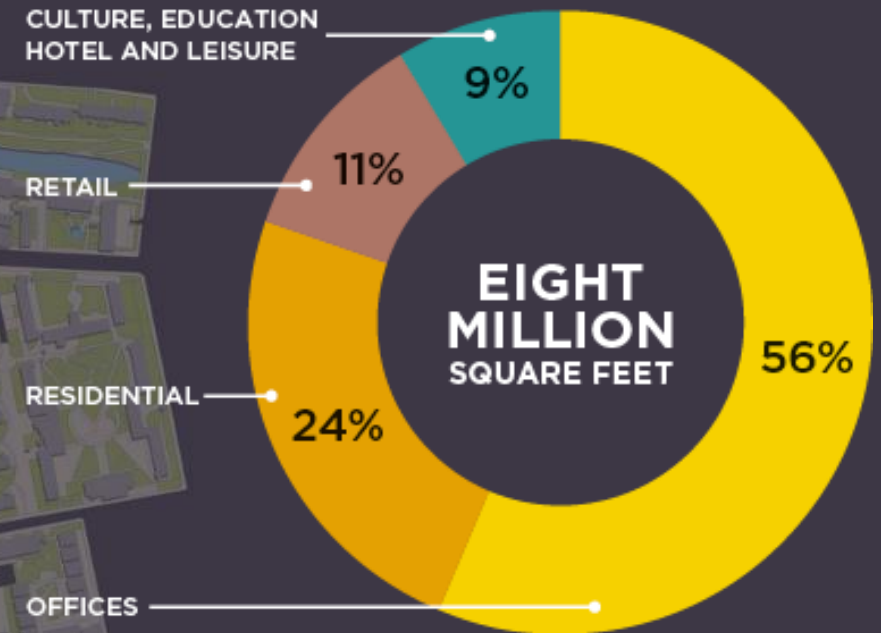


THE MASTERPLAN

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

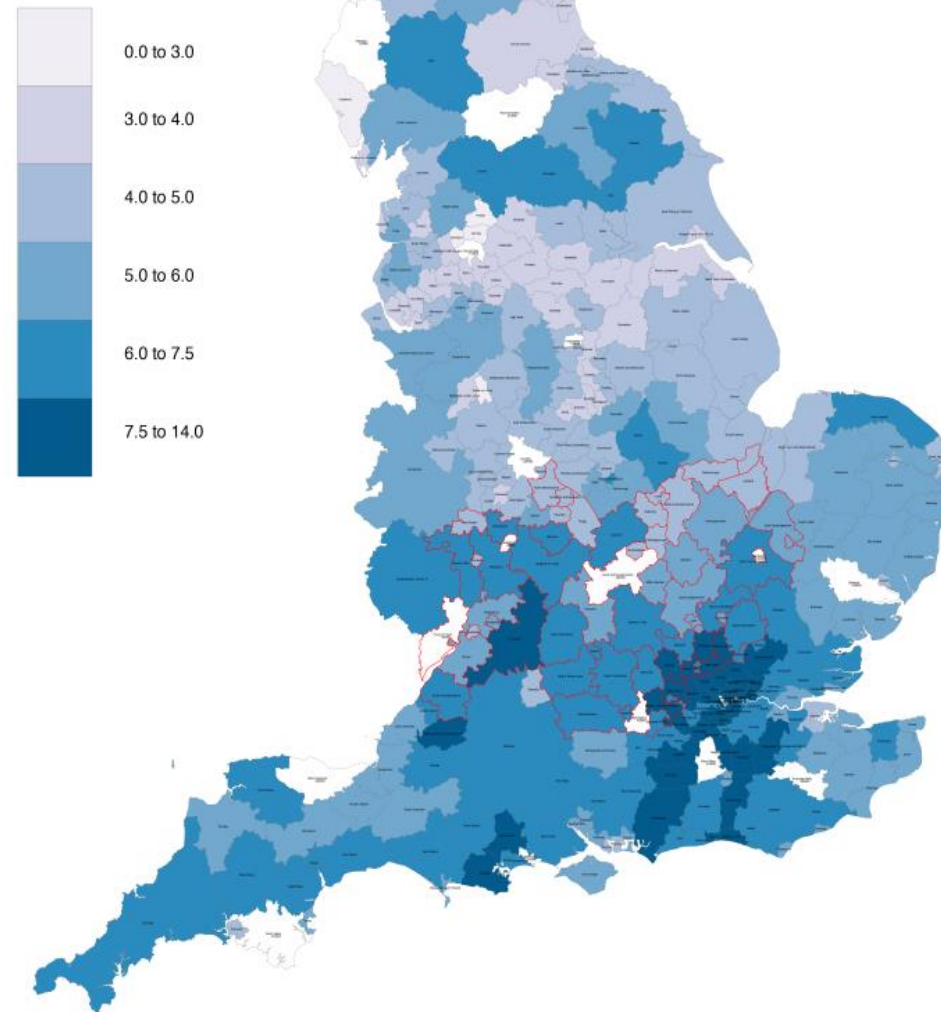


23 OFFICE BUILDINGS
17 RESIDENTIAL BUILDINGS
500,000 SQ FT OF RETAIL
HOTEL, CULTURE, LEISURE
AND EDUCATION





Median House price to median income ratios





DEVELOPMENT RISK

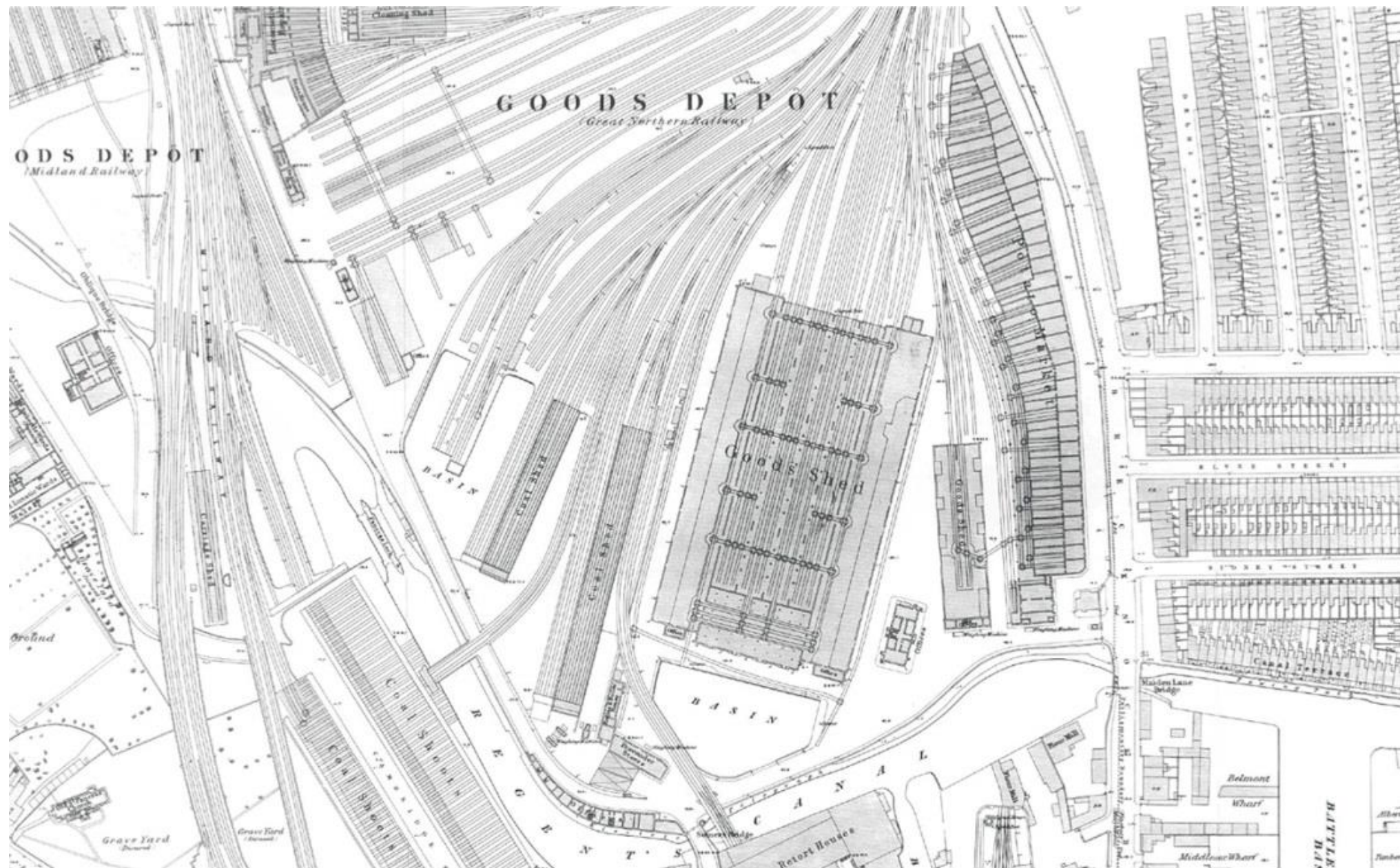
- Major new development is perceived as very risky (unattractive)
- RISKS
 - Site assembly
 - Planning
 - Contamination
 - Delivery of “promised” “complementary” infrastructure
 - Construction (time and cost)
 - Occupier demand
 - Investor demand
 - Finance rates
- PLUS Positive cashflow too far away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

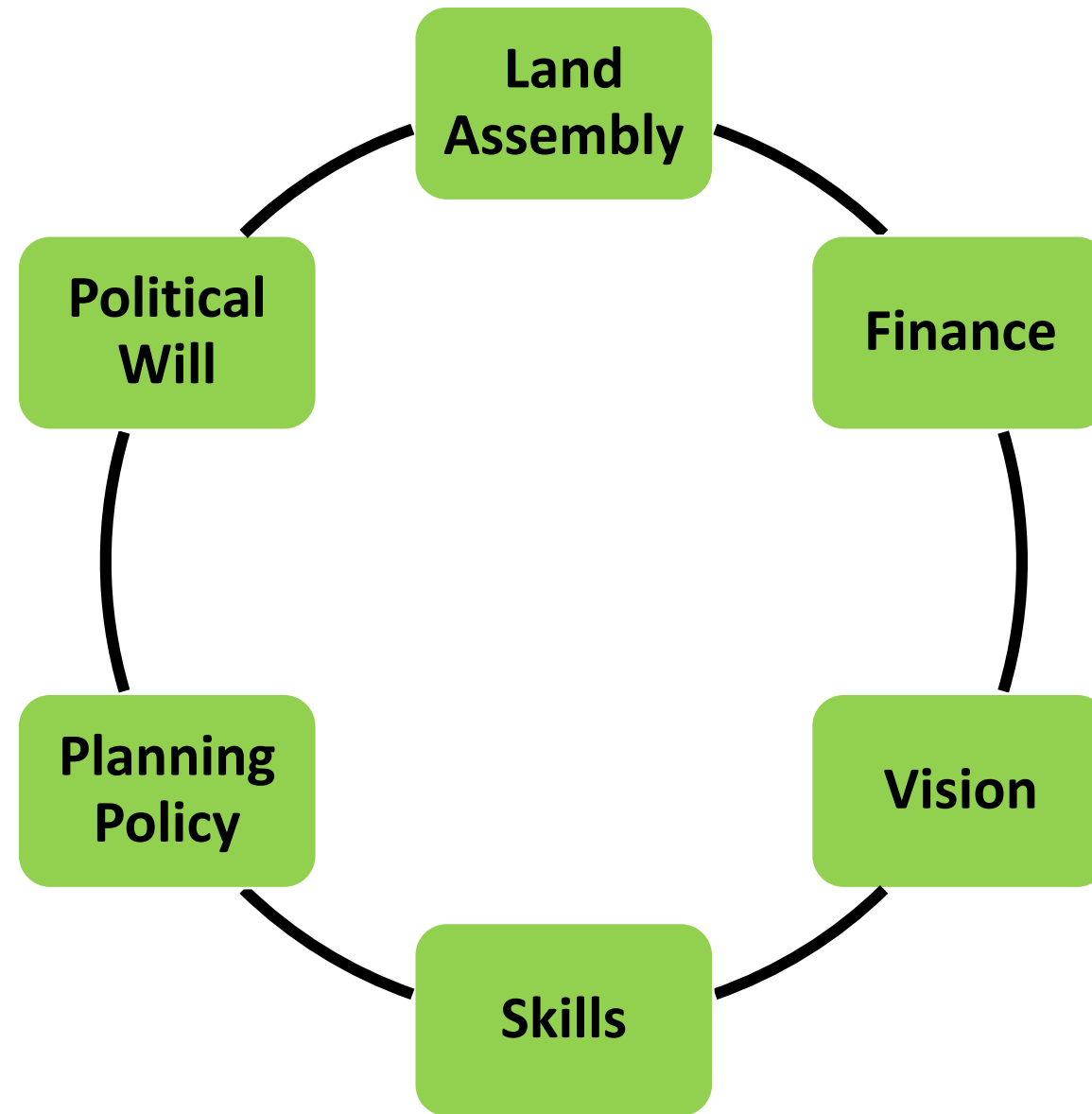
END VALUE	12,000,000
PROFIT/RISK MARGIN – 20% ON COST	(2,000,000)
AVAILABLE FOR TOTAL COSTS	10,000,000
MINUS CONSTRUCTION/FEES & INTEREST	(6,000,000)
RESIDUAL FOR LAND (INCL. SDLT, ACQUISITION FEES, INTEREST)	4,000,000
MINUS SDLT, ACQUISITION FEES, LAND INTEREST	(600,000)
RESIDUAL LAND VALUE	3,400,000

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