

**Real Estate Investment: A Strategic Approach
Fourth Edition, 2023**

Andrew Baum

Chapter 6
22 Bishopsgate: 1

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The ongoing story of developing London's
largest office building - the Bishopsgate
Tower, or the Pinnacle, or the Helter
Skelter, or Twentytwo Bishopsgate...

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The original Crosby Court building: 2003 value?



- Crosby Court, Bishopsgate, City of London
- 250,000 sq ft
- £35 per sq ft rent
- 6.25% cap rate



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The original Crosby Court building: 2003 value?

- $250,000 \text{ sq ft} * £35 = £8,750,000$ annual rent
- $£8,750,000 / 6.25\% \text{ cap rate} = \text{capital value}$
- $£8,750,000 / .0625 = \text{capital value}$
- $= £140,000,000$ (£140m)

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2003 - 2007

- 2003: DIFA (a German open-ended fund) instructs architects KPF to design a tower on the site of Crosby Court in the City of London
- The design brief calls for an **iconic design** (note the context of the City at the time: Tower 42, Gherkin, Heron Tower, Shard)
 - Variety of floor-plates
 - Tapering top
- 2005 – 2007: planning process includes 3 revisions
 - Civil Aviation Authority impose 2,000 ft (305m) height restriction
 - Loss of area equivalent to 5 office floors
 - Revisions to massing

The Helter Skelter/Pinnacle



Source: Axa Investment Managers

2005: the new building

- 850,000 sq ft
- £45 per sq ft rent
- 5% cap rate
- £450 psf cost
- 25% fees on costs
- £200m site cost
- Profit on total cost?



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2005 development appraisal

Size sq ft	850,000
Rent psf	£45
Cap rate	5.0%
GDV	£765,000,000
Cost psf	£450
Cost inc fees	£478,125,000
Site cost	£200,000,000
Yield on cost	5.6%
Profit	£86,875,000
Profit as %	12.8%

Note: yield on cost = $(850,000 * 45) / (£478,125,000 + £200,000,000)$

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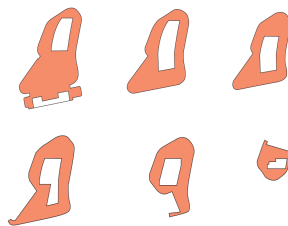
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2005 profitability/land value

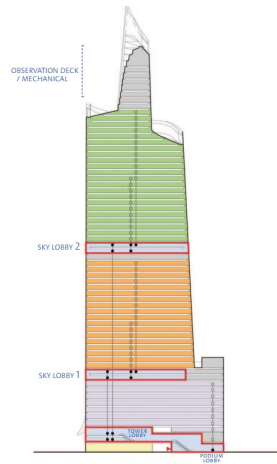
'Front door' approach

- Gross rental value = 850,000 sq ft * £45 = £38,250,000
- GDV = £38,250,000 / 5% cap rate = £765,000,000
- Costs = £450 * 850,000 = £382,500,000
- 25% fees = £95,625,000
- Total costs = £382,500,000 + £95,625,000 = £478,125,000
- Land price = £200,000,000
- Total cost inc land = £478,125,000 + £200,000,000 = £678,125,000
- Residual profit = £765,000,000 - £678,125,000 = £86,875,000
- Profit on cost = £86,875,000 / £678,125,000 = 12.81%

Pinnacle floorplates



The Pinnacle design – lifts/elevators



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2007 development appraisal

Size sq ft	850,000
Rent psf	£57.50
Cap rate	4.5%
GDV	£1,086,111,111
Cost psf	£475
Cost inc fees	£504,687,500
Site cost	£200,000,000
Yield on cost	7%
Profit	£381,423,611
Profit as %	54.1%

Note: yield on cost = $(850,000 * 57.5) / (£504,687,500 + £200,000,000)$

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The Stump



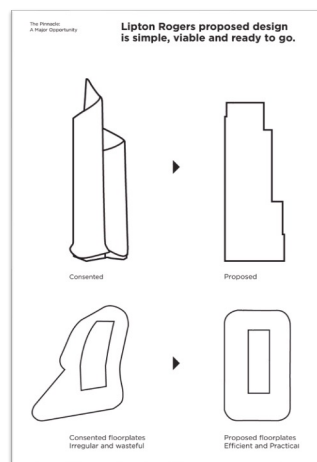
Source: Axa Investment Managers

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Revising the floorplates



Source: Lipton Rogers

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The new design



Source: Lipton Rogers

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2012: the agent's pitch

Size sq ft	850,000
Rent psf	£75
Cap rate	4.25%
GDV	£1,500,000,000
Cost psf	£575
Cost inc fees	£1,100,000,000
Site cost	£200,000,000
Yield on cost	5.8%
Profit	£200,000,000
Profit as %	15.0%

Credible?

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2012: reality, at best

Size sq ft	850,000
Rent psf	£60
Cap rate	5%
GDV	£1,020,000,000
Cost psf	£575
Cost inc fees	£1,100,000,000
Site cost	£200,000,000
Yield on cost	3.9%
Loss	£280,000,000
Profit as %	-22.0%