

Real Estate Investment: A Strategic Approach Fourth Edition, 2023

Andrew Baum

Chapter Six

22 Bishopsgate: 2

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2013-2015: a new approach

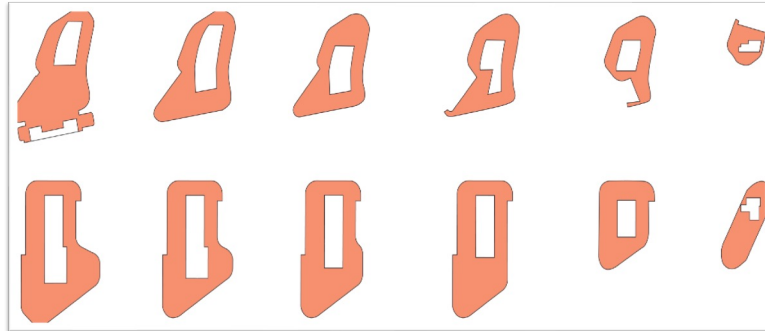
- LRD worked for 2 years with its professional team to address fundamental issues with Pinnacle design, including -
 - Floorplates (size, uniformity, mix, occupational density)
 - Lifting strategy
 - Construction costs
- PLP scheme built on the design principles of the consented scheme
 - Centrepiece of the City's group of towers
 - Similar height
- Building on the existing work reduced cost, time, and risk
 - Archaeology
 - Piling
 - Basements

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2013-2015: a new approach



Floor plates: *consented scheme (top) vs. Lipton Rogers scheme (bottom)*

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2013-2015: a new approach



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2015



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Breakout: 2015

- November 2014: Lipton Rogers in exclusive talks to buy the site, backed by AXA-REIM-led consortium of investors
- February 2015: deal agreed
 - Price: £300m - £25m to bank, £25m to Multiplex, £250m to AI
 - Arab Investments retain top two floors – worth £30m?
 - Crystallised loss around £200m
- What deal would you seek to do as LRD?

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The investor consortium

- Temasek (Singapore)
 - sovereign wealth fund
- PSP (Canada)
 - pension fund manager acting for public pension plans including army, police
- British Columbia Investment Management Corporation (Canada)
 - pension fund manager acting on behalf of local pension funds
- AXA (France)
 - amalgamation of three 'captive' insurance funds
- 25% of equity to be provided by each
- Decision making unanimous

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The investment strategy

- Ground up development
 - Unusual for institutional investors
 - But risk seen as low
- Hold long term
 - Match income with liabilities
 - No forced sale of asset on completion
- All equity, no debt
 - Was debt available?
 - Implications for property cycles; more risk can be taken
- Develop speculatively
 - Size of pre-lets compared with total building
 - History of the site

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Investment manager and developer

- AXA Investment Managers acting for all four investors
- Fee-earning business – development management fee say 2.5-3% of total cost (around £15-18m)
 - plus promote payable based on valuation when substantially leased
- Conflict of interest between AXA IM and AXA insurance
 - AXA IM driven by fee, ongoing relationships
 - AXA Insurance driven by return prospects
 - other investors may see this as skin in the game, but is it?
- Lipton Rogers earns an annual fee (several millions) and has a profit share (carried interest)
- Manages over 50 sub-contractors
- Opportunity cost?

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Planning issues

- Profile informed by consented Pinnacle scheme
 - Tallest building in the Easter Cluster cluster
 - Similar strategy on strategic views
- Issues with other City schemes led to concerns
 - Wind
 - Solar glare
 - Viewing gallery
 - Traffic
 - Rights of light
- Consultation process
 - Started discussions with the City in 2012
 - Fortnightly meetings throughout 2014
 - Good working relationship with City stretching back 30 years

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Planning issues – urban design



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Now it's 22 Bishopsgate



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The 2016 vision

- 278m height – the tallest office development in the City
- 1.4m sq ft of offices, with 100,000 sq ft of amenity space
- Capacity for 12,500 people
- 2m sq ft gross external area
- November 2015: planning approval

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2016: value up, cost up, lower cost base

Size sq ft	1,400,000
Rent psf	£70
Cap rate	5.0%
GDV	£1,960,000,000
Cost psf	£575
Cost inc fees	£1,006,250,000
Site cost	£300,000,000
Yield on cost	7.5%
Profit	£653,750,000
Profit as %	50.0%

All looking good!

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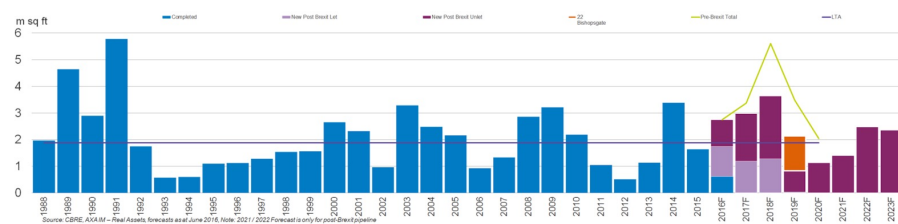
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June-October 2016

- The Brexit vote causes investors to consider options
 - Delayed signing building contract
- LRD and professional team try to persuade investors to proceed
- Detailed work on occupier market (demand and pipeline)
 - Positive impact of other developments having stalled, further constraining future supply

City of London Development Pipeline: Assessment July 2016 vs. Assessment September 2016



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Breakout: June 2016

- Effect of exchange rates on building costs?
- Sunk costs?
 - £300m committed on site, plus £70m in hard construction/design costs since acquisition
 - Additional costs associated with 'wind-down' estimated at another £70m
- What would you do?
 - As LRD?
 - As AXA REIM?
 - As Temasek?

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October 2016

London

City of London's tallest building to be built despite Brexit vote

After delay over referendum result owners confirm 278-metre tower at 22 Bishopsgate will go ahead

This article is 1 year old

92 121

Jill Treanor

Wednesday 26 October 2016 19:36 BST



© 22 Bishopsgate will dominate City's skyline when it is built, as in this artist's impression. © Davidon

27th October 2016

The building contract with Multiplex is signed; construction budget of £595.7m, which is over 85% fixed

Wednesday 26 October 2016 6:00pm

Brexit worries over – Axa ploughs ahead with building the City's tallest tower

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< NEWS

Why AXA's backing of 22 Bishopsgate is backing for Brexit Britain

10 NOVEMBER, 2016 • BY RICHARD WAITE

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2018: cap rate up, rent down, costs shaved

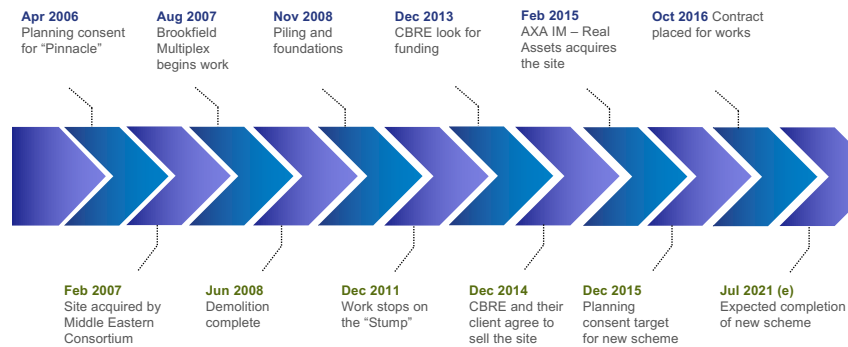
Size sq ft	1,250,000
Rent psf	£65
Cap rate	5.3%
GDV	£1,547,619,048
Cost psf	£600
Cost inc fees	£937,500,000
Site cost	£300,000,000
Yield on cost	6.6%
Profit	£310,119,048
Profit as %	25.1%

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Timeline – 15 years to start to end



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Appraisals, 2005-2018

	2005	2007	2009	2015	2018
Size sq ft	850,000	850,000	850,000	1,400,000	1,250,000
Rent psf	£45	£58	£45	£70	£65
Cap rate	5.0%	4.5%	6.5%	5.0%	5.3%
GDV	£765,000,000	£1,086,111,111	£588,461,538	£1,960,000,000	£1,547,619,048
Cost psf	£450	£475	£542	£575	£600
Cost inc fees	£478,125,000	£504,687,500	£575,875,000	£1,006,250,000	£937,500,000
Site cost	£200,000,000	£200,000,000	£200,000,000	£300,000,000	£300,000,000
Yield on cost	5.6%	7.0%	4.9%	7.5%	6.6%
Profit	£86,875,000	£381,423,611	£-187,413,462	£653,750,000	£310,119,048
Profit as %	12.8%	54.1%	-24.2%	50.0%	25.1%



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22 Bishopsgate tops out



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2021?

Size sq ft	1,250,000
Rent psf	£75
Cap rate	3.5%?
GDV	£2,678,571,429
Cost psf	£600
Cost inc fees	£937,500,000
Site cost	£300,000,000
Yield on cost	7.6%
Profit	£1,441,071,429
Profit as %	116.3%?



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