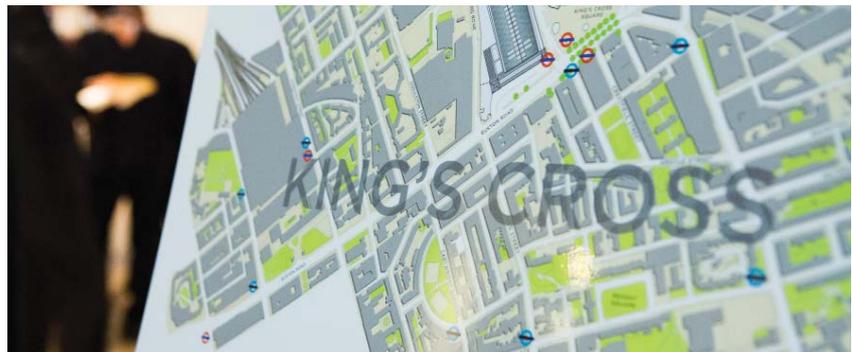




King's Cross: funding urban regeneration

ULI UK Development Forum, March 2015

At ULI's second UK Development Forum, 38 leading developers, investors and advisors gathered at Argent's headquarters in King's Cross to learn about the financing challenges and solutions at this major project in north London.



With each year that passes, King's Cross attracts increasing numbers of commercial occupiers, residents and visitors as development takes shape and this former industrial blackspot is transformed into a new London district.

The latest arrival, however, marks more of a financial milestone for the project: this year AustralianSuper agreed to take a 25 per cent stake in King's Cross, in its first direct London investment and only its second in the UK.

AustralianSuper will join the original King's Cross Central Ltd Partnership (KCCLP) investors, which include Argent King's Cross Limited Partnership, backed by Hermes Investment Management and Argent, as well as London & Continental Railways and DHL Supply Chain.

The transaction is significant, not least because it is the first time new capital has come into the partnership after 15 years of planning and development at the 67-acre site. It is also a huge vote of confidence in the regeneration of King's Cross when there are at least five years to go before development is complete.

That one of Australia's leading institutional investors has alighted at King's Cross – rather

than any of London's other major projects – is testimony to how far perceptions of the area have already changed for the better.

Indeed, as Mike Lightbound, a Partner with Argent, observed, "One of the biggest challenges was changing the perception of King's Cross, from a place people wanted to get out of as quickly as possible to a destination."

The early success here owes much to Argent, in its role as master developer and asset manager, establishing from the outset key guiding principles for development.

Though a lot has changed with the project over the years – the phasing and design have changed dramatically – Argent has stuck resolutely with these original core principles and they will continue to inform the business plan. Among others, they state that KCCLP and King's Cross will:

- **Offer a robust urban framework** – recognising that in many respects, the streets and the squares are as important as the buildings. As Lightbound remarked, buildings will come and go.

- **Provide a lasting new place** – acknowledging that King's Cross is a long-term project. "We've been working on it for the best part of 20 years but ultimately it will be part of London forever," said Lightbound. "That gives us a responsibility to deliver something that is special – not just something that can last the test of time but something that is flexible and can change over time."

- **Promote accessibility** – to the site and on the site to create, in effect, a virtuous circle of activity. "The more people we attract to King's Cross, the more open we make it and the more comfortable we make people feel then obviously the more people we get here and the more they spend, the more value will be created."

- **Work with the community** – understanding the area is vital to delivering a project of this size. "Back in 2007, this was something we were very engaged with, before we even owned the land. This is recognising that a development like King's Cross is not just about the land in the development, it's about the area and about engaging with the area."



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Key lessons learned at King's Cross

Timing is everything

From the outset, KCCLP was careful not to box itself into a corner by being too prescriptive on which sectors it wanted for King's Cross but instead create an economic environment that would appeal to many occupiers.

The original business plan nonetheless envisaged the partnership retaining all 3m sq ft of planned commercial buildings at King's Cross although following September 2008 and the onset of the financial crisis the approach to development changed significantly.

KCCLP subsequently decided to sell certain plots as a means of raising cash, enabling development to proceed, and this was enshrined in a new business plan from 2009.

Even so, with demand still weak from commercial occupiers the major breakthrough was the decision by Central St Martins (a leading arts college) in late 2008 to move into the Granary Building at the heart of the site. The £200m restoration of the historic building into a university campus led to the influx of 5,000 students and staff by 2011 – the first occupiers on site.

The Central St Martins deal helped steer KCCLP through the financial crisis and brought an immediate and invaluable vibrancy to King's Cross, which has underlined the partnership's mixed-use aspirations for the site. And Central St Martins is not the only non-commercial attraction in the wider King's Cross area. As Argent partner Mike Lightbound said, "We've been very fortunate that the

developments around us – British Library, Francis Crick Institute and the station investments – have all acted as a catalyst to changing the area."

Cash is king

It is one of the old principles of business but "cash is king" took on greater significance in the depths of the recession when KCCLP was trying to deliver a regeneration project that required a lot of investment in infrastructure at the start of development.

The partnership had enough cash reserves for a third of the total infrastructure cost of £300m and so as Lightbound observed, a "meaningful" amount of investment was still required at a time when raising capital was particularly difficult. "The challenge was that until we had delivered that infrastructure it was very hard to proceed with the development of individual plots," he said.

Argent examined the infrastructure requirements and identified those infrastructure packages that could make the biggest impact on place making as well as unlock the various plots for office and residential development.

The priority was to establish King's Boulevard, which runs south to north through the centre of the site, linking Pancras Road to the new Granary Square. Until that link was in place, it would have been difficult to bring the land immediately north of King's Cross Station forward for development. A series of land sales followed with organisations that KCCLP felt could enhance the site, including the London Borough of Camden and Urbanest, the student housing provider. KCCLP recycled the receipts from these transactions into the project.



The importance of placemaking

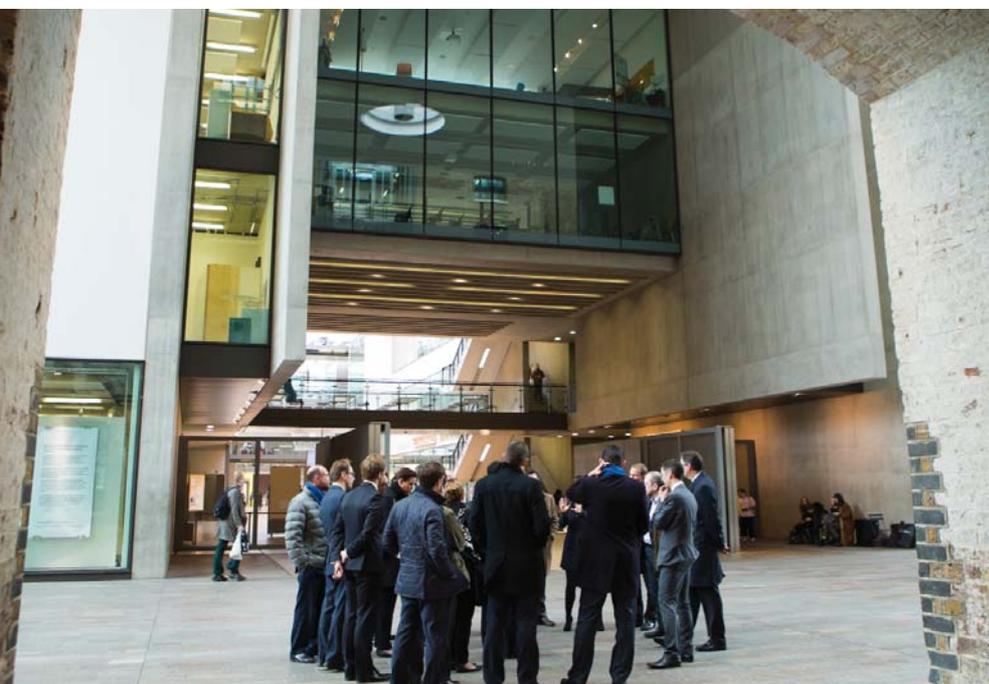
Around half of King's Cross remains to be built but the presence of blue chip commercial occupiers and the sheer volume of visitor numbers bear testimony to the importance of place making and the value of up-front investment in the public realm.

Early in the development programme, two deals embodied the changing perceptions of King's Cross and the diversity of occupiers. KCCLP sold a plot to BNP Paribas for a new office building – the first high-quality commercial occupier and a deal that kick-started the construction of four other buildings in the south of the site.

Around the same time, the partnership developed a pop-up restaurant on the site of a former petrol station. As Lightbound remarked, people in London like to eat out and the opening of the restaurant generated widespread publicity, elevating the King's Cross development to mainstream media as opposed to the property press. "The Filling Station [restaurant] was all over the press for weeks. It got us out there. Doing those slightly quirky deals – that financially don't make any obvious sense – can have a massive impact on the wider area."

Since then, Louis Vuitton has moved its London office from Bond Street to King's Cross, which underlines the area's growing appeal to innovative, creative and globally recognised brands.

The highest profile occupier news, however, was Google's decision in January 2013 to move to King's Cross, buying a 2.4 acre plot from KCCLP on a 999-year lease for a building of about 1 million sq ft. The company is still working on its design for what will be, in effect, its new European headquarters.



KCCLP has also ensured that in selling off plots to occupiers it retains an element of control and a consistent approach to estate management. “Our challenge is to make sure that the estate management is so good that people want to buy into the level of service and place making,” said Lightbound.

The spectrum of occupiers that comes to King’s Cross will carry on growing. Discussions have included law firms and consultant engineers while at the same time residents have moved into the first apartment blocks. Above all, KCCLP has resisted the temptation to brand King’s Cross as a particular occupier location, not least the idea of the area as a new tech hub following Google’s decision to build its headquarters there.

The careful management of perceptions continues.

Recognising progress

Almost all the infrastructure is now in place and the partnership is about half way through development of the actual buildings, with another six years to go. The overall scheme is 30 percent completed and Argent is on site or about to start on a further 30 percent of buildings. The front loading of the infrastructure and the place making function of development has already paid off.

Yet Lightbound pointed out that it is important to recognise the changing risk profile of a long-term development over time. In 2009, the story was all about creating the opportunity, securing planning permission, taking possession of the land and ultimately starting construction. More recently there has been a greater focus on creating places and changing perceptions of King’s Cross, and with notable success: people are choosing to visit the area in growing numbers.

Finance – raising capital and unlocking value

In its 34 years of existence Argent has concentrated on a small number of large projects and as Mike Lightbound said, there has been a common financial theme: “We’ve got very patient capital. That’s been instrumental in managing long term projects.”

He added: “Place, product, partnership – this is the DNA of Argent and at the core of how we approach King’s Cross and other developments.”

For all the preconceptions there may have been about King’s Cross, the key advantage of this “place” is that it boasts among the best transport links in the UK with as many as 63 million passengers expected to pass through the combined King’s Cross-St Pancras interchange by 2022.

What is more, the strength of the “partnership” here – both within KCCLP and with Camden council and the local community – has undoubtedly smoothed the path from planning through to development.

All the ingredients here make this mixed-use “product” quite special and it is evidently on track to fulfil the aim of creating a new London district.

But it is nonetheless regeneration on a grand scale, taking place at a time when raising development finance, even for more straightforward projects, is hardly a fait accompli.

One of the funders involved at King’s Cross is Wells Fargo, whose Head of UK Commercial Real Estate, Max Sinclair, highlighted some harsh realities despite the fact that there is an excess of capital in the banking system and margins and terms are coming down. Sinclair suggested that banks and other debt providers are less concerned with such staples of regeneration investment as public realm, place making and infrastructure than the need to see real revenue from let-able and saleable assets.



“As part of our evolution with King’s Cross, which started eight or nine years ago, we were grappling with the fact that there was quite a lot of infrastructure money – hundreds of millions of pounds – required to get the scheme to a point where it had roads and services to enable the buildings to be built,” he said. “Roads and services don’t generate revenue and whilst we are so proud to be associated with the development of this place, we are actually, nevertheless, a funder of buildings.”

Becky Worthington, Chief Executive of Lodestone Capital, cautioned against debt being used as the predominant source of capital for large-scale regeneration projects. Worthington suggested that zero-coupon, with-profits, retail bonds could be an alternative means of raising capital as well as engaging with local residents. “I think that would be an interesting idea for a regeneration scheme to get off the ground and really buy in the local community,” she said.



To date, KCCLP's strategy has been based on selectively selling plots to raise cash, which as delegates at this forum pointed out, raises other issues: the risks in relinquishing overall financial control and the possibility of losing value in a rising property market.

In some respects, the strategy has been pragmatic. Though Argent is comfortable developing offices and residential, Lightbound said, the company recognised that third party groups would be better at delivering such specialist uses as student housing. Demand for assets in this sector was also very strong in 2010 when the partnership sold land to student housing operator Urbanest.

More importantly, perhaps, the land sale to Google was "a tipping point" for King's Cross – a good deal financially but also one that changed perceptions of the area as a commercial location.

As for the housing, Argent decided to start development on the east side of the site where the infrastructure was already established. ArtHouse was launched in 2011 with the expectation of maximum sales values of £800 per sq ft and yet that scheme has achieved sales worth as much as £930 per sq ft. The sales momentum has spread to two subsequent residential blocks – Tapestry and The Plimsoll Building – which have achieved sales values of over £1,500. "The London residential market has been very strong," said Lightbound, "and so one of the challenges



has been recognising the growth in values and developing products that match that value gain."

He pointed out, too, that though the cultural, leisure and educational uses – especially Central St Martins – do not deliver value in their own right, they are absolutely fundamental to the success and financial viability of the overall scheme. As he put it, "This is the 12 per cent that unlocks value in the other 88 per cent."

For the future, the big challenge will be in transferring the momentum created in the south to the north. Many people now visit King's Cross, said Lightbound, but they think it ends at Granary Square. "There is a need to re-educate them to knowing what lies beyond, and that this is a 67-acre site, not 30 acres."

He added: "This was not intended to be a gated community; rather, another part of London that will blend in with neighbouring communities and hopefully enhance the surrounding area."

About ULI

The Urban Land Institute provides leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. It is an independent, global, not-for-profit organisation supported by members representing the entire spectrum of real estate development and land use disciplines. Founded in 1936, ULI has 34,000 members worldwide. National Councils are ULI's country networks which organise local events and activities. ULI UK is the largest National Council in Europe with over 700 multi-disciplinary members.

The ULI UK Development Forum is a new initiative convened by ULI UK, building on ULI's long history as a neutral, non-lobbying membership organisation for real estate industry leaders. The Development Forum has been created to provide a mechanism for the development community to gain exclusive insight, share challenges and ideas to break down barriers and to explore new ways of delivering major development and regeneration opportunities.

Background to King's Cross

Outline planning permission for much of the site was granted in December 2006 followed by consent on the remainder in 2008. The approved scheme comprises a high-density, mixed-use development of 50 buildings, including close to 2,000 homes, 650 student accommodation units, education and health care facilities. The consent also includes 20 new public streets and 10 new public spaces. The public realm will extend across 40 percent of the site.

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