King's Gold – How King's College London is profiting from the housing crisis

FEBRUARY 23, 2016 BY GEORGE TURNER

In this latest case for ourcity.london, I look at a battle between King's College London and the loc community in Hampstead, who want land to expand a popular local school.

The case has revealed some of the tactics used by developers to use recently enacted governme legislation to get around affordable housing obligations. It also shows how the lure of offshore cas driving King's to play the luxury housing game rather than help local residents expand the school, despite King's chartered purpose to promote education.

The demand for education

In Camden last year, 60 children were left without a primary school place. The biggest problem w the Frognal area, where hundreds of new homes are being built.

A new free school, St Luke's, was started in Kidderpore Avenue off the Finchley Road in 2011, bu is not big enough to meet the demand. Last year it was 9 times oversubscribed, and after grantir places to the brothers and sisters of existing pupils only had 5 places left. Its catchment area is ju couple of hundred meters, and it lacks the land it needs to expand.

There may have been an easy solution. King's College London owns a large piece of land next to Luke's which is surplus to requirements.

However, the opportunity to expand the local primary school will be missed if Camden Council approve King's College's planning application. It appears that King's, is more interested in playing luxury property game than providing educational opportunities for the infants of Hampstead.

The plans

The King's College Hampstead Residence is is a large site with 10 buildings and extensive groun There are currently over 250 student rooms on the site, a chapel and a library.

The site has been in educational use since 1891, when it was acquired by Westfield College, a la college that was part of the University of London. In 1989 Westfield created Queen Mary and Westfield College and moved to Mile End. The buildings were taken over by King's College who u them as a student residence.

King's are now applying for planning permission to build luxury homes, and if it is granted will sell land to Mount Anvil, a developer. Mount Anvil's other projects include the Lexicon in Islington and Keybridge House in Vauxhall (which includes space on the site for a new primary school). King's stated reason for the deal is a reorganisation of their estate which would allow them to bring their students closer to their Central London campuses.

The new plans will certainly be luxurious. The developer has budgeted £35,000 per kitchen (even the affordable units). Two of the larger homes on the site will have their own private swimming po

Kidderpore Hall, a grade 2 listed building which is part of the site, will be converted into just two homes, wit private swimming pool

An enormous basement is going to be built to house a two story carpark with 97 parking spaces Sensitively, King's College thought it appropriate to put the exit to the carpark just 20 meters awa from St Luke's Primary School. (Bizarrely, the Hampstead School of Art has written a letter to Car concerned that the carpark is not big enough, which suggests that the class of management at t Arts School has changed somewhat since it was founded by Henry Moore).

Over 900 square meters of open space will be built on, including land which is designated as an Site of Interest for Nature and Conservation.

Some of the existing buildings on the site have been used by local community groups, such as a dance school and a local private school St Margaret's in recent years. These community spaces be lost.

Housing

King’s and Mount Anvil plan to build 156 new homes on the site but as we hear so often they say they are unable to provide the required level of affordable housing. Their planning consultant, Quo has submitted a viability report which they say shows that the development cannot sustain any affordable housing at all. However, in any event, King’s is prepared to offer 20% affordable housin against a Camden policy requirement of 50%.

If the viability report submitted by Quod on behalf of King’s is to believed, then one does have to wonder why King’s are going ahead with this at all. To be ‘financially viable’ for a land owner a development must generate enough cash in order to pay for the land in its existing use, plus a sn uplift.

The existing use is a student halls. The students pay rent and presumably, King’s would be able t the land to another provider of student housing (of which there are many) and gain a lump sum, i is what they wanted.

What Quod’s financial viability report is saying, is that after you have accounted for the developer profit, and the cost of building, the money left over from the sale of the new houses on the propo development is LESS than what King’s College could get for selling the building as is. And that is before you include the 20% affordable housing that King’s is offering, which further reduces the la value. The obvious conclusion of the Quod report is that King’s should sell the land to another provider of student housing, a much quicker and easier transaction than developing the land.

So why are King’s getting involved with this apparently unprofitable venture? Is this a charitable a King’s for the world’s oligarchs? Are King’s seeking to play their part in meeting the desperate demand for luxury homes with private swimming pools?

No, as usual the viability report submitted to the council appears not to provide an accurate pictu the real finances of the scheme.

Open Space on the site will be built on as part of the scheme. In response Mount Anvil say the open space le
be open to the public

Same old tricks

Camden Council hired BPS Surveyors to assess the viability assessment produced by Quod. The detailed report is reprinted with the Council papers, a level of transparency sadly never seen in So London.

Sadly, the report from BPS shows Quod employing a number of mechanisms to artificially lower t profitability of the scheme.

Perhaps the most shocking, is that BPS reveal that the viability assessment has been conducted the basis of today's prices and tomorrow's cost. When working out the revenue of the scheme, C used residential sales prices today. In a market where prices rise every year working out revenues this way means that the sales values will be underestimated. When working out how much it wou cost to build, Quod included an allowance for construction costs inflation. When you inflate costs peg down revenues the profit of a scheme is lowered. Low profits are then used as an argument reducing affordable housing.

It is quite impossible to understand how anyone could think this was a reasonable methodology f working out the profitability of the scheme. If anything the way inflation is treated should be revers as developers generally build housing before it is sold. At a minimum the costs and sales prices should be assessed at the same time (which is government policy).

In my view, the way in which Quod have used inflated costs, but today's revenues is nothing more than a cynical attempt to make the argument for reducing affordable housing on the scheme. Sad this appears to be standard procedure for Quod, who used the very same trick in their viability appraisal at the Shell Centre.

Other issues raised by BPS include an overly ambitious assumption of what King's might be able get for the land if it was sold in its current use, and other increases in costs.

However, after recalculating the scheme using their assumptions BPS arrive at the conclusion tha although the viability of the scheme is much better than the 0% claimed by Quod, it is not much, anything more than the 20% being offered.

Trojan horses

If the real financial position of the scheme means that no more than 20% affordable housing can offered, and that is what King's are offering anyway, then why go to the trouble of creating a viabi assessment that says you can't provide 20%?

BPS in their report, suggest that the 20% offer may never have been serious, and instead was an attempt to prepare the ground for a future, further reduction in affordable housing.

Under government legislation passed in 2013 developers are allowed to request a further reducti their affordable housing obligation once planning permission has been granted. This can happen developer claims that poor financial viability is preventing them from starting to build. If the the loc authority refuses this request, the developer can appeal to the Planning Inspectorate.

The legislation was originally planned as an emergency measure to help kickstart hundreds of thousands of stalled planning permissions, but has now been made permanent.

BPS report that they have seen an increasing trend where developers make an apparently generc offer of affordable housing to the local authority in order to gain planning permission, only to retur later to reduce it.

The reason why developers use this 'tactic' is that under the appeal system, the process is stack favour of the developer. The full passage of the report from BPS is reproduced below (my empha added), it is a sad inditement of how bad policy can be abused by unscrupulous developers:

> It is important to recognise that through the statutory right of challenge open to a developer, there is the potential for the applicant to seek to amend the scale of the onsite affordable housing delivery anytime following the grant of planning consent.

> Working across a number of London Boroughs we are increasingly seeing this form of challenge become an almost regular tactic. **Developers offer apparently generous affordable housing levels and then subsequent to grant of consent, seek to contest this offer through their right of challenge.** This approach has a number of apparent benefits for developers:

> The principle of development has been established by the local authority granting consent that it might otherwise seek to refuse on a number of grounds were the affordable housing provision reduced at the application stage.

> The appeal process to the authority is time limited to 28 days therefore it favours the developer who is able to marshal its arguments over any timescale it chooses prior to initiating the challenge giving the council only a very limited timeframe to respond.

> “ In the event the Council does not agree to a reduction in affordable housing the matter is referred to PINS who will use its own published criteria for establishing viability on viability matters which have not been agreed prior to Planning Committee. Most significant of these criteria is establishing a benchmark land value by reference to “market value” as defined by PPG and by RICS Guidance. **This approach often results in higher land values than are typically derived from the existing use value plus premium route and has the effect of suppressing viability.**

> “ It is also apparent from Inspectorate rulings that **decisions appear to significantly favour the developer over local authorities. No doubt reflecting Central Government’s desire to force through consents** as a means of bringing forward greater levels of housing development.

> “ In our view the appeal process also becomes a single issue appeal focussed purely on viability, a subject which **few Inspectors appear fully qualified** to judge, given that most come from backgrounds in construction, planning and architecture.

> “ Because of this right of challenge, we and our other clients are becoming increasingly sceptical of affordable housing offers which are not apparently viable at the planning stage.

It should be noted that BPS say that they have received assurances from King’s that employing tl tactic is not their intention. However, BPS have recommended safeguards to Camden to prevent approach from being successful all the same.

Another development is being built just opposite. Local people say that Camden Council's assessment of scl places doesn't take into account the extra demand from new developments like this

In King's interest?

There are so many stories of developers gaming the system in London, trying to milk the luxury housing market for all it's worth, regardless of the impact on local communtities. However, what i particularly disappointing about this case is that King's is not just any other business, it is a public institution that has been set up for the specific purpose of serving the public interest.

And to be clear, the local community is not asking for a freebie. They don't expect King's to give away all their land. Just to allocate part of it to stay in educational use, and receive remuneration (although less than what they would get for converting it to a mansion with a private swimming p That seems like something that King's could well do and would be entirely in line with what they h been created to do.

Like RICS, King's has a Royal Charter, granted by the Queen. The Charter sets out the purpose c College which is "to advance education and promote research for the public benefit".

One might well ask what this kind of luxury development, and the games being played to get it, h to do with the advancement of education and the public benefit. I asked, and a spokesperson foı King's told me this:

"The site was previously accommodation for students who now expect much higher standards o residential accommodation. Therefore, King's is now providing more modern residences nearer o campuses. Money from the sale of land at Hampstead will be ploughed back into educational fac at King's."

How much money will King's make? We don't know. No sale has been registered with the land registry. If permission is granted, there is no doubt that King's College will make a tidy profit regar of what the viability study says, but many will still rightly question whether this kind of developmeı a price worth paying.

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COMMENTS

Don says
May 23, 2017 at 8:41 am

Frankly, this is a deceptive article. It would be absurd for Quod to used future property prices as the basis of their viability report. What if prices fall? You don't count your chickens before they hatch.

Construction costs, on the other hand, also include wiggle room for inflation because cost overruns are so common and inflation is guaranteed.

Why try and paint Quod as manipulative when they are using the completely standard toolset of the industry around the world?