Europe Special Issue: 2013 London Conference

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While the principles across high-rise offices and residential are consistent, the two sectors can appear to be divided by a common language at times. Their values are driven in different ways and the resulting products are characterized by quite different building forms.

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Talking Tall: Irvine Sellar & Kent Gardner

The owners of two of London's most significant skyscrapers, the Shard and the Gherkin, spoke with CTBUH about the challenges and rewards of building tall in a historic city. Irvine Sellar of Sellar Properties discusses the risks and rewards of taking on a challenging site with a "safe" investment – and going for gold. Kent Gardner of Evans Randall chats about the genesis of the Gherkin and future plans for the icon.

From “Dry and Safe” to “Tall and Sharp”: The Story of the Shard

With hindsight as an advantage, what were the key factors in making the economics of the Shard and tall buildings in London work?

This all came about by accidental opportunity. We bought a property for pure investment purposes to add to our portfolio in November 1998. The investment property we bought was the head office of PricewaterhouseCoopers (Southwark Towers), which was a 24-story building, just over 19,000 square meters (see Figure 1). Some months after we bought it, the government said it would encourage high-density buildings, provided they were close to transport hubs. This building was set next to London Bridge Station. Because we were developers and a rounded property company, we invest to hold, to trade, and to develop. So from that point, we switched our thinking of investment to thinking of development.

Having said that, the Southwark Towers we bought was a very safe investment, with 90 years left on the lease to PricewaterhouseCoopers. Very dry, but very safe.

Anyway, we thought, "Now we've got the opportunity [to turn] this investment property into something much larger: a high-density development.”

In a general sense, what form did that encouragement take?

The first thing we always think of is, "Will we increase the value?” as a result of anything we buy, and particularly in this case, as a result of this government-wide paper encouraging high density. We worked up a scheme to increase the size of the building from 19,000 square meters into something well over 127,000 square meters. Our original idea was to build a tower of 400 meters in height, which got knocked back for different reasons.

The second idea we had was to spread risk, [defined as] getting more than one use and getting as many uses as we can within a project. So the idea of having a vertical city much appealed to me at the time.

That's how it started. So it comes back to the commerciality of it and saying, "Why do we do it?”

How did you make it economically feasible?

We finished up with a planning consent, reduced the height and still got 30 acres of property on a one-acre site. Now that's a

Irvine Sellar

Irvine Sellar founded Sellar Property Group (SPG) in 1991 and is one of UK's foremost entrepreneurs active in the commercial property market. His instinctive, can-do attitude to life and business is reflected in the SPG ethos. His business experience spans 40 years, and he has extensive contacts both in and outside the property industry. For more than 30 years, he has concentrated his efforts in the commercial property market, and in the past 10 years has built the group into an organization with an investment portfolio with a current value of approximately £600 million and a development portfolio of more than £3 billion. He is the mastermind behind the iconic mixed-use Shard development, Europe's tallest building, nearing completion at London Bridge.

Kent Gardner

Kent is a partner and Chief Executive of Evans Randall. He joined the group in 2001 and brings considerable commercial, legal and taxation experience to the group. In addition to his role in the group's management and strategic direction, Kent manages the negotiation, structuring and execution of transactions and the creation of strategic joint ventures with co-investors.

Kent has led more than £6 billion of transactions for the group, ranging from complex, multi-jurisdictional structured financings, to private equity and property transactions including the acquisition, lease back and subsequent sale of ABN AMRO's Headquarters in London, and the joint venture with IVG Immobilien AG to acquire 'the Gherkin' at 30 St. Mary Axe.

Interviews by Kevin Brass
30-to-1 ratio. It would have been more if we’d have stuck to the original plan, but I don’t think we’d have ever got consent. We realized very early on in the development process that unless we engaged with a world-class architect, we’d have very little chance of getting consent. So we employed Renzo Piano and worked up a scheme with him. Originally it was for 400 meters, but we knew we’d have to reduce it.

So to deal with the economics, if I can get 1.3 million square feet (120,773 square meters) of gross space replacing a 19,800-square meter building we bought, the economics are pretty obvious.

Do you see a change in the willingness of government bodies to give their consent to tall buildings of this variety? Has there been a change in attitude?

No. I think there’s always been a resistance in London. It’s one of the most historic cities on the planet, and there are many protected views: views of St. Paul’s, views of Westminster, views of Tower Bridge. All across central London you’ve got to be careful. I mean there are some particular parts of London that are very strict about height, such as Mayfair, Kensington, etc. You’ve got all the issues of rights of light and viewing corridors, etc., generally in conservation areas. So it is not an easy situation.

Does London encourage tall buildings?

I don’t think it does, but it doesn’t discourage. It’s got to be a sort of special set of circumstances. And believe me, we had to work extremely hard and face a major public enquiry, probably the most important taking place in London, to get through and win that particular planning battle.

You certainly faced the critics head on about the role of tall buildings.

Well, English Heritage, St. Paul’s, Historic Royal Palaces, and CABE (Commission for Architecture and the Built Environment) opposed it. And we were called in for a public enquiry, so that was the opposition.

So in a general sense, you answered the critics about your own building, but what’s your response to those that feel in a general way that tall buildings are not good for London and don’t fit its historic skyline?

My view is that populations around capitals of the world generally do better in a confined area than a spread area. Look at “the Los Angeles effect,” where it’s spread out and not particularly attractive, nor particularly clean, nor particularly green, because of the smog effect. If you can build tall and avoid sprawl, I think it’s better for the population. People want to live in city centers because they find them more attractive. Hence there’s been a lot of new high-quality residential towers being built in parts of London and they’ve been extremely popular.

Can you build tall in London without doing what you did, which of course is integrating with a larger redevelopment project; a neighborhood? Does building tall make economic sense as a stand-alone?

Land in London is expensive, particularly in prime locations. So the greater the density you can get on it, the better, provided you’re
“...if I can get 1.3 million square feet (120,773 square meters) of gross space replacing a 19,800-square meter building we bought, the economics are pretty obvious.”

developing to very high standards. That means you respect energy, you respect the green factors, you respect design and quality.

Given the factors that you’ve talked about, in terms of the consent and planning, what do you think we’re going to see going forward? Are we going to see more tall buildings in London?

I think over a period of time, we will. I don’t think there’s going to be a rash of tall buildings. Particularly now it’s development funding, and speculative development is increasingly difficult because there just isn’t the appetite nor the money chasing it. There’s plenty of money chasing existing investment, but there’s not a lot chasing speculative development. So, that will suppress a major rush of high buildings in London. It’s difficult.

Right now, you can name them on one hand. We’ve got funny names in London, it’s a very strange thing. You’ve got the Walkie Talkie, you’ve got the Cheese-grater, you have the Heron Tower, you’ve got the Shard. I can’t think of any others, commercial buildings, that are actually springing up, and there are a lot that have been held up because the developers haven’t been able to fund them, or they haven’t been able to fund them because they haven’t been able to get the pre-leasing or the right form of finance to make it viable. It’s not an easy task, and I don’t see it easing up for the next two or three years.

Given all that you went through, would you do a tall building of this scope again in London?

Yes, I would. Why? Because it’s profitable.

Despite all the hassle?

Yeah. Look, people said, “You’ve been on this for 12 or 13 years,” which I have. On the other hand, this is a building which is going to last two or three centuries. And you can spend 10, 12, or 15 years building up a business. Generally, they’re evaporated or absorbed or gone over 50 years. Most businesses don’t last that long. They’re absorbed into conglomerates or they just disappear. This one isn’t going to disappear; it’ll be here for centuries. And I think we’re lucky that we’ve managed to capture the public imagination, and build in an area that isn’t going to be affecting the views of the Shard. We’re very close to the river and you can’t build on water, so in a way, that protects the views of the Shard for quite a large radius around London. When you’re at the top of the Shard, or even at Level 72, you can see views of 40 miles (see Figure 2). Equally, from 40 miles away you can see the Shard. It’s pretty unusual. It isn’t lost in a cluster.

Do you expect to see the continual flow of foreign capital that has been such a driver for development in London, and why?

Yes, I do, because it’s considered to be one of the safest places on the planet. London has got what so many cities do not have, including those in America. You’ve got a split center of government in Washington and a center of finance in New York. Here, they’re both in London.

In addition, we’ve got an international language, we’ve got a legal system that people trust, and quite frankly our education is spread through almost every corner of the world. The wealthy, whether they’re Chinese, Indian, Russian, or Middle Eastern, they’re hugely attracted to our language and our education system. What more can we ask? We’re fortunate. We’re in the right spot.

How do you respond to those who say that maybe the market, particularly the office market, may have peaked in London at this point?

Until the economies, particularly in Europe, improve, it will be a little flat. In fact, it’s been one of the longest recessions that people can
remember. But generally, we have a feeling
now, that markets have hit new highs. I think
that’s cause for a certain amount of optimism.
Gradually, I think, we’re coming out of it. But
I’m cautious. But, because of that, there’s very
little competition or high-quality new space.

Looking back at the development of the
Shard, what would you have done
differently, if you could go back, either in
the development process or the design?
There are very few projects I have carried out,
after which I have said during the postmor-
tem: “What would we have done differently?”
In this particular case, it’s fairly early to judge.
From a design point of view, other than
getting away with it being a bit taller, there’s
nothing I would have done differently.

So is it fair to say the Shard has an “icon
bump”? Does it demand more because of
the iconic status of the building?
Oh yes, definitely. I mean if you’re a potential
occupier it’ll be quite nice to say, “My office is
in the Shard, London.” You don’t have to go
any further than that, because it’s known
globally.

What advice would you give to anyone
who’s interested in building tall in a historic
city at this point?
Think very hard. Prepare in great detail,
because you can never prepare too much for
a project like this. Prepare for every
contingency. Make sure that you’re quite clear
on your objective.

You look at any deal: You say, “What am I
doing it for?” Sometimes you get so immersed
in the deal you almost forget what the original
objective was, which generally is “to make
money.” In that particular case, it’s a question of
how you make it, and it is a question of
preparation. In terms of tall buildings or any
major development, be prepared to talk to all
the local stakeholders, all the local residents,
and all the politicians. Carry out detailed
presentations so you’ve got them on your
side. And if you have to make changes
because there’s resistance, make them early
on.

Take the public and stake holders with you.
You’re going to face the planning process, and
you’ll need to feel confident when you go in
for planning hearings that you can say, “this is
welcomed by the local residents, the local
businesses, and all the other stakeholders
within the area.” That’s what I would advise.

Do unique tall buildings detract from the
historic feeling?
No, I think they complement it. There’s a
certain compatibility. If you’re looking at some
of the viewing points: Parliament Hill, Primrose
Hill, St. Paul’s, and The Shard, and they look
pretty close together, I mean, it’s a great thing.
Here you’re looking at a 21st century building
which appears to be pretty close to a building
that was built 350 years ago. I think that works,
provided it’s not a tasteless modern new
building. And I think that style will never go
out of fashion.

Should buildings in London grow taller?
I see no reason why they shouldn’t, but there
is one obstacle. London sits in the middle of a
lot of airports: Heathrow, London City,
Gatwick. So you’ve got a lot of air traffic that
has to come in and land and there is a glass
ceiling, which is 1,000-foot now. I think [the
government will] object to building in the
center of London higher than that; quite
frankly, because of aviation reasons.
Owning an Icon: What We’ve Learned from the Gherkin

Considering the market conditions at the time, what motivated Evans Randall to get involved in the ownership and operation of the Gherkin?

Evans Randall saw the unique opportunity to acquire this iconic building, which is a globally-recognized centerpiece of the City of London skyline. Amongst all of the property investments we have been involved in, the Gherkin offered unparalleled brand awareness, consistently some of the highest rents in the City of London, and 100% occupation. As a building, it is probably the most widely visited by our investors. The Gherkin is unique in its market, in terms of quality, location, and tower-building credentials. It has endured both as quality accommodation for occupiers and as an investment. It is difficult to measure its investment value against other buildings, as there are no real comparables. The building attracts worldwide attention as an icon for London and the financial markets that London represents.

Is the common use of the Gherkin nickname annoying? Or an advantage?

It is definitely an advantage. “The Gherkin” has become a well-known label, which has gained worldwide recognition. We say “it’s 30 St. Mary Axe, affectionately known as ‘the Gherkin.’” The iconic design has been the essence of the building’s brand value. This view was further supported by a survey undertaken 18 months ago by one of our design consultants, when looking at the PR and marketing development for the building. There was little recognition of the name 30 St. Mary Axe in comparison to the overwhelming recognition of the Gherkin name – the most recognizable commercial office building in Europe.

What’s the key to monetizing and marketing an iconic tower in a competitive market?

As an icon, the image of the building largely sells itself. Although London now has several new tower office buildings in the City, the Gherkin is an important skyline feature, arguably defining the City as the world’s leading financial district. We use many different levels of media to further emphasize and develop the building brand, widening its appeal and brand recognition. However, even the best branding promotions must be based on a good product. Zero vacancy, retention of tenants, and consistently achieving the highest office rents have been the key standards for the building. Those are based on the quality of the office space, combined with its flexibility and competitive pricing.

The building has been used to brand London by organizations as diverse as the London Olympics and London Zoo. What are the issues of intellectual property?

It is important to protect the brand and avoid misrepresentation that can impact the building, its owners or its tenants. However, we aim to take a pragmatic approach, and always talk to parties first as soon as we know of a situation which might misrepresent the building or its image. The challenge of course is that the Gherkin is probably one of the world’s most widely featured buildings, and its picture is found in media throughout the world, from airports to magazines, TV filming to promotional features (see Figure 1). Controlling this is extremely difficult, and can have negative effects if we are too robust in our control efforts. After all, the more the image is used, the wider our captive market is for tenants and the success of the building.

How is the London office market changing, with respect to foreign investment and other factors?

The market has been increasingly dominated by overseas investors in the last two years, as investors seek secure, safe markets, given the turmoil in Europe and wider global markets. We have seen this activity in not just London commercial markets, but in high-value residential and retail as well. This activity is expected to continue to be driven by restricted supply and the increasing number of buyers entering the market seeking prime buildings. This is positive for the Gherkin and
Amongst all of the property investments we have been involved in, the Gherkin offered unparalleled brand awareness, consistently some of the highest rents in the City of London, and 100% occupation.

How do you respond to groups that say the new generation of tall buildings is ruining the London skyline?

London has historically not encouraged or even had suitably sized sites to facilitate larger commercial office towers. Planning policy in the City of London has changed in the last 10 years as the growing attraction of London Docklands (see Figure 2), and quality of buildings there, has challenged the historical dominance of the City. By allowing new tower development in the City of London, the planning authority is encouraging new world-class building design, which can challenge not only London Docklands, but many European capitals. Examples of such buildings include The Leadenhall Building, 20 Fenchurch Street, and the now-completed Shard. The skyline is becoming more dynamic, which complements the Gherkin and many other key buildings and structures in London, such as the Tower of London, St Paul’s Cathedral, and the London Eye.

There is a perception you are moving away from so-called “trophy assets.” True?

No, we still seek high-quality class A offices in London and core locations throughout the United Kingdom, which our co-investors require. However, we are looking for more value-add opportunities, which may mean investment in real estate that is in more specialist or mixed-use with shorter-term income. We have been successful in bringing several of our key central London assets to the market for sale, offering very high-quality buildings with long income and good covenants. This type of product has been in increasing demand from international investors, particularly Asia, North America, and the Middle East.

How do you see your portfolio mix changing geographically in the years ahead?

We continue to review property asset classes, and seek opportunities where we can best add value. Our core market is offices and we would expect to continue to focus on this area throughout the United Kingdom and Europe. At the current time, the United Kingdom is our main focus, but as European
In many ways, 30 St. Mary Axe (the Gherkin) established the trend toward adventurous tall buildings in central London. The distinctly ovoid office building, completed in 2004, was designed by Foster + Partners and developed by Swiss Re. It has since been acquired by Evans Randall and IVG, which seeks to make a series of improvements to continue to make the iconic 180-meter tower attractive to top-tier tenants. Though it is only London’s 7th-tallest building, it remains one of its most distinctive.

**Project Details:**

| Height to Arch. Top: | 179.8 meters |
| Stories: | 42 |
| Total Area: | 64,470 sqm |
| Building Function: | office |
| Structural Material: | Steel |
| Completion: | 2004 |
| Regional Ranking: (as of April 30, 2013) | #43 tallest in Europe |
| National Ranking: | #7 tallest in the UK |
| City Ranking: | #7 tallest in London |
| Developer: | Swiss Re |
| Design Architect: | Foster + Partners |
| Structural Engineer: | Ove Arup & Partners |
| MEP: | Hilson Moran |
| Wind Engineer: | RWDI |
| Contractor: | Skanska AS |

In tall buildings these days, what amenities or attributes are most coveted by tenants?

Tenants have become more discerning about their requirements, as corporations reduce real estate overheads and seek to constantly rationalize and downsize office locations. The globalization effect also means that tenants are more international in terms of their requirements, but are also seeking value for money. We tailor services to ensure we provide quality at market-level pricing. The scope of services required by tenants in London can be different as well. Amenities like bike racks and front-of-house reception services are important to London tenants, whereas in wider Europe we see interest in communal areas for informal meetings, food and beverage offerings and on-site parking.

What are your future plans with 30 St. Mary Axe?

In partnership with IVG as investors, we are looking to further enhance the Gherkin as an asset and expand the wider services we can offer. Increasing competition from other new buildings is healthy for us, but innovation and quality of service is essential, in our opinion, to continue to make the Gherkin a durable and dynamic place to work and visit. As a result of tenant feedback last year, part of our real estate strategy for the building is aimed at delivering services that tenants rate highly, such as increased cycle facilities, Wi-fi, and common area facilities. Additional investment is aimed at the wider promotion of the building through cultural, arts, food, and music initiatives. In all that we do, however, we are mindful of the heritage and value of the Gherkin in the eyes of our co-investors, tenants, the local community and the wider international community.