

Res Dev Real Talk

In Conversation with Southern Grove

SPOTLIGHT SERIES // LONDON

In this issue:

Daniel Norman

CEO & Founder // Aprao

Andrew George Southern

CEO & Founder // Southern Grove

Interviewed by

Nick Fisher MRICS

SALES MANAGER // APRAO



Introduction

Daniel Norman, CEO // Aprao

We love talking to fellow market-facing developers and professionals at Aprao. We recently put together a quarterly report on the UK market, which was well-received – you can read it [here](#).

This particular spotlight series reviews the main regional property markets across the UK, with contributions from industry experts in the residential sector. As many of our users are developers based in London, we thought we should kick-start the series with our beloved capital city and the unique insights of Andrew George Southern, of [Southern Grove](#).

Andrew has been working in the property sector for over 22 years, with his first-ever experience in construction beginning at aged 16. He's had a love of the industry ever since. Fast-forward to today, Andrew is now the Founder and Chairman of Southern Grove, a firm based in London, that specialises in property development across the UK and has done so successfully for the past 8 years.

So without further ado, please enjoy this interview with Andrew, which gives an overview of his background and lends an interesting perspective into the longevity of the London property market.



A capital city renaissance

It hasn't been plain sailing for the Capital over the last few years. On the whole, what are your views on London?

London is our beloved capital city. What a City. With centuries worth of history it is hard to think what it doesn't have to offer.

It's difficult to define London: from the bright lights of Soho, to the beautiful Georgian architecture in Knightsbridge, to some of the most striking skyscrapers in the City, London has something to offer everyone. I don't think it has been an easy few years. The City, considered the safe haven of global capital, was rocked temporarily with the Brexit vote. What was supposed to be a two-year exit dragged on a little bit longer than expected.



To make life even harder for London along came Covid, a pandemic that has shaken every economy globally. London suffered from the multiple lockdowns. People remained at home and became accustomed to endless Zoom calls. Along came the doomsday mongers, whispering the death of our beloved capital city, even though this is a city that has survived the Blitz, fires, plagues and terror attacks. Thankfully as of today, London is making a strong recovery and recently reported record levels of commuters.

Do you think the pandemic has changed the desire to move, live and build in London with the rise of remote work?

During the early days of the pandemic, it is estimated that between 700,000 - 800,000 people left London. This mirrors what happened in Manhattan in the USA. People are now heading back to London in droves. People's circumstances change: there have been two sets of graduates who finished university during the pandemic, all of whom are young and have been restricted from going out. I moved to Camden when I graduated from university and so I know how refreshing it can be to be around people within the buzz and the vibe of London. A Cornwall getaway doesn't quite cut it in your 20s. On top of this, graduates fresh into a career path are going to learn nothing from a kitchen table. In my opinion, they need the buzz and knowledge that comes from seniors that have a wealth of experience and so it's encouraging that professionals are starting to find their way back to the city.

It isn't only the professionals flocking back to London; students from across the world are lining up on our doorstep. Applications were massively up for universities for terms starting again in September and October 2021. Quarantine poses an obvious issue at present but this hopefully should change as the vaccination programme continues to progress.

London is the main destination in the UK that international students want to work in. Despite the negativity that surrounded Brexit, the UK remains one of the main global trading destinations. One of our biggest exports is actually the arts, culture and fashion. This is one of the biggest pulls to London. Although we like to moan, we are also pretty decent humans, polite and caring with a damn good sense of humour.

Before you moved to Camden you actually studied at Penn State University in the US. How does London compare to Manhattan?

Yes, I spent a good chunk of my youth enjoying the bright lights of New York City. But now it seems like London is *the* city to be in. Rooftop bars, an ever-changing skyline, and some of the world's largest infrastructure projects. London's albeit historically low-rise skyline is now rivalling that of New York City. Perhaps not in height, but arguably more architecturally significant – even if you hate the “Walkie Talkie”.

What trends have Southern Grove found in London development over the last year?

There have been winners and losers across London as a whole. Fundamentally, there is a massive need for more housing and we aren't getting remotely close to the targets. In fact, we have consistently been missing these targets for a long time. London is a funny part of the UK market. It isn't like that of the regional cities like Manchester or Birmingham. It is fair to say planning and development haven't been easy. We are finding land values are continuously creeping up – God can't make more land! This is putting pressure on brown belt sites. The market needs more green belt land to be promoted and brought forward.

Developers are lining up to buy sites with and without planning consent. Some will do unconditional, and try to extract the planning gain. Others are looking for sites with planning, including the housebuilders and housing associations.



Build costs continuing to rise

Another factor is that there's lots of foreign money, a low cost of capital and a lot of relatively cheap debt. Additionally, target-driven housebuilders did not buy many sites in 2020. As a result, there are gaps in their pipelines and they are now very much back in the market to buy sites.

What is Southern Grove most focussed on within its development projects?

We sit with multiple development hats on. As a business, we look at anything from build to sell, student accommodation, PRS and commercial. Our projects range from a £40 million office scheme in Shoreditch and working with Barnet Council, to delivering Brent Cross South, one of London's largest schemes. Without giving too much away there is an undersupply of PBSA across London and the supply and demand can fluctuate from borough to borough. For instance, there is an undersupply of co-living schemes in Tower Hamlets. Don't all line up at once.

How are you finding build costs in the Capital?

If you aren't aware that build costs are rising, you have probably been out of the development game for a year or so.

There are supply shortages across the entire sector resulting in build costs continuously creeping up. London, in particular, has been affected by this. It has always been an expensive city to construct in, as tight sites and the requirement for quality means build costs inevitably increase. There are obvious stresses on raw materials such as timber and concrete, but it's the more obscure items that are driving up build costs across the board.

Additionally, the job market is also extremely hot at the moment. Getting good project managers can make or break a project and they are in high demand. This is the case for most professionals within the real estate sector at present. All of these contribute to overall cost rises.



Pressure factors for London



Do you have any specific examples of these cost escalations?

It isn't just the obvious raw materials that I've just mentioned, it's also the procurement of obscure items for the finish that is causing delays. For instance, we were recently trying to source stainless steel fridges with horrendous lead-in periods. Another surprising cost escalation has been in shipping containers from China. Pre-pandemic you could have one sent for £2,000 and now it's around £20,000. We are all aware of the issues with the shortage of lorry drivers. Having robust logistic plans is really important in development at the moment.

What pressures are there on the Capital and what solutions are available to combat these issues?

London isn't going anywhere. It is the greatest city in the world. Period. All large cities across the world face pressures with the biggest strains coming from climate change and from political factors. There is going to be pressure on the capital but it will overcome these challenges as it always does. Having said this, the climate crisis is a real issue. Take for instance the flash floods that hit London over the summer. These extreme weather events will become more and more frequent causing disruption across the planet.

London is a low lying city that is essentially protected by engineering masterpieces such as the Thames Barrier, but we still need to be aware of the threat to development and planning. The political stance for London is also strong. No matter your views on the current government and cabinet, a Conservative government usually gives investors confidence. Although the EU referendum doesn't appear to have had the expected negative impact on London's financial status, ultimately, long-term planning between government, local authorities, developers and other stakeholders is of critical importance. Industry players should be aware of the need for robust placemaking to deliver standardised policies across different boroughs and ensure timely responses for future-proofing.

And finally, what's your view about the long-term future of London development?

The historical buildings of London aren't going, the stunning royal parks aren't going, and businesses aren't going. Businesses are not moving to Switzerland or Germany. We have some of the most caring people across the planet. Our infrastructure is world-beating, Heathrow is one of the most well-travelled airports in the world. On top of this, London is pretty much landing into most of the blockbuster films. London is London.

About us

Thank you for reading this spotlight issue, we hope you enjoyed it! If you want to read Aprao's previous Res Dev Real Talk edition, click [here](#).

Aprao is a cloud-based financial modelling tool for real estate development. It's used by property developers, land teams, valuers, agents, development finance lenders and property professionals.

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With many thanks to...

Andrew George Southern
SOUTHERN GROVE

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aprao Personal board / 12 Portugal Street, London (E) / Initial appraisal

Boards

Personal

Team

General Revenue Build Other Costs Finance **Site Purchase** Cashflow

Purchase of the existing building

Description

Purchase of the existing building

Residual value £ 4,449,018.67 Purchase price* £ 4,500,000

APPLY

Current use class Residential

SDLT (calculated) £ 588,750

Search 3 % Custom SDLT

Legal fees 0.5 % £ 22,500 Agent fees 1.5 % £ 67,500

of price of price

Effective SDLT rate 13.08 %

Total £ 5,178,750

DELETE DUPLICATE

ADD PURCHASE ELEMENT

Summary

Total purchase cost £5,178,750.00

GENERATE REPORT

Key Metrics

RoC	19.46%	Project IRR	26.16%
RoGV	15.94%	Equity IRR	159.59%
RoE	144.17%	Units	28
GIA (H)	23,720	NIA (H)	19,650

Summary Appraisal

Gross Development Value	£16,290,000.00
Costs	£351,500.00
Net Development Value	£15,938,500.00
Purchase Cost	£5,178,750.00
Build Cost	£6,920,500.00
Other Cost	£607,900.00
Finance Cost	£634,581.50
Total Costs	£13,341,731.50
Target profit	£2,668,346.30
Profit	£2,768.50
Residual Site Value	

Help