

Camden Town Methodist Church Redevelopment

Contact Name and Details	Nick Moore, Head of Support Services mooren@methodistchurch.org.uk and Ted Awty, Connexional Treasurer
Status of Paper	Final
Action Required	Decision
Resolutions	12/1. The Council directs that the redevelopment of Camden Town Methodist Church proceeds, with a budget of no more than £8m + VAT, subject to satisfactory resolution of the planning conditions. 12/2. The Council directs that the redevelopment should be financed from connexional funds and delegates to the Connexional Treasurers the identification of the specific Funds to be accessed.

Summary of Content

Subject and Aims	The Methodist Council has agreed to take on managing trusteeship of the building at the appropriate time and has delegated various responsibilities to the SRC. The SRC in September 2017 agreed that project planning continue on the basis of a budget estimate of approx. £8.2m + VAT. A sub group, including members of the Property Development Committee, submitted a robust business plan to the SRC in November 2017 with cost estimates and set out the proposals for resolving issues with the planning obligations. The SRC recommends to the Council that the redevelopment of Camden Town Methodist Church proceeds, subject to satisfactory resolution of the planning obligations.
Main Points	<ul style="list-style-type: none"> • Planning consent has been gained, subject to certain terms. • Potential project costs are now £8.0m compared with original figure of £5m given to the Methodist Council in January 2016. • On completion, the Church would benefit in other ways from the operation of the hotel, In addition to the annual rent, and create a beacon for Methodism in Camden and beyond. • Arrangements to oversee the project need to be agreed. • Funding sources need to be considered. • Serious concerns remain regarding the draft S106 agreement.
Background Context and Relevant Documents	SRC/17/45 Camden Town Methodist Church Redevelopment SRC/17/25 Proposed Redevelopment of Camden Town Methodist Church MC/16/10 presented the original proposal to the Methodist Council.
Consultations	Connexional treasurers

Summary of Impact

Financial	Capital will need either to be provided from connexional funds or borrowed commercially, the former is recommended.
Risk	<ul style="list-style-type: none"> • Increased financial cost increases risk re profitability. • Opportunity cost of using capital for other projects. • Expectations of Camden Town MC if project does not proceed.

Camden Town Methodist Church Redevelopment

Summary

1. At the meeting of the SRC on 13 September the committee received a report on a revised and substantially increased estimate of the cost of developing the property at Camden. The committee convened a small working group to review the up to date business case and costings and to report on the viability of the project. This paper summarises the results of that work and was considered by the SRC at its meeting on 30 November 2017.
2. The projections produced by Methodist International Centre Ltd (MIC Ltd) cover a five year period from 2020 to 2024 and show revenue growing from £1.7m in 2020 to £2.1m in 2024 generating a corresponding net operating income of £569k rising to £820k. These projections have been discussed in detail with Derek Picot, a hotelier non-executive at MIC Ltd, and have been commented on by Eddisons Taylors in advising as the qualified surveyor acting for the Council on the market rent and valuation of the completed development. The qualified surveyor's advice is that the projections are sound but a further degree of conservatism has been applied by Eddisons Taylors in reaching their views.
3. The capital cost is now estimated to amount to £7,514,000 based on a detailed cost plan prepared by Calfordseadon and an estimate of fees prepared by Spring 4. This excludes pre-opening and fitting out costs to be borne by MIC Ltd, VAT and any additional costs arising from the resolution of the planning obligations that currently makes the planning permission for use as a hotel, personal to the Methodist Church. The planning consultants have been instructed to refer the matter back to the Planning Officer in light of advice from solicitors and it is hoped that a more sensible approach to the planning permission and the required section 106 agreements can be agreed with the local authority. If the planning obligations are not amended, the property would have such a reduced value that the project is unlikely to be to continue. Once the planning obligations have been amended there is still significant work remains to be done to define fully the scope of works and develop detailed structural proposals. It may be considered prudent to add a general contingency taking the total cost estimate to £8m to recognise this.
4. The building will be leased to MIC Ltd and Eddisons Taylors has estimated an annual market rent in a range of £395k to £494k depending on varying assumptions of operating profit levels and rental ratios and consider that a figure of £440k fairly represents the mid-point of the range. Depending on the yield required by an investor, a valuation based on that rental figure ranges between £7.5m and £9.2m with the best estimate based on current market conditions being £8.25m.
5. In addition to the annual rent, the Church will benefit in other ways from the operation of the hotel. Profits over and above the rent will be paid into the MIC Trust as gift aid amounting to over £300k per annum from 2022. In a missional context, Camden Town Methodist Church will no longer have the burden of maintaining a dilapidated building and can concentrate on being a church, a vibrant centre for Christian worship within Camden and a centre for mission and outreach. If redevelopment does not take place it is estimated that at least £2m will need to be spent to make the building habitable or the building will have to be sold.

6. On the basis of the review, subject to the satisfactory resolution of the S106 planning issue, the working group considers that the project is still commercially viable at the higher estimated cost of redevelopment and will create a beacon for Methodism in Camden and beyond.
7. There are three sources of funding to be considered, the use of the Council's own funds, the use of a facility available from HSBC and borrowing from the CFB 21st Century Fund once it is established, or a mix of those. The preferred source is the Council's own funds, which included a total of £271m in investments, deposits and cash at 31 August 2017, in a way that does not place stress on the free reserves levels of an underlying fund.
8. It is anticipated that a verbal update will be provided to the Methodist Council at its meeting on both the planning permission and source of funds.

Financial projections

9. The projections are based on letting 39 four star guest accommodation rooms. This represents a reduction by three rooms from the business case included in [MC/16/10] required to meet the concerns of the Planning Officer. 75% occupancy is assumed for the first year with subsequent increase in occupancy of 85%. The average daily rate would be £147 in the first year which is lower than the existing market, with the room income supplemented by breakfast revenue. The cost rates are based on industry norms currently used at The Wesley Euston with some potential for synergy savings. Depreciation is charged but no rent or financing costs are included in arriving at operating profit.

10. The resulting revenues and operating profits are as follows

	2020	2021	2022	2023	2024
Revenues (£'000)	1,677	1,836	2,003	2,061	2,109
Operating profit before rent	568	652	761	826	819
Operating profit %	34	35	38	40	39

11. The occupancy rate has been reduced by approximately 5% each year compared to the earlier projections while the average daily rate has been increased by 5%. Cost assumptions are broadly consistent.
12. Management has conducted a sensitivity analysis using a further 5% reduction in occupancy which results in revenues falling to £1,566k in year one and £1,985k in year five with operating profit reduced to £571k and £757k respectively.
13. Various aspects of the revenue and cost calculations were challenged in the discussions with Derek Picot. The anticipated average daily rate may be too high while sales and marketing costs look too low but this is compensated for by a significant overstatement of repairs and maintenance. However, overall the projections are reasonable. Further adjustments have been made by Eddisons Taylors in arriving at their assessments of market rent and investment value which are described below.

Capital Costs

15. The capital cost estimate originally presented to Council amounted to £6m. The most recent estimate based on a cost plan prepared by Calfordseadon, chartered surveyors, is as follows.

£'000

MIC costs already incurred	190
Calfordseadon build cost estimate	4,837
Contingency.	483
Cost inflation at 3.2% for three years.	600
Fees estimated by Spring 4	987
Insurance at 0.75% of cost	50
Estimated Council fees	100
S106 payment	267
TOTAL	7,514

16. This does not include any allowance for further costs which may be incurred in resolving the difficulty of the personal planning permission. Also it assumes that the Council elects to charge VAT in respect of income from the property (as is the case with The Wesley Euston) so that all VAT on the redevelopment cost would be recovered. It does not include interest costs incurred during the development period.
17. The current estimate is reconciled to the previous cost estimate, on a consistent basis as follows.

2016 Estimate (£,000)	4,758
Increases in	
Build cost	1,107
Inflation allowance	600
Fees	484
Council fees	100
Insurance.	50
Contingency	148
S106 payment	267
Total increase	2,706
New estimate	7,514

18. Considerable detailed work remains to be done to define fully the scope of works including more detailed structural proposals and the scope of restoration works. It is considered prudent to add a further contingency to increase the total estimate to £8m to have some regard to this.
19. Fitting out costs and pre-opening costs are excluded from the redevelopment cost on the basis that these will be borne by MIC Ltd and the amortisation of those costs is reflected in the projected results.

Valuation

21. Eddisons Taylors, Business and Commercial Valuers with hotel expertise, were instructed to assess the market rent and investment value of the completed development. Their assessment included examining the documents forming the planning application, the latest STR Trend report, the BDO report commissioned to support the proposal to Council and The Wesley Camden projections and Wesley Euston trading report up to May 2017.
22. Their initial report notes a number of reservations relating to the Wesley Camden projections.
23. The comparator hotels used in the projections lean towards the luxury end of the market and are more prominently located. Possible additions or alternatives which might be considered more relevant will have the effect of lowering the occupancy and ADR statistics used in the STR trend report.
24. Although the intention is to roll out The Wesley brand the physical and locational characteristics are different and there should not be the assumption that the same performance can be replicated.
25. With its limited service offer The Wesley Camden should operate more efficiently than The Wesley Euston and so the cost ratio KPIs may be lower than currently achieved.
26. Having adjusted the KPIs to reflect adjustments to occupancy, ADR and cost ratios, based on the estimated revenue for the first year of operation Eddisons Taylors suggest a rent in the range of £395k to £494k per annum with a fair representation of market rent of £440k per annum.
27. Based on this rent and an institutional standard of lease an investment pricing of the property has been based on recent transactions for which investment yields have varied with yields at sub 4% in central London and 5% in more outlying postcodes. Eddisons Taylors are aware of three occasions in recent years where YHA investments have been sold at around 5% yields to give an indication of pricing for less conventional hospitality properties.
28. Based on a market rent of £440k, the investment value of the developed property has been estimated at between £9.2m at a 4.5% yield and £7.5m at a 5.5% yield with a mid point of £8.25m at a 5% yield.

Planning

29. DWF solicitors have considered the S106 agreement that has been drafted in response to the planning permission granted for the development of Camden Town Methodist Church (CTMC). The report from the solicitors has highlighted the concern that the planning permission is personal to CTMC, meaning that if CTMC ceased to be the "owner" the permission would be removed and fresh permission would have to be sought.
30. The personal planning permission was agreed following a concern at the Committee meeting about the lack of affordable housing contribution and that the site could be sold to another hotel operator in the future. A sum of £201,600 would be payable for affordable housing where this type of development was being undertaken by other hotel operators. The recommendation of the solicitors is that an alternative solution is proposed that the contribution to off-site affordable housing is payable in the event of part of the development being taken over by an organisation outside of the Methodist Church. The planning

consultants hope that the Planning Officer might be able to deal with this under delegated authority rather than going back to the Committee.

The position of Camden Town Methodist Church

31. Both the Islington and Camden Mission Circuit and CTMC continue to support fully the redevelopment plan.
32. The financial and administrative burden of maintaining and repairing the building is limiting the local church's ability to grow and making lay leadership roles more difficult to fulfil. The redevelopment proposal will shift the burden of maintaining the building away from the Church Council who can concentrate on "being a church". The proposed scheme will provide the congregation with a bright and modern worship space with wheelchair access.
33. The worship centre will be in the part of a building that is in use 24/7 and will be easy to heat, and keep cool in the summer. The redeveloped property will make CTMC an ideal venue for marriages and other activities. The hope is that, as a result of this redevelopment, the local church will be a more welcoming space with an area for community use. Most importantly it will mean that CTMC becomes a vibrant centre for Christian worship within Camden and a centre for mission and outreach into Camden Town and Camden Market, rather than a gradually decaying building with an uncertain future.
34. During the two years that it has taken to gain planning permission the building has deteriorated further, severely hindering the type of work that can be done from it as it is now unsuitable for public use. Windows have been broken, pigeons have moved in and there has been a break in. People in the area now believe that the building is derelict. However – though it is hard to believe – this has not stopped visitors from coming and sharing in worship! This clearly indicates that the work at CTMC will thrive in new premises. Whilst the congregation are despondent that the process is taking so much longer than they expected they are still eager to move into their new premises, employ the full-time lay community worker and expand the work that they already do.

Financing

35. There are potentially three sources of funds to meet the capital cost of the project:

Connexional funds under the control of the Council
Borrowing from HSBC
Borrowing from the CFB 21st Century Fund
36. The total investments, deposits and cash held in connexional funds at 31 August 2017 amounted to £271m. It is intended that the amount required for the project would be loaned from individual funds to the Methodist Church Fund bearing an interest rate equivalent to that offered on the HSBC facility described below. The funds with the largest investment and deposit balances comprise the Connexional Priority Fund, the Epworth Fund and the Pension Reserve Fund (designated) and the Mission in Britain Fund, the Fund for Support of Presbyters and Deacons and the World Mission Fund (restricted) amounting in total to some £80m. An allocation from these funds should be made based on their existing profile of investments and investment income and their projected medium term cash requirements.
37. HSBC has proposed in principle to make available to the Methodist Council a credit facility of £10m, with an option to extend to £25m, available to be drawn down at the discretion of the

Council. The facility would bear a commitment fee of 0.57% per annum on the undrawn facility, an interest rate of 1.65% above base rate on drawn amounts and be available for an initial period of 5 years subject to extension on similar terms. There would be an initial arrangement fee of £62k. This facility provides flexibility and certainty of availability of funds but at a cost and it is possible that this option will be more attractive for future Connexional property projects.

38. The CFB has made some progress with the development of the 21st Century Fund but it has not yet been launched formally. The draft loan documentation between the Fund and the Council has been drafted and is being reviewed by lawyers. The CFB is approaching a number of its major investors to assess their appetite for transferring Deposit Fund investments into the new fund. The initial general reaction from District Treasurers was positive subject to examining the detailed terms of investment into the Fund. It is not yet certain whether the Fund will be in place in time to finance the initial stages of the Camden project but, if the launch is successful, the Fund could be used to replace the funds used in the development phase.

SRC Recommendations

39. The SRC considered the above paper at its meeting on 30 November 2017. It expressed its overall support for the project, but noted that if the personal nature of the planning consent could not be removed then the project would not be viable. It therefore resolved to recommend to the Council that the project be undertaken with a budget as indicated above of £8m +VAT subject to planning consent being resolved satisfactorily.

*****RESOLUTIONS**

- 12/1. The Council directs that the redevelopment of Camden Town Methodist Church proceeds, with a budget of no more than £8m + VAT, subject to satisfactory resolution of the planning conditions.**
- 12/2. The Council directs that the redevelopment should be financed from connexional funds and delegates to the Connexional Treasurers the identification of the specific Funds to be accessed.**