

Business

The Sunday Interview
Nigel Hugill

'If there were a silver bullet then people would have fired it by now'

The veteran property boss of Urban & Civic tells *Rhiannon Bury* why he is betting on the regional housing market in taxing times

Nigel Hugill has spent the morning subsumed in the corridors of power, where he has been talking to civil servants about the upcoming European Union referendum. Hugill is a man with a lot of influential friends. Having made his name running developer Chelsfield from 1992 to 2005, he has since been executive chairman of giant Australian firm Lend Lease's European operations, as well as holding government advisory roles and numerous other board-level positions.

As if currently running residential developer Urban & Civic wasn't enough for the 58-year-old, he's also chairman of influential policy organisation Centre for Cities, and the Royal Shakespeare Company.

Hugill is probably one of the most influential developers you have never heard of. Alongside his long-time business partner Robin Butler, he assembled the land for both Westfield shopping centres in London, before handing them over to be developed by other people. He is also credited with identifying that previously derelict rail land in east London could prove a viable Olympic site. The development proposals formed the basis of the successful London 2012 bid and what has become the largest regeneration project in Europe.

'If I take White City as an example, we committed more than £200m above the cost of the land'

Butler and Hugill founded the private equity-backed residential development company Urban & Civic in 2009. Five years later, they reversed it into commercial property developer Terrace Hill, creating a listed property company focused on regeneration which has retained the Urban & Civic name.

But as the country remains in the midst of a housing crisis, are major urban extensions, like the ones the

company is known for, the best way to build a lot of homes quickly? And what could the Government be doing to make them happen?

Hugill explains that the Government is trying to encourage big schemes to come forward by lending money against large sites.

Urban & Civic is currently working on four strategic land projects, one of which is a 1,170-acre site in Rugby, formerly a BT long wave transmission centre. The site, which Urban & Civic is developing in a joint venture with Aviva Investors, will become an extension of Rugby town, adding 6,200 new homes. Hugill explains that building infrastructure, such as roads that link the site with the existing town, and schools, is central to making these new places work.

"We'll build [the new link road in Rugby] at least seven years earlier than we would have done otherwise because of the fact that the Homes & Communities Agency is lending us the money to do it," he explains.

It is a similar story in Alconbury, where Urban & Civic acquired a former cold war airfield in 2009 and is currently developing 5,000 homes and a new Enterprise Zone with 3m square feet of business space. There, the Government provided funding for a new school.

"For the big sites, what the Government really wants to see is activity and pace, and one of the criticisms that has been addressed of big sites in the past is that they have been very slow to get going," says Hugill. "That doesn't really apply to us – that's why we raised money in the public markets."

He says that the peak capital requirement – how much money a developer needs to be willing to put up front before returns start coming in – on large schemes is very high, making it a risky business.

"If I take White City [Westfield's first London site] as an example, we committed more than £200m above the cost of the land in the first instance. We were building two new tube stations, a new railway station, new bus station, a new underground depot and straightening out the Central Line," he says.



CV

◆ Age: 58

◆ Education: First class PPE degree from Christ Church College, Oxford; MSc in Labour Law and Labour Economics from the London School of Economics

◆ Family: Wife Christine, and four children

◆ Big break: Becoming one of the FTSE 250's youngest chief executives when Chelsfield listed on the Stock Exchange in 1993

◆ Hobbies: "We go skiing in winter and supporting Sunderland AFC has been a lifelong affliction. I see pretty much every RSC production in Stratford upon Avon, often more than once, as well as those that come to London."

But, he explains, the peak capital costs for residential sites, such as the ones in Alconbury and Rugby are lower, despite having the same end value, making them more attractive. That said, there are different challenges. "These schemes are residential led and they are houses rather than apartments," he says. "But that means that you've got to try to find ways of creating new communities."

The biggest problem with major new extensions is that they risk being sited in "glorious isolation", he explains.

To tackle this, Urban & Civic builds in initiatives such as giving parents somewhere to congregate and talk when picking up their children from school and ensures public spaces are accessible.

"Otherwise people live in their own little worlds and it can become quite isolating quite quickly," he says.

Urban & Civic's other two strategic schemes are equally as ambitious: the company is developing the Defence Infrastructure Organisation to build homes on the former Waterbeach barracks and airfield just north of Cambridge.

It also has an 80pc stake in a 694-acre site in Newark, where there are plans

for up to 3,150 new homes and 2m sq ft of general industrial, storage and distribution space.

All four schemes are well-placed to take advantage of the growing population in the South East.

"There are 8.5m people living in London, but there are about 15m people who live within 100 miles of London. The population growth in what I call that "golden circle" is about 1pc a year. So that's massive in international terms," Hugill points out.

It is essential that these schemes have rail links to London, as well as strong local economies, because the vast majority of purchasers will be local and will work locally, he adds.

Given that his experience has been mostly within the capital, why is Hugill turning his attention to the regional residential market?

"In the back half of the [economic] cycle it's normal that the stronger parts of the country outperform London," he explains. "Also, the boom and bust in London has been exacerbated this time by stamp duty at the top."

London has two pressures, he says: the population growth which puts

Facts

4,005

The number of acres in Urban & Civic's strategic land portfolio

20,000

The planned number of homes to be built on the strategic land sites

2014

The year Urban & Civic merged with Terrace Hill to create a listed firm

£50m

Government infrastructure funding for Rugby and Newark sites

30

Homes reserved in the first six weeks of sales at Alconbury

pressure on housing in the outer boroughs, and high stamp duty.

"So when people ask me about the London housing market I say that you can put it in a historical context easily enough, but actually what we've never had is this level of friction tax," he explains.

The unintended consequence of this is that the housing market in London has stalled as people put off moving to avoid the tax. Hugill bats away the suggestion that the pause in the market is due to the EU referendum, and says the expected bounce back in the event of a Remain vote is overblown.

"I would be really surprised if a positive referendum result will have much effect on top-end property," he says.

"I think that relative position of illiquidity will be the same."

Hugill maintains that so many flats are being built in London that the market faces an oversupply of homes into the rental market.

Added to that, allowing investors to buy high-end homes off plan years ahead of the developments being completed has "almost perfectly encouraged speculation".

This won't be the case on the Urban & Civic schemes because typically homes are built within a year of starting, he explains.

But despite Hugill's positivity around the sites Urban & Civic is developing, the fact remains that the country is still in the grip of a housing crisis.

Population growth has far outstripped the number of new homes being delivered, despite the Government's best efforts.

"The Government is quite frustrated because they think they've used most of the policy levers that they can," he says.

He explains that when people hark back to the "halcyon days" of housebuilding in the 1950s and 1960s, they forget that many homes being built were replacing others which were being knocked down and therefore the total number of homes was only increasing by a small amount.

"If there were a silver bullet people would have fired it by now," Hugill notes. "Part of the problem for us is that we're dealing with a set of issues which are indisputably more complicated than we'd quite often like to present them."

But Hugill has been in this business a long time: he called this point in the market two years ago, he says, and remains confident in the buoyancy of the regional market, despite the various economic complications. He has weathered more than his fair share of storms.