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American booty

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The small Newbury developer Highcross has exceeded all expectations by persuading US investors to back its £500m fund.

By Helen Thomas

Every Tuesday lunchtime, the staff at the Highcross Group sit down in their Newbury office over sandwiches for their Spanish lesson. A local teacher, paid for by the company, takes the employees through the basics: 'hola', 'gracias' and 'uno, dos, tres'. And while managing director Peter Gubb voted for French lessons at the outset, he is there alongside the team whenever his busy schedule permits.

But recently Gubb has been falling behind in his studies. He has led the effort to raise a £500m fund, which closed this week, bringing predominantly US investors, along with one Australian and one German contributor, to the small market town of Newbury. This, he points out, has involved skipping the odd class. 'I've had 11 trips out to the States, 48 flights and 83 interviews and presentations,' he says. And all this before the investors fly back to Berkshire to see where their money will be invested.

The closing of the fund this week represents the pinnacle of Gubb's achievement at the helm of Highcross and a turning point for the company. To persuade high-profile investors, rumoured to include the Yale University Endowment and the John D Rockefeller Foundation, to invest in any venture is a challenge, but Highcross has exceeded even its own expectations.

The charming Newbury setting and compact team of 20 belies Highcross's long history of commercial success and its influential backer.

The company began in 1982 with Peter Michael, later Sir Peter Michael, as its main shareholder. Michael made his fortune in electronics, founding hi-tech company UEI, which he sold to Carlton Communications in 1989, and turning round Cray Electronics. He also backed the launch of the radio station Classic FM, of which he is still chairman.

Gubb joined Highcross from local agent Buckle & Ballard in 1985 when the company shifted its focus towards commercial development, taking over the senior role in 1990 and steering the company through the downturn.

Houses for sale

The measures were drastic: the residential business was sold and the staff fell from

75 to 5 in three months. 'We took the decision to cut hard and cut once, when the market was on its arse,' says Gubb, adding, 'that's a technical term'.

'It was purely survival and if we hadn't we wouldn't be here now,' he goes on.

The cuts went hand in hand with Highcross's shift from development to investment, although it took three years before the company had been sufficiently stabilised to, as Gubb puts it, 'put our heads above the parapet again'.

The company began buying up industrial assets in Scotland, in new towns such as Cumbernauld and Livingston, spending almost £60m in 18 months.

'Things improved dramatically during the 1990s,' muses Gubb. 'Deals became bigger and more frequent and we needed access to more equity.' With Highcross outgrowing even Sir Peter Michael's well-lined pockets the company sought joint venture partners, teaming up with the likes of Lehman Brothers and US private equity fund Westbrook.

The joint ventures gave the company experience of acting as a fiduciary for others' money, and around two-and-a-half years ago it decided to attempt to raise a fund of its own. With Banc of America Securities providing the introductions, Highcross raised £75m in equity by last autumn.

Since then interest has continued and the equity contributions have risen to £150m. When geared up the fund will have £500m which, as Gubb says, 'raises our sights somewhat'.

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Thus far £90m has been spent putting Highcross's 51% stake of its Koloa joint venture with Lehman into the fund. This is in addition to: a portfolio of seven Newbury buildings known as Oxford Square; Davis House, a 102,500 sq ft (9,522 sq m) building in Croydon; and a portfolio of six industrial estates in Scotland. 'It's been incredibly rapid and we've had to curtail it,' says Gubb of the fundraising.

**Peter Gubb
Highcross**

To speculation that US investors were delighted to find a money-making opportunity in a quaint English market town, Gubb points out Highcross's more concrete appeal: 'We have a good track record. Over the last 10 years, our internal rate of return is 38% on a cash multiple of 2.5 or three times. And we speak the same language, which helps.'

He also believes that the fund's focus, on industrial and office property outside London, was a strong selling point. 'We can get a lot more property for our dollar in the regions, and yields of 8%.'

Highcross has always aimed to buy institutionally acceptable properties in institutionally acceptable locations but with non-institutional leases, and turn them into the 'complete package', by taking out voids and short leases and smartening up buildings. Its success means that 80% of the sales are to institutions and 'would have more before the wealthy Irish started buying everything up', says Gubb.

The approach involves hands-on asset management, not least preparing a business plan for every new tenant so 'we're all signed up to where we're taking the asset'.

'It's not rocket science,' says Gubb. 'It's just good management.'

However, he concedes that it does require people on the ground. The company will be taking on two new recruits to cope with the increased workload: Nick Turner, who joins from [Lambert Smith Hampton](#) and Rob Johnston, previously at Slade & Co, will have responsibility for acquiring new investment opportunities for Highcross and also assist in the asset management of the portfolio. They will be allocated properties and, says Gubb, 'rewarded not only on the overall firm's [performance]

