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## Lucent Interview

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With the stock market turmoil that has occurred over the summer months, many investors are now looking for a non correlated investment opportunity that can avoid such turbulence. The Lucent Strategic Land Fund (LSLF) offers such an alternative. We spoke to Lucent Group's Chris Westerman:

“There is no doubt that there has been an increasing trend over for the last couple of years among clients saying show me something different. Following the financial crisis there has been a lot of dissatisfaction with the established asset classes,” says Chris Westerman, Sales Director of the Lucent Strategic Land Fund.

Lucent Group, specialists in UK strategic land, launched the fund to enable individual investors to access this asset class. The fund is an open-ended Luxembourg SICAV SIF which means that investors have the flexibility of redeeming their investment at a time that suits them. The fund launched in September 2010 and has seen returns of over 26% over the past nine months.



The fund acquires land in the UK that has been designated for residential development but, has not yet got outline planning consent. The Group has been the interface between the City and the UK strategic land market for a number of years: identifying, acquiring and then navigating through the planning process strategic land sites on behalf of institutions, insurance companies, pension funds, and national house builders.

Lucent were named master developer of Lincolnshire Lakes, a development of 10,000 homes and 1 million square feet of commercial space on 5,000 acres of land.

The LSLF has acquired the first phase of this development and it is the first in a pipeline of targeted acquisitions to be made by the Fund throughout the UK.

Chris estimates that within 24 months there should be ten to 15 sites within the fund. He says Lucent's experience within the industry gives the fund ready access to suitable sites.

When you're introduced to a local authority on the back of an introduction from the HCA that's always helpful."

"We have to make sure before we acquire a site that we understand its potential," Chris adds. "Part of the reason we have such a good relationship with the major housebuilders [is] because we are delivering what are referred to as oven ready sites. When they acquire them from us with outline planning consent and infrastructure are already in place they can very quickly thereafter begin to build and that's increasingly what they're looking for."

As Chris explains Lucent's industry expertise, relationships with house builders, and key institutional bodies, is a crucial driver behind the fund's success. "The fund has evolved from an established land business, which is a subtle but important point. This is not the case of a fund management group setting up a land fund because land is in vogue, this is a land business from which the fund has evolved. So all the experience and the contacts that are needed to effectively manage land assets are very much in place."

As Chris explains: "The main driver behind any asset that is acquired by the fund is the residential component. Lincolnshire Lakes is a good example. The site that the fund has acquired there, which is the first phase to be brought forward in the development, will for example have 3,000-3,500 houses. Local authorities are increasingly keen on what they refer to as multi-amenity sites. If you are going to build 3,000 houses then

they perhaps want to see a Tesco's or a school etc. as part of the development. So there may well be a commercial component of the site but the fund will only look at a project if it is primarily driven by the residential component.”

The fund's focus on this area is being supported by the Government's continuing pro-development stance as evidenced in the recently released draft of the National Planning Policy Framework. It is expected that the “presumption in favour of sustainable development” outlined in the Framework will help bring significantly more land through the planning process for residential development.

Pin-pointing potential sites is a time-consuming and time-intensive business, but with the expertise on-board in-house, everything can be taken care of, from assessing the suitability of the land for residential development to spotting issues that could prevent a site from gaining that all-important planning consent.

As Chris explains: “At the point at which we look to seriously acquire a site then we would always insist with the vendor on a three month lock-out period. During that three months we undertake a rigorous process of financial modelling in terms of what might be done with that site, and so we know what it might be worth to a potential purchaser. We can then financially reverse engineer it to see what it is worth paying for it.”

During the three months the site is also physically tested. For example Lucent drills in the ground to check for contamination, they liaise with the Department for the Environment over flooding risk and the Department of Transport to see what the infrastructure connections are going to be, and they also check whether there is any flora or fauna on the land that could prejudice planning.

Chris explains: “There are 12 physical tests that are done during that time. We also undertake an urban capacity study of that area. If you're going to build 3,000 houses in an area is the local economy there strong enough to support it. There's an awful lot of work that goes in pre-acquisition.”

This is important. As Chris explains: “All that work goes a long way towards mitigating the risk associated with the acquisition and the investment. At fund level there is a further check and balance. Before a recommendation can be made to the board of directors of the fund to acquire an asset the ‘site pack’ has to go to an independent valuer and be assessed and ratified.”

So, as an IFA how do you broach strategic land as an investment proposition to a client? As Chris explains, it’s probably not as difficult as you might think.

“In terms of land there’s a touchy-feely context to it when an IFA is sitting down with a client. It’s not an exotic arbitrage type fund. Essentially the proposition is very logical and easy to understand. You have an island nation within the UK that has a chronic housing shortage and an increasing population. If you understand that more houses are needed it’s very simple to understand that more land on which to build them is needed. Simple economics - as the demand for something is increasing so will its price.”

“I do spend quite a bit of time emphasising to our distribution that this is a land fund not a property fund. The market in strategic land in the UK is being driven by a very different set of fundamentals to the property market so we do need to distinguish to people quite often that it is specifically land and not property. It’s a very different proposition to some of the property funds that have been out there for a while. This is land, just land, and the fund does not get involved in development.”

“Also a significant difference between this and property funds is that at the point of asset acquisition we are not using gearing or leveraging which again makes a difference to the risk profile.”

And with positive returns of 26% in the last 9 months, and a continually jittery stock market prompting investors to look for other options, Chris is confident that the fund is ideally positioned and set to become a sound choice for many investors.

“Part of the reason we are expecting a good quarter in the run-up to Christmas, is that external events have conspired to make our proposition even more attractive in relative terms. Stock market uncertainty continues to prompt people to look for an uncorrelated alternative. At the same time events in the UK are being directly supportive of the strategic land asset class. Given the chronic housing shortage in the UK there is strong cross party political support for the need to bring more land forward through the planning system.

That has created a very positive environment for us. There’s a necessity, as a consequence of demographics, to increase the housing stock in the UK and that obviously needs more land with consent. That is exactly what the fund is delivering. “The case for investment into UK strategic land is currently about as compelling as an investment opportunity can get.”