



Interview: Russell Smithers & Jacopo Marzocco of REDD on their new £200m acquisition drive

PrimeResi meets two of the resi development scene's brightest young stars, *Russell Smithers & Jacopo Marzocco* of REDD, to talk through their meteoric rise, ambitious new plans, and why they believe the UK's planning and tax system needs an overhaul...

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REDD

Editor's Choice

PrimeResi meets two of the resi development scene's brightest young stars, Russell Smithers & Jacopo Marzocco of REDD, to talk through their meteoric rise, ambitious new plans, and why they believe the UK's planning and tax system needs an overhaul...

Last year you stated an intention to build a £100m prime resi pipeline in London; how is the acquisition drive going and are you still planning to achieve this aim, given the impact of the pandemic?

REDD's £100m acquisition pipeline was successfully achieved. We acquired a number of sites, properties and buildings in Prime Central London, some of which we have now built out, others are currently in the pipeline, and some like our apartment building scheme at 82 Mount Street in Mayfair we have optimised through planning and now exited because the deal was right.

Last year when the pandemic first hit some property commentators expected distressed assets to come onto the market, but because we operate within the very best addresses in the Prime Central London marketplace this sector doesn't typically see distressed assets.

After a slight pause when the first lockdown hit, marketing, meetings and deals in the Prime London market shifted very quickly on-line and by April, sales were actually up on the previous year and the market has continued to be strong.

The Prime Central London market is like a precious commodity, it is high value, stable and a secure investment.

What's in the REDD pipeline for the year ahead?

Now that our first acquisition pipeline programme has been achieved we have now set ourselves a new £200m investment programme. This has been made possible by a growing group of private investors behind us, in addition to the original seed investment from the Marzocco family. We are currently in the front runners in three major acquisitions we are in talks about, and we will be delighted if one of these becomes part of our development pipeline.

The duplex residence we are creating on Charles Street in conjunction with Karen Howes of Taylor Howes is progressing well, and once it is finished and dressed it will be one of the finest homes in Mayfair, the reception spaces with their high ceilings will be spectacular and the bright and airy courtyard garden with double-height atrium space above that is the centrepiece of the living spaces is perfect for today's marketplace.

We are also looking at opportunities outside of Central London so we have been visiting sites in South East England in sought after addresses where we feel our REDD product would be well received.

We have recently employed Mark Tredwell as our Head of Development. Mark has over 20 years of experience in Central London development including 13 years as a Residential Project Director at Grosvenor where he was responsible for delivering a number of high profile projects including 3-10 Grosvenor Square and 65 Duke Street.

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Moving forwards we are looking to do projects providing between 5-30 units, at sales values of £5m to £20m per unit. We are looking at both apartment and houses schemes as we feel the pandemic has shown that there is a gap in the marketplace at present for modern high

quality townhouses that provide lateral living space on all floors.

What are the key elements you look for in a new development project?

For REDD the three key elements are location, product potential and opportunity. The location needs to be Grade A, ideally an address that is highly sought after and where demand exceeds supply. The site also needs to have the size and planning potential to create a really superb product. Finally, there needs to be the potential to optimise the property being created on the site through the planning process, it's this added-value that helps to achieve a good return on investment.

Acquiring large assets in the current economic and political climate isn't for the faint-hearted; how would you describe the market - and competition levels - for development sites at the moment?

In the Prime sector of the market the pandemic hasn't deterred serious buyers. The property market is like a pyramid, with a sliding scale of competition the more expensive the site. So for sites worth £3m to £5m there is lots of competition. Above £50m there is less competition, and for sites costing £100m there are far fewer bidders.

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We are looking at sites worth up to £100m and we are able to proceed immediately. At the £100m level of the marketplace there are typically just 2-3 bidders although there are exceptions to this rule, on one £70m site we were interested in recently there were 18 bids.

Thanks to the strong financial backing of our investor clients we have the ready funds and REDD tend to do careful due diligence before we make a bid, so our bids are always considered and solid, if we make an offer we don't need third party approval.

Some investors have been looking at reducing their Prime Central London property portfolios, we have taken the opposite view, we want to increase the size of our portfolio in London and this is why our consortium of investors have tasked us to look at £200m of investment in the capital over the next few years.

What are some of the key design features today's buyers are looking for in a new-build apartment, and which of these trends do you see prevailing post-Covid?

The lockdowns have made buyers really value homes that provide outside space, and this is why we have designed the duplex on Charles Street with a central garden terrace and double height atrium whose glass roof can be opened to allow in sunshine and fresh air. Where people have had to often work from home together and home-school it has generated

a significant demand for larger homes, people want apartments and houses where there is ample room for each resident to have some quiet or private space of their own. This is why we have been looking at pipeline sites which allow for generously sized apartments and houses.

During the lockdowns people have also been working from home, and this trend seems set to stay with us well beyond the pandemic. So this is why we think a proper home office, with high-quality commercial grade broadband is now more important than offering a cocktail bar or a games room. Buyers also want space where they can exercise at home, and this is another trend that will continue once our lives return to more normality.

Which developers or schemes from the last 20 years have most inspired you?

We have always been very impressed by Native Land who are an interesting and innovative developer who acquire large sites, optimise them well through planning and use superb architects on their projects. They create true destinations with the developments they create and therefore transform the locations within which they buy land. They create value from the sites they buy and are a firm with a good vision and approach to development.

You have focused on the Mayfair area to date, but are there any other parts of the capital that hold significant potential in your view?

For REDD Mayfair has been our starting point in Prime Central London, not our destination. We are looking at projects in adjacent neighbourhoods to Mayfair including Belgravia, Marylebone and Fitzrovia. With a growing private client portfolio we are also naturally being drawn by them to sites in the Home Counties and for us it is a logical step to work in locations such as Wentworth, St Georges Hill, Weybridge, Windsor and the Cotswolds because our clients tend to have homes in central London and these out-of-London locations.

Jacopo, your family has been responsible for large chunks of Monaco's built environment since the 1960s - including the record-breaking Tour Odeon scheme; how do the London and Monaco luxury property sectors compare, and are there any things they could learn from each other?

There are a lot of parallels between Central London and Monaco. Monaco is like an island, with the mountains and the sea surrounding it and ensuring the supply of land and property is constrained in relation to demand. London is also island-like because it is surrounded by greenbelt land where planning is heavily restricted, and within London conservation areas and listed building status also constrain supply in relation to demand. Both locations are also headed by a famous Ruling family, have a main palace and attract the same audience, with wealthy visitors and tourists coming regularly to both London and Monaco.

Where Monaco and London are slightly different is that London has a more diverse resident population and the UK capital has a larger range of theatres, museums and other cultural facilities. However Monaco has the marinas, the sea views and nearby beaches, so each location has its advantages.

What is similar with both locations is that the international super-rich have purchased property in both locations and this has raised values in the addresses where they have purchased.

In London in particular you can see the difference in property values between locations such as Mayfair and Knightsbridge which are very international in terms of their residents, and somewhere like Barnes or Richmond which are a lot more domestic in nature.

Russell, your background is in architecture and construction; how did working with developer and private clients prepare you to run a development company yourself?

Some Managing Directors in my role understand the finances of running a business but they don't actually understand the details on creating and delivering the product. I understand the cash-flow requirements of the business, but with my background I also understand how to work with clients and the concept, fine attention to detail and the processes behind designing and creating the finished product.

Clients trust my judgement

If a client talks to me about finishes, a light fitting or the design of a door handle I can answer any question in some detail. Clients trust my judgement because they know I really understand what goes into designing and building a home we are project managing and delivering for them.

Developers have had to adapt their launch strategies in the current climate; how are you making sure you are getting to the right buyers, and overcoming the logistical issues presented by travel restrictions?

We have recently successfully sold our project at 82 Mount Street in Mayfair, 95% of this deal was done remotely, so this proves that buyers are prepared to buy remotely using digital technology. If you create an outstanding offering people can see the quality and value being offered and are prepared to bid.

What has changed in the current climate is the need to de-risk operations. This is why when the opportunity arose to sell 82 Mount Street and we were made the right offer we agreed a deal and successfully exited the project. This in turn has allowed us to reinvest this cash into

new opportunities which will mature in what we hope will be more normal times.

Apart from Covid, what are the other main challenges facing developers - and the property market in general - at the moment, and how could policymakers improve things from your point of view?

The planning and tax regime in the UK is currently anti-development. There is currently not enough value in the system for people to see the value in progressing developments and taking risks. The planning and tax system needs to be overhauled so that more entrepreneurs like ourselves see the commercial advantage in undertaking more projects. Some sites we see are outstanding, but planning and financial constraints currently don't make them financially worthwhile. There are too many missed opportunities in the market at present and unless major reform is done it will sadly remain this way.

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This opinion is not just about creating high value properties for the wealthy. Through Section 106 and CIL agreements schemes in Prime Central London contribute hugely to affordable housing, public realm upgrades and improved infrastructure. There is also a cascade of investment from these developments which then runs through the micro economy, fuelling both large and small businesses that support the development. These range from the builders and designers who create them, to the maintenance and housekeeping teams that look after them when they are completed.

REDD also manages a £150m portfolio of properties on behalf of private clients and investors; what are your ambitions for this side of the business?

On the property management side of the business our aim is to increase the portfolio of properties we manage to £300 million. This is why we have brought the highly experienced Charlotte Royden on as our Head of Private Clients and are currently growing her team. We have recently taken on a 20,000 sqft private house in North London to manage and this is just the type of instruction we are seeking to manage over the next couple of years.

What are your predictions for the Prime Central London property market in 2021, and over the next five years?

Brexit held the market back in 2018 and 2019, so there is considerable pent-up demand in

the market and you could see last year during 2020 that between the lockdowns there were some major deals agreed. Currently the UK is one of the leaders the world at vaccinating its population. By September 2021 the UK government has forecast that the majority of the population will be vaccinated and some of the key states we do business with will also be well progressed with their vaccination programmes. So we will see the market and also travel beginning to open up from the summer onwards and as it does so the London and South East property markets will lift in terms of volumes of sales. The leading agents believe that Prime property values in the UK will rise by 4% this year and the volume of sales will rise by up to 15%. Most property commentators are optimistic about the market over the next few years.

What is the best piece of advice you have ever received?

The best advice was “If you are standing still, you are falling backwards” – so its important in business not to do the same thing all the time, you need to innovate. A good business focuses on things that make a difference and the team work together to be productive with everyone focused on the same end goals. Never get complacent.



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