Creating the perfect (funding) cocktail

CERT Property's Royal Canal Works, Stretford

Levelling up and planning reform slipped down the priority list in this year's Spring Statement. But development lending, in the face of increasingly complex global issues, remains solid across the North West. **Alex Bell** reports

The war in Ukraine, Brexit, a global pandemic – a cost of living crisis.

Understandable then that levelling up and planning reform didn't take greater precedence during the Chancellor's Spring Statement.

In September 1954, speaking about the confusions and troubles of today, American poet Robert Frost reportedly said to *This Week* magazine: "In three words I can sum up everything I've learned about life. It goes on."

It does, it has to. And if spades entering surfaces across the North West over the past 12 months is anything to go by, it is.

Opportunities are plenty for property developers across the region, according to Together Money's Ian Pickering. "It's surprising how buoyant the market is," he says. "Generally speaking, development activity in the North West is not far off pre-Covid activity and given the current difficulties with building materials and labour, it is surprising. While some developers are naturally more cautious, there are still plenty of opportunities and demand for funding is strong."

Together's client base comprises established small and medium-sized regional developers with proven experience. Pickering says Together's approach is "old school" by nature and relationship driven rather than data reliant. "We pride ourselves on common-sense lending," he says. "Our appetite for development lending has grown significantly in the last six months. We have transformed our proposition in the last quarter, which has given us the traction to fund larger projects and ones that we may not have considered previously, resulting in a 100 per cent increase in our funding, quarter on quarter."

Howard Lord is managing director of property developer and asset manager CERT Property, which primarily operates in Liverpool and Manchester.

Quizzed on short versus long-term finance, Lord says: "Short-term finance is a useful element of the cocktail of funding, but for the transformational projects more patient, long-term capital is usually required, and this has been a harder part of the funding cocktail to source historically.

"Transformational schemes are usually complex, with multiple land ownerships and a variety of constraints, either from historic uses or more generally.

"Local authorities are well placed to offer this type of capital, particularly when it is delivering transformational projects in their own boroughs as the motivations are not purely commercial, short-term returns, but more driven by the long-term benefits and positive externalities such projects can bring to a borough."

Stephen Beech is chief executive of Beech Holdings, the developer behind 1,000 properties already in Manchester,

Ancoats Gardens, Manchester

with a further 1,000 in the pipeline. The company's international institutional investor is AIMS and Beech is adamant that global funding can level-up the north.

"There's no getting around the fact there's a huge under-supply of quality homes in regional cities," he says. "The government can talk widely about the levelling-up agenda and how they're going to bring economic wealth to 'the north', but without homes, and quality ones where people want to live, this levelling up will not happen.

"I feel strongly that we have to look internationally for investment – and that's from experience working in multiple regional cities – having been in the Manchester market for the last 20 years, with nationwide expansion into Newcastle and other northern cities currently under way."

Liverpool Waterfront-based property development and construction firm Vermont is currently working on the largest residential development in the region, comprising 1,100 luxury apartments across four 26-storey towers at MediaCityUK. Its chief executive Mark Connor says early engagement with key stakeholders is critical in making transformational schemes viable.

He says: "The development market has continued to adopt the use of single-stage procurement on construction contracts, where the client appoints a team of design consultants to develop the design of the project, before then going on to separately appoint a contractor to deliver the works often in competition, with limited information and certainly some gaps in this information upon which they are asked to quantify and price risk.

"This process often produces knowledge gaps and an illusory promise of competitive pricing and cost certainty. It often results in project budgets being exceeded and does not leverage contractors' experience and the opportunity to add value for the client by collaborating with designers. Unsurprisingly, it provides an adversarial relationship between the various parties delivering the project."

LAST STOP – EVERGREEN!

Will Church was a newly qualified surveyor when involved with the Evergreen Fund launch ten years ago. A decade later, Church, now a director at CBRE, tells *Insider* how the fund continues to evolve as a 'last resort' specialist.

What have been the significant successes of the Evergreen fund to date?

Evergreen has grown from a £30m fund to more than £140m over the past ten years. We've been able to do that as we are fulfilling a need and lending to development projects that wouldn't get funding from anywhere else. And that is the whole intention of Evergreen, to kickstart projects that wouldn't otherwise come to fruition. But despite the fact we're doing that, we've recycled the money quite quickly. We're past the third recycling stage now and we haven't lost any money. So it's been quite an attractive vehicle for other sources of capital labour.

Given the major global events at play (invasion of Ukraine, energy crisis, Brexit, Covid) have you had to reposition the fund at all? If so, how? And if not, why?

Looking back on Brexit, developers kept on developing in the North West. Covid certainly put office developers off for a short period. But they're very much, particularly in Manchester, back to building and the equity is there too. It was a blip, but saying that, we funded two offices right in the middle of Covid. Right now, I've never seen the Manchester office pipeline as strong. The war in Ukraine is partly having an effect alongside build costs going up right across the world. With offices, where rents haven't increased and yields haven't come down, it's pushed more projects in the secondary markets into the non-viable box. The kind of projects that have a big need for funding are the 100,000-150,000 sq ft industrial schemes which might be split into ten units. Because the bigger ones are very easily forward funded by the institutions or forward sold. Essentially, the big external factors almost unbelievably haven't caused issues for the types of projects we've always funded.

When it comes to low-carbon investments, does the focus of the fund centre on this?

When the Evergreen Fund was conceived, the 'green' bit didn't mean what it means now. A high percentage of the money we have is linked to low-carbon or energy-efficiency outputs. It's really important that anything we're delivering is a step change better than the existing stock on the market.

Tell me about one project in particular which highlights the fund's capability?

A personal favourite of mine is probably Peel's Protos. We funded Peel to do the early work on what is essentially a massive site for energy, innovation and industry; a low-carbon destination in the North West. We have twice funded road and power upgrades at Protos. It's given the project a platform to be developed on and we're proud to have been involved.

What are your aims/objectives within the next five years?

The key is to continue lending wherever the need is, wherever the market isn't lending and where economic growth can be generated. I don't have the crystal ball to say where we are going to be lending but I'd imagine it will probably be more of the same but more heavily weighted towards energy-efficient buildings and carbon zero as well as supporting the economy.