Muse Developments and Morgan Capital at New Victoria

Deals 2021/22

PROPERTY

# FLOODGATES TO OPEN

Following an upturn in deals crossing the line during 2021, next year is expected to be significant for the North West's property sector, reports **Alex Bell**

Property deals are bouncing back as figures show they have continued to be done in the North West throughout 2021. Down, yes, compared to 2019, but significantly up on 2020.

The standout takeaway post-pandemic is the rise and rise of industrial, to the extent that it's been labelled "bonkers" by Property Alliance Group (PAG) managing director Alex Russell.

Russell uses the 2019 sale of the Guardian Media Group's 6.9-acre printworks site at Trafford Park to spell out why industrial has gone bonkers. "When the Guardian site was sold," he says, "it was about £1m an acre [DTZ Investors paid £7.45m]. Trafford Park prices are £2m an acre now. In my mind there's not been growth like it for a very long time."

Pitalia Real Estate's chief executive David Lathwood went client-side for the first time – having left JLL just prior to the first lockdown – by launching development and investment vehicle Pitalia in early 2021. "The office market," says Lathwood, "was pronounced dead far too soon. And it's back, after disappearing in a big way early on in the pandemic."

The difference, according to Lathwood, is the change in how buildings are now being used. "If a business had 20,000 sq ft in January 2020 they'll still need 20,000 sq ft in January 2022. The difference will be how it is used involving it being a far more collaborative space."

Rob Woods, senior director in CBRE's capital markets team, says it will take time and money for landlords to readjust to the changing needs of occupiers. A notable 2021 deal was the 320,000 sq ft fully-let Piccadilly Place which changed hands for £143m. CBRE acted for Ares Management while OBI and ADS Real Estate Advisors acted for the buyer, a joint venture between Longmead Capital and Revcap. "That deal by my colleague Will Kennon had stalled due to the pandemic but finally came through this summer," says Woods. "As an experienced team, we've been very active across the whole market. While I wouldn't say it's been our top-performing year as such there's been a very good out-turn."

He adds: "We applaud the flexible working approach, and know occupiers demand an appealing environment for their staff. It will take time for landlords to adjust what they are offering occupiers. It will require cash and a lot of proactive conversations with occupiers already leasing spaces."

Business parks across the North West haven't been immune to the pandemic.

Birchwood Park secured its biggest letting to date of almost 66,000 sq ft this year when fashion retailer Arne Clo signed a ten-year deal. "That was the last deal in our now fully let, multi-million pound Cavendish warehouse development," says Birchwood Park commercial director Martin O'Rourke. "Over Q3 and Q4 we've also seen a trend towards more office enquiries, with businesses looking for greater flexibility, and we're confident that this momentum will continue into 2022." ➤

Russell, of PAG, says there's been an 'increase in appetite' to do deals across the property sector since September. So, was the £130m New Victoria deal revealed in lockdown one a reassuring signpost?

Muse's David Burkinshaw says New Victoria – a deal with Pension Insurance Corporation (PIC) to fund and operate 450,000 sq ft of residential which will deliver 520 homes across two 20 and 25-storey buildings – was the hardest he'd worked on.

"The deal," says Muse's development director Burkinshaw, "because of the nature of what PIC does and because it was their first venture in build to rent (BTR) had to be absolutely locked down and risk minimised. But we felt we were the right partners from an early stage and that commitment to a long journey together enabled us to overcome every hurdle.

Vinci Construction have been on site, adjacent to Manchester Victoria station, for over a year. And investor Morgan Capital has since been brought in by Muse to deliver a 150,000 sq ft, eight-storey office building at the 2.5-acre site on Corporation Street.

In summer, Bruntwood locked-in a new 15-year sustainable loan from Aviva Investors to the tune of £276m, one month after Bruntwood SciTech closed a £95m sustainability-linked loan.

At the time chief executive Chris Oglesby described the new agreement as a "milestone" while paying tribute to the role Bruntwood had taken in tackling climate change in the UK's real estate sector.

Lathwood hopes net zero targets can be achieved across the industry. "From a funding perspective, increasingly, institutions are requiring any asset they buy, has the proper ESG credentials, otherwise they won't buy," he says. "Ultimately the occupiers, which are the driving force of everything we do and are the only reason we are all in business, will have to pay more. But everyone will be in this in the end as there won't be any buildings that don't have those characteristics."

Russell seconds this and predicts "massive advances on the trend for green buildings, wellness and space" going into 2022. He adds: "Despite the recent increase in deal activity there's still a bit of resistance but I expect the floodgates to open in January."

## SPECIAL FOCUS: New Victoria

**An Insider exclusive with Delphine Deasy, head of real assets at Pension Insurance Corporation**

### WHY DID PIC ENTER INTO THIS 'FIRST OF A KIND' VENTURE'?

Pension Insurance Corporation (PIC) is a very long-term business with a purposeful investment strategy. We back the pensions of our 300,000 policyholders with secure assets that are going to generate cashflows in the decades to come, and we are always looking at how we can develop our £50bn portfolio. In 2020 PIC forward funded its first BTR project, the New Victoria scheme. The 520-apartment development scheme was a fantastic opportunity for PIC.

The reason we chose to invest in BTR is because the asset class generates long-term, stable cashflows, perfect for backing our future pension payments. These developments create considerable social value, essential to ensure we can pay the pensions of PIC's policyholders. In practice, the social value of BTR developments means PIC is playing its part in increasing housing supply, while creating jobs during the construction phase.

It should be noted that we were, and still are, already active in the student accommodation market as a lender."

### IS PIC EXPLORING SIMILAR DEALS IN THE FUTURE?

PIC is very active in the BTR market, looking to grow its portfolio. We recently closed the Wiltern, a 278 apartment development in Ealing, London, working in partnership with Amro Partners and Henry Construction, and are assessing a number of similar schemes across the UK. We are also exploring single-family rental housing opportunities in suburban locations.

### WILL APARTMENTS BE SOLD TO INVESTORS?

PIC intends to hold and manage these schemes as rental units for the very long term. This is core to our strategy and is essential as we pay the pensions of our policyholders.

### WHO DO YOU FORESEE LIVING IN NEW VICTORIA ON SCHEME?

We anticipate that New Victoria will primarily appeal to 25-40 year old professionals, but we foresee that other demographics will also find the scheme attractive on account of its location and quality.

## TOP FIVE TRENDS

Chris Cheap of Avison Young reveals the top five trends that will impact deals in 2022

**ESG** There is no getting away from these three letters as they will be central to everything that happens within the real estate sector over the next year.

**Labour pool** Manchester's economic success has been underpinned by a broad, diverse, mobile and relatively cost-effective labour pool. No immediate alarm bells are ringing but the war for talent is starting.

**Inflation** Inflation is a real concern and something the real estate sector should be keeping a keen eye on.

**Rental growth** We will continue to see upward pressure on prime rental levels, as the 'flight to quality' mantra remains a thing.

**Sexy sheds** The shed market will continue to dominater with only supply constraints holding it back. The hunt for developable industrial/ logistics land is well and truly on, with eye-watering values quoted and paid.