Doing deals in an ever changing landscape

Alex Bell explores this year's real estate deal landscape and looks forward to what 2024 will hold

"At the moment there's a big pricing correction underway and I don't think it's bottomed out yet."

These are the words of Stephen Wormald, associate partner at XLB Properties, one of the leading asset management companies in the commercial UK property market.

In its UK Mid Year Market Outlook 2023, CBRE estimated that £8.1bn of investment property was transacted in Q1 2023, down from £10.3bn in Q4 2022, and far below the £21bn that transacted in Q1 2022.

According to CBRE, however, the proportion of office deals transacting above market prime increased, while secondary offices were slower to transact.

Discussing the office landscape and XLB's approach to acquisitions, Wormald says: "Tenants are just not batting an eyelid at the rents. If you can provide a good environment, they'll come, which is really good.

"We've got 360,000 sq ft across four buildings in Manchester (35 Dale Street, the Tootal Buildings and Fourways House), bought in December 2020. We've got 3 per cent vacancy across the portfolio. And in the last two months we've leased 40,000 sq ft and headline rents have increased by 50 per cent in some instances."

He adds: "We are very actively seeking new acquisition opportunities and are looking to partner with investors who are still seeing offices as a good opportunity."

"We are looking to partner with investors still seeing offices as an opportunity."
Stephen Wormald
XLB Properties

Ed Dwan, Ella Woodward and Angela Cross

GREEN DEAL AND A NEW HEADLINE RENT

During the summer a new headline rent for offices in Manchester was set when the £400m St Michael's development was launched. At No1 St Michael's – with nine floors of office – Pinsent Masons signed a deal for 26,842 sq ft while Hill Dickinson took 18,192 sq ft. All at a price of £43 sq ft.

Gary Neville's Relentless Developments will bring the scheme – also comprising No2 St Michael's (hotel, apartments and a further 75,000 sq ft of office space) – to market with stakeholders Salboy, KKR and Manchester City Council.

The £36m Eden development is setting new net-zero building standards, with BDO jumping at the chance to call the 115,000 sq ft, 12-storey building home. Following a deal for 23,000 sq ft across three floors with The English Cities Fund, BDO moves in early 2024.

With the capability to run on 100 per cent renewable electricity, Eden – in the New Bailey community in Salford – is pioneering workplace sustainability.

Dealing with town centres

Anna Claxton, assistant director in Deloitte's North West real estate team, believes repurposing town centres seems to be quite high on the deal agenda.

"With Manchester having an unbelievable amount of development in the past ten years, I think it's time for town centres to get their share of the pie, so to speak.

"The Greater Manchester Combined Authority are keen to make sure town centres are invested in.

"If you look at Stockport, they've been really successful in securing funding across the past couple of years. They've built their Stockport Exchange office scheme.

"Wigan has been really proactive by buying and demolishing a shopping centre to completely repurpose it. They have consolidated the retail offer, which most town centres have quite a lot of, and then used it to bring residential into the town centre as well.

"If you look around the North West, there are quite a lot of examples of local authorities buying shopping centres and working out how to repurpose them."

THE £500M LIFE SCIENCES AND TECHNOLOGY BOOST

Following the landmark half a billion joint venture investment from Bruntwood, L&G Capital and Greater Manchester Pension Fund (GMPF), *Insider* speaks exclusively to Bruntwood SciTech operations director Andrew Cooke about how it will be utilised.

Talk us through Bruntwood SciTech's plan to create a £5bn portfolio by 2032.

"The realisation of our ten-year plan is focused on delivering the masterplans for our campuses, as well as additional redevelopments and acquisitions in the city centres where we currently operate. We have already secured 3.6m sq ft pipeline at Citylabs, Manchester Science Park, Circle Square, ID Manchester, Pall Mall, The Alberton, West Village in Leeds, Innovation Birmingham and the Birmingham Knowledge Quarter, Birmingham Health Innovation Campus, Melbourn Science Park in Cambridge, and Met Tower in Glasgow."

When might additional capital investment from other local authority-linked funds be secured?

"The innovation economy, the life sciences sector in particular, has long suffered from a lack of institutional investment, the scale of which would be transformational for the sector as the UK government pursues the objective of becoming a science superpower in the next decade.

"GMPF's investment into Bruntwood SciTech is the first example of a LAPF [local authority pension fund] investing into a national property platform of scale, and playing an active role as a shareholder. It demonstrates the role that such funds can play in regenerating the UK's towns and cities; helping to create highly skilled jobs, increase productivity and drive wage growth, and we hope it paves the way for others to similarly invest. We're encouraged by the additional interest it has already stimulated since the announcement, and hope to work with additional regional pension funds in the near future."

Where and when will Bruntwood SciTech enter into additional R&D intensive regional cities?

"Our purpose is to power regional city economies through innovation, bringing together a quadruple helix of local authorities, academic institutions, the NHS and private sector to strengthen their knowledge economies and attract inward investment.

"Our focus continues to be on R&D [research and development] intensive regional cities and expanding within those where we have campus locations or city centre innovation hubs, including Manchester, Birmingham, Leeds, Liverpool, Glasgow and Cambridge. We're also continuing to speak with other local and combined authorities that have strong innovation aspirations and R&D focuses to understand how we can support their growth and have the opportunity to enter new cities."

How can the UK real estate market emerge from what remains as a 'challenging period'?

"While market conditions are likely to remain challenging for some time to come, there is an opportunity for the sector to use this period to re-gear itself towards the future needs of businesses as hybrid working continues to evolve.

"In particular, there is an opportunity to support high-growth innovation industries, particularly the science and tech sectors – including providing access to highly skilled talent and funding opportunities. As well as delivering much-needed specialist workspace for life science and tech businesses, prioritising the vast amount of retrofitting needed to meet net zero will ultimately strengthen the real estate sector's resilience in the long term while moving the economy onto a stronger footing."


Manchester city centre

SUPER W SALE AND LANDMARK RESIDENTIAL DEVELOPMENT FUNDING

Securing a £128.5m development finance deal is no mean feat. Injecting heat into the market, Select Property announced it was bringing forward One Port Street. Maslow Capital provided the large-scale equity for the 477 apartments that are set to complete in 2025.

Select, via its flagship brand the Prestige Collection, believes the Northern Quarter-based scheme will impact Manchester city centre's economy to the tune of £29m post completion.

Leftfield snapped up Tungsten Properties' Super W for just over £32m. The newly built distribution warehouse in Warrington was let to Farmfoods for £1.7m per annum on a 25-year lease. Integrated office accommodation, warehouse operations office and parking were all built by Winvic, with Super W sitting four miles south of Warrington town centre.