

Real Estate Capital Europe

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NEWS & ANALYSIS

BGO's Blakemore: Some people are going to make a lot of money in the office sector

The US manager will include UK offices in the lending strategy of its incoming £1.4bn debt fund.

As it readies itself to deploy its latest debt fund into UK commercial real estate lending, US manager BentallGreenOak is bullish about one sector in particular.

“Some people are going to make a lot of money in the office sector despite its major challenges – and we want to back borrowers that can perform well in this space,” Jim Blakemore, BGO’s managing partner and global head of debt, tells Real Estate Capital Europe.

Last week, the New York-headquartered firm said it had raised more than £1.4 billion (€1.6 billion) in equity from more than 25 institutional investors around the world for its third UK Secured Lending Fund – a total that is almost £450 million in excess of its initial target. The fund is the sixth from the firm’s broader European debt business.

A key component to BGO’s strategy is to lend to borrowers “transitioning assets to create value”, including logistics and multifamily residential property. But Blakemore says offices will also be a target sector for its capital as it looks to lend to borrowers creating “the best-in-class office assets that will be relevant in 2025 and beyond”.

He says: “The way businesses use offices has changed, work from home isn’t going away, and in certain sectors we are seeing major layoffs. The office sector is challenged, without a doubt.

“However, there is not much real



estate that can offer what these tenants are currently demanding from landlords – high-quality, well-located office space and with the right ESG components. Therefore, this is the area we are going to play in.”

Recent lending by the New York-headquartered manager in 2022 has been similarly focused on value-add business plans including developments, refurbishments and repositioning projects.

In December 2021, it provided approximately £108 million for the acquisition and development of a London office asset, for which the sponsor is aiming to achieve a BREEAM Outstanding status. In another example, last March, BGO provided €35 million for the

redevelopment of three vacant buildings in Dublin. In aggregate, BGO has lent approximately €1 billion in Europe on properties that incorporate green building certificates.

The firm’s plans to increase lending to offices comes as capital values decline in the sector. Office sector capital values fell 3 percent in December, according to adviser CBRE, and by 12.1 percent overall in 2022, with annual total returns at -8.3 percent.

Given this, not all lenders plan to commit future debt to offices. One lender shying away is Germany’s Aareal, which said last week that it was reducing its lending to the sector.

But Blakemore, who has personally

Real Estate Capital Europe

overseen \$5 billion of lending in European debt, says that in previous funds, the firm has been “pretty successful” lending to office owners that have engaged in creating modern office spaces geared towards hybrid working strategies.

BGO, part of SLC Management – the alternatives asset management business of Sun Life – will issue senior loans at a floating rate on behalf of the fund, with loan-to-value ratios at about 60 percent, and offer mid-ticket loans. There is also potential to provide larger loans for the right opportunity.

UK opportunity

BGO is expanding its capabilities in the UK as the market becomes Europe’s worst

performing country in MSCI’s Europe Quarterly Property Index – the data provider said last week that in Q4, the market registered a -11.7 percent quarter-on-quarter return – its second-worst performance on MSCI’s records.

For Blakemore, that adjustment is a positive. “From both a debt and equity perspective, the UK is one of the most interesting markets in Europe because the spread between buyers and sellers expectations has narrowed [so] transactions are starting to happen. The UK always adjusts first. For all these reasons, we are bullish on this market.”

Capital raising for BGO’s latest fund, one of the largest ever fundraises for a debt strategy entirely focused on the UK, began

in early 2022. Blakemore says the volatility in the financial markets that resulted from former prime minister Liz Truss’s ‘mini’ budget did not deter interest.

“Investors like the UK, they see that our performance is good and they also liked the fact that this is a sterling-only fund and not a mix of sterling and euros. But they also think that investing in debt in the UK is a good place to be,” says Blakemore.

Blakemore believes that the UK is not alone in terms of its economic risks, adding: “There is [risk associated with lending] in any country today and I think by being in debt [you] can insulate yourself from a lot of the issues. This is why the UK is currently one of the most attractive opportunities in the world.”