



# Core Cities UK Investment Opportunities

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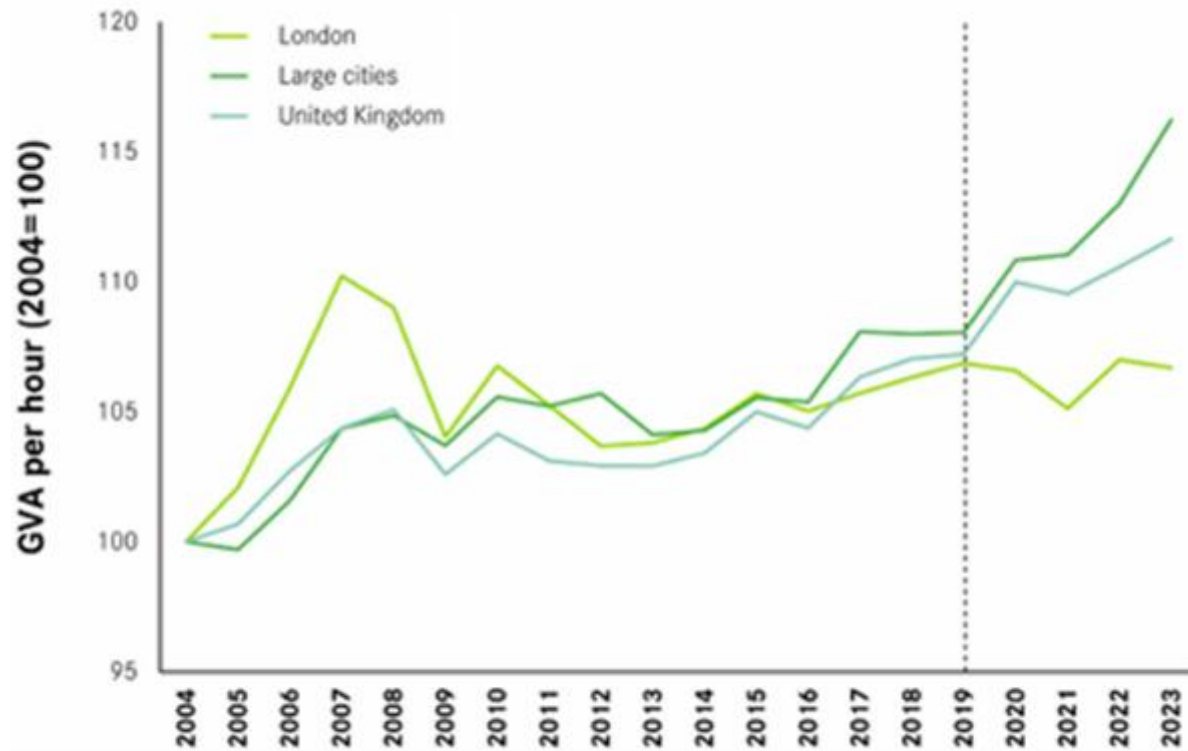
18 November 25



# The Core Cities have been the brightest spark in the UK's economy in the last decade...

Recent ONS data shows that productivity growth on average across the Core Cities has outperformed the rest of the country for the last decade, despite the macroeconomic headwinds that the country has faced.

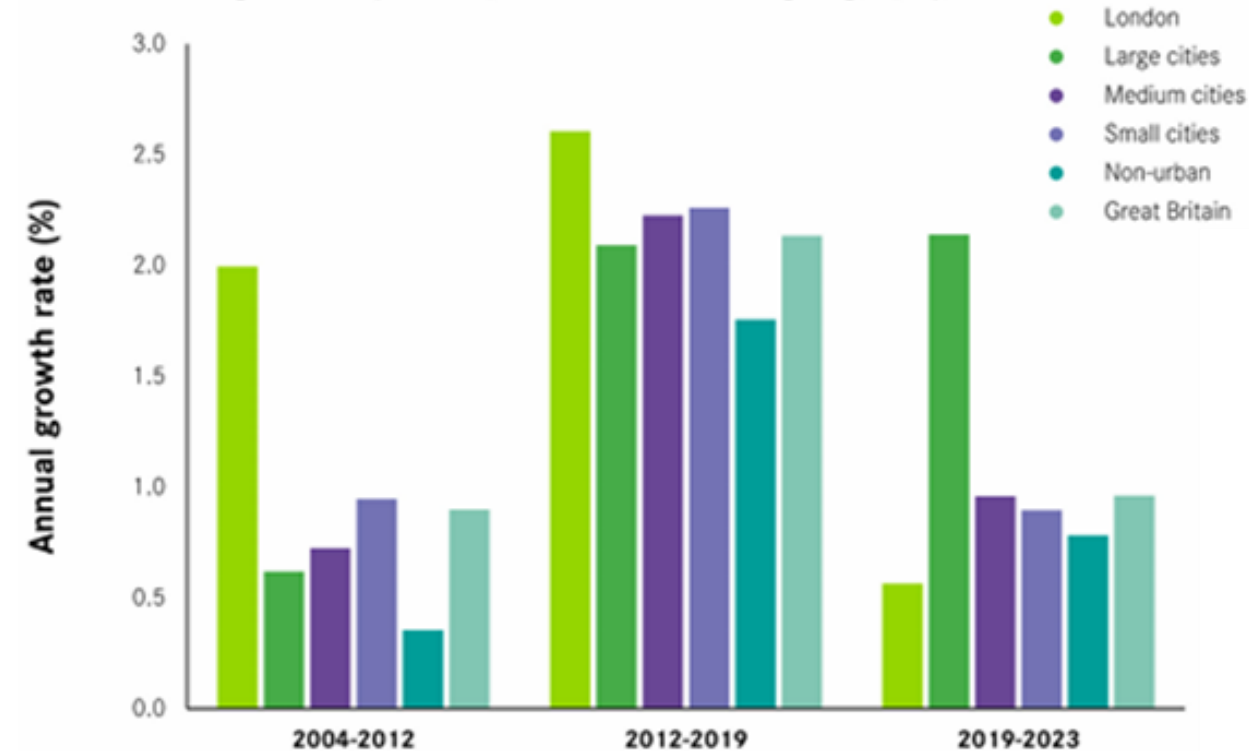
### Productivity by geography, 2004-2023



Source: ONS, Regional gross domestic product (GDP) local authority reference tables; ONS, Subregional productivity: labour productivity indices by local authority district; Centre for Cities calculations

This has been particularly the case since the COVID pandemic with the UK's largest cities outside of the capital seeing economic growth of over 2% between 2019 and 2023, more than 1%pt higher than anywhere else.

### Annual GVA growth by time period and urban geography

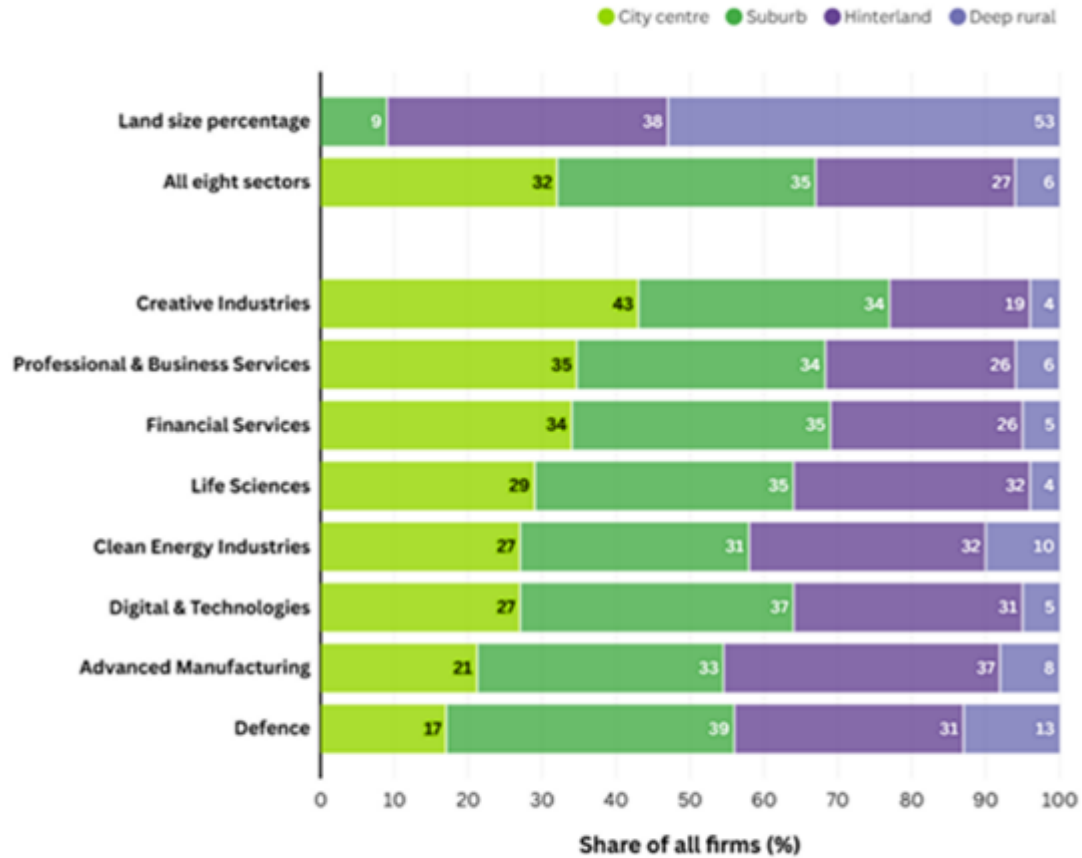


Source: ONS, Regional gross domestic product (GDP) local authority reference tables; CFC calculations

# ...and can be the engine of growth in the UK's industrial strategy.

Analysis of the current locations for the 8 Industrial Strategy sectors shows how critical city locations are, particularly for services. If we are to grow these sectors, we need to grow our cities and city centres specifically.

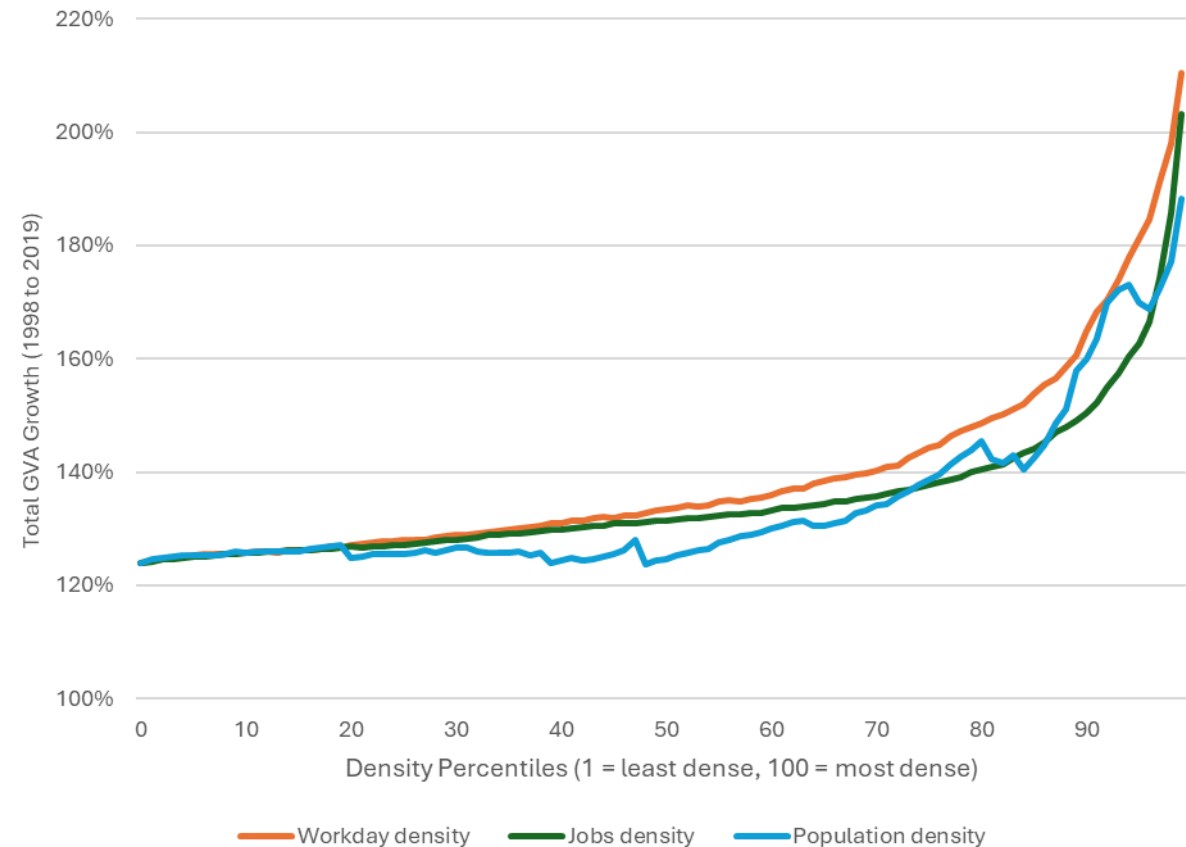
Share of businesses in each sector by location



The Data City; Centre for Cities analysis

If we look at economic growth by density percentile, we can see that growth rates are exponentially higher the denser our towns and cities are. Over the last two decades, GVA growth was on average 2.3%pts per annum higher in the highest density decile compared to the remaining 90% of the country.

Density vs GVA Growth (1998-2019)

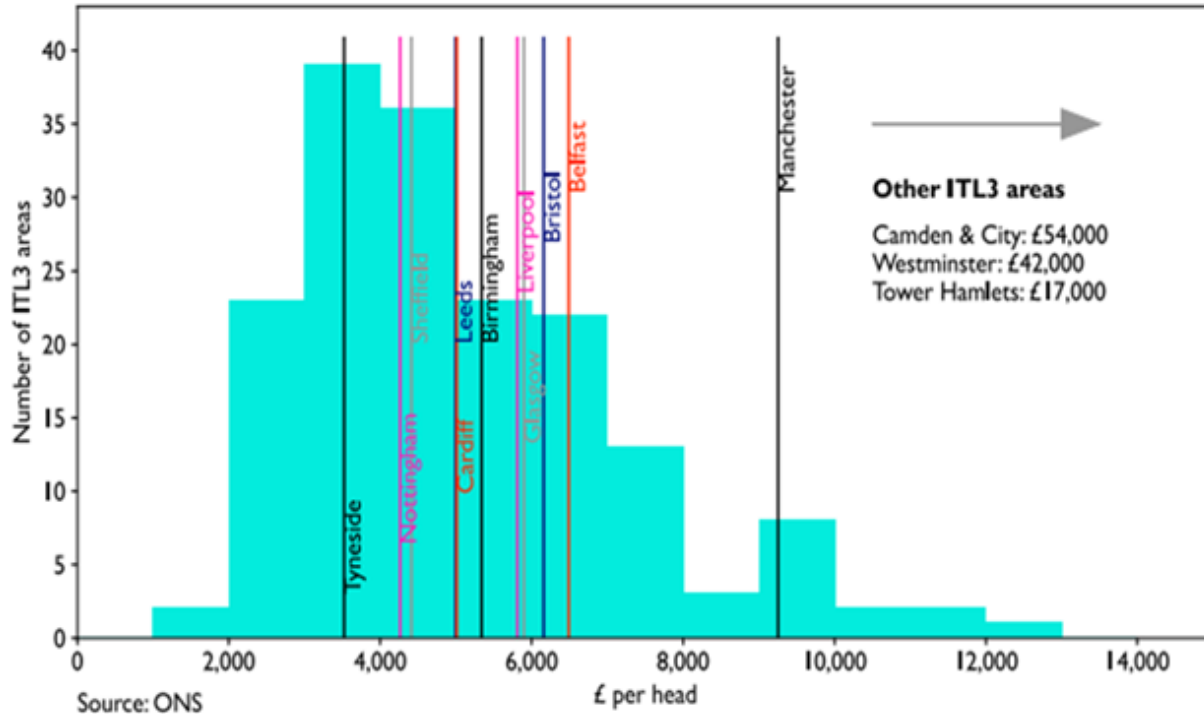


# Yet, despite the growth and economic opportunity, investment remains low.

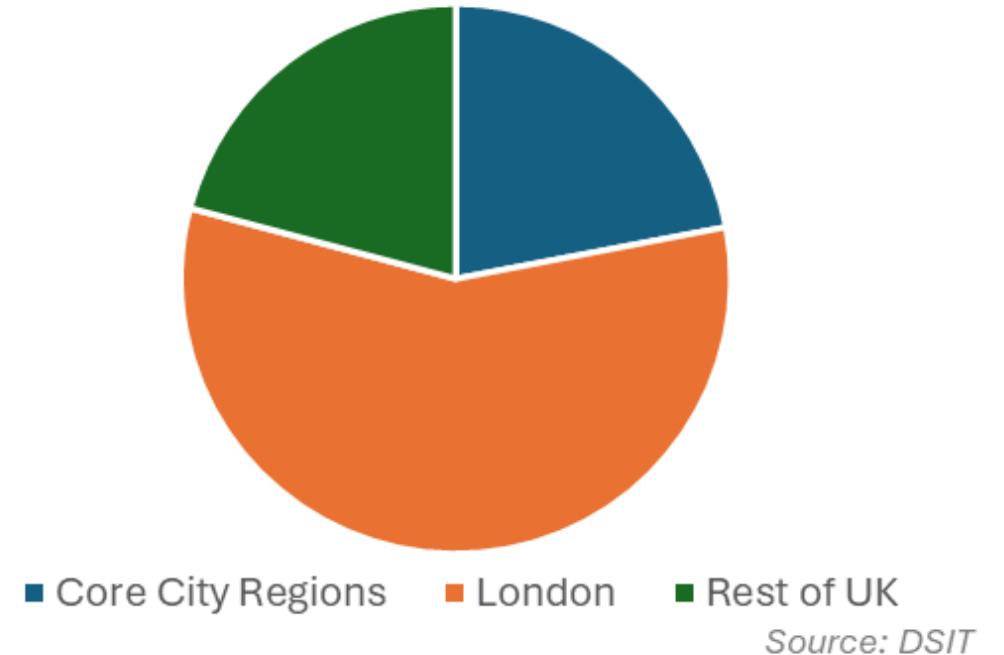
When we look at investment data – both public and private – for the Core Cities then we can see that we have a long way to go to reach the levels that we see in London. A similar picture emerges when you compare investment rates per head between the Core Cities and other comparable sized cities in Europe. The relatively positive story on growth and productivity over the last decade has come without strong investment levels. Scaling investment could really turbo-charge the strategic potential of our cities.

This disparity is particularly acute when we look at business growth investment, with London capturing over half of the country's venture capital investment over the same period where productivity levels in the capital were disappointing. Addressing the regional gaps in business investment alongside investment in the built environment is critical to realising the economic growth potential of the Core Cities.

### Investment per capita between Core Cities and rest of UK

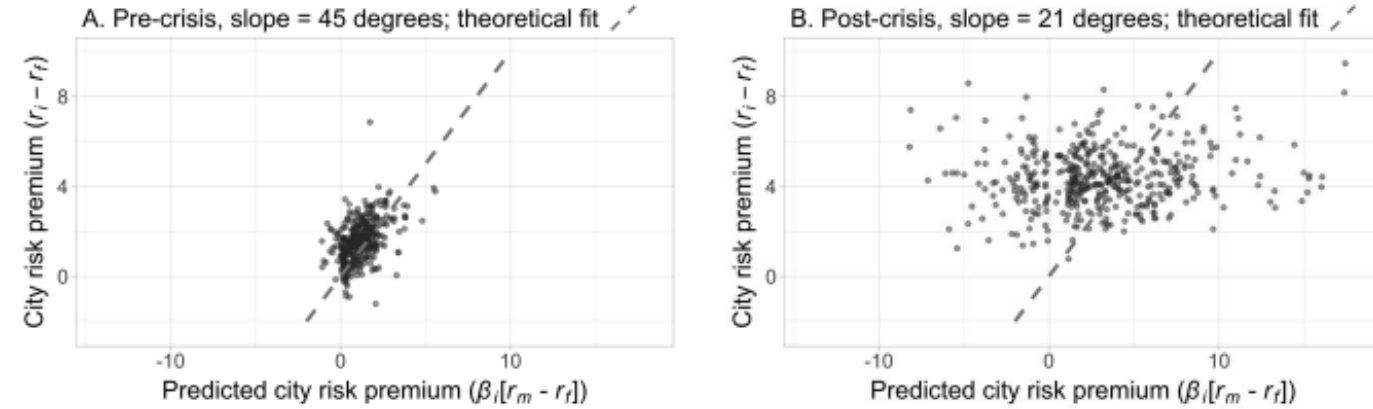


### Proportion of venture capital investment (2019-2023)

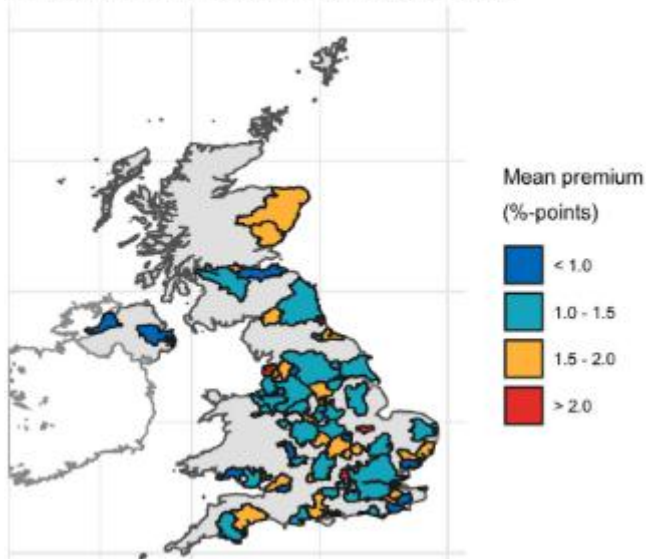


# At the heart of the problem is a market failure in risk pricing of investment across the Core Cities since the financial crisis.

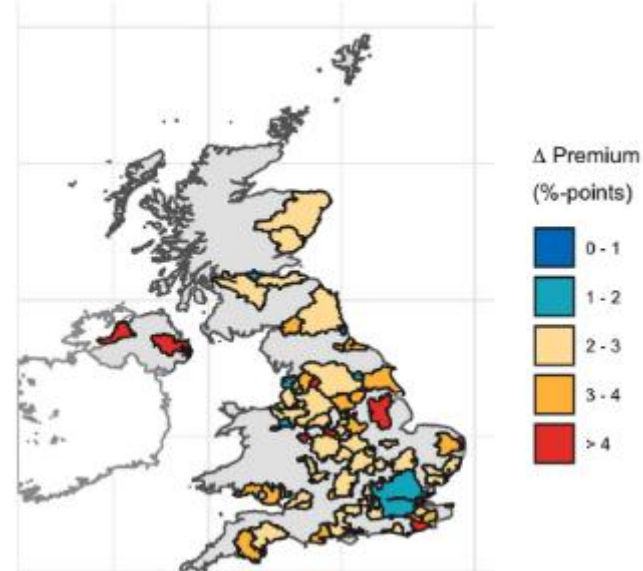
Before the financial crisis, the ability of the market to predict risk in commercial real estate investments were very accurate (left panel). However, since 2008 that relationship has broken. Given the greater uncertainty, risk premia have increased everywhere but with a stark divergence between London and the rest of the country, with a flight of capital to perceived safety of London property markets.



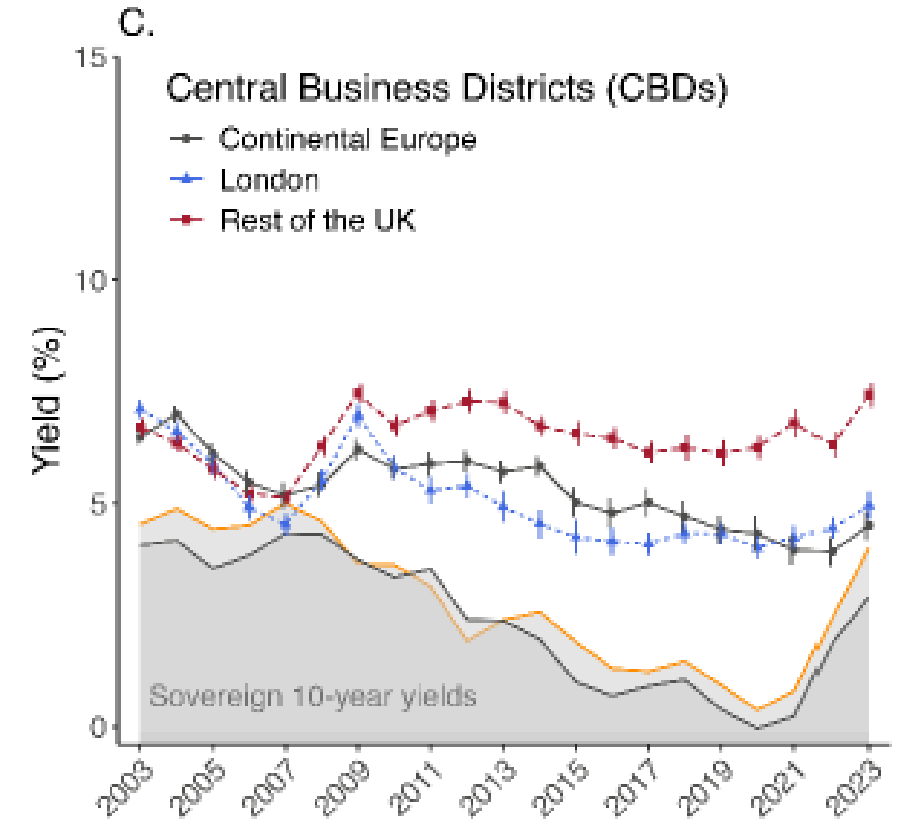
A. Pre-crisis risk premia across UK metropolitan areas



B. Post-crisis change in UK metropolitan risk premia



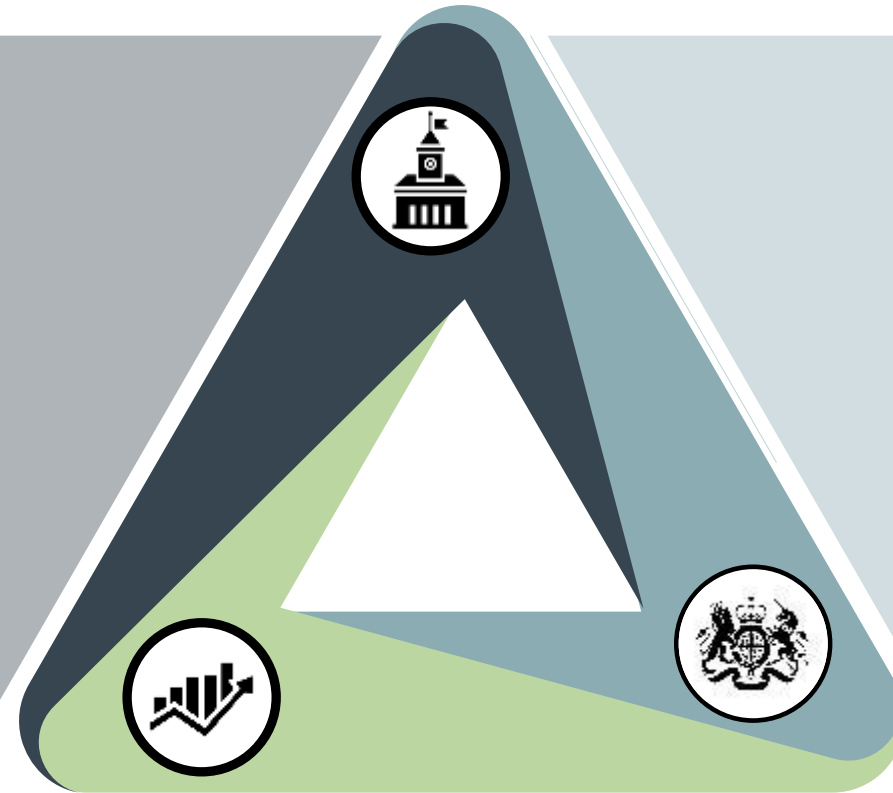
This has resulted in a break in investor appetite for city centre investment around the UK in comparison to London, moving from them being broadly similar in the early 2000s to a persistent differential in the returns that they would want to see on a given investment outlay.



# The Government can bridge this “viability gap” between short-term market sentiment and long-term economic potential...

## **Local Government**

- Resource and expertise – inc. planning, economic development, finance, commercial and legal skills
- Access to PWLB borrowing – though noting constraints in financial climate
- Assets – particularly land and property and the ability to anchor investments through long-leases
- Capital Grants – mostly held at Mayoral or Devolved Government level but that can be used to facilitate and anchor investment.
- Convening and project management



## **Central Government**

- Capital Programmes and Projects – numerous grant investments from across multiple Departments, including MHCLG, DFT, DBT, DSIT, DESNZ, DCMS.
- Financial Transactions – ability to deploy range of financing levers including equity, loan and guarantee facilities. Agencies include National Wealth Fund, Homes England, British Business Bank, Innovate UK, and Great British Energy.
- Convening and leadership – sending signals to private investment market on opportunities

## **Private Sector**

- Institutional investors – with the ability to deploy equity and debt across multiple projects and from multiple sources.
- FDI investment opportunities – on specific projects, often playing an anchoring role in major regeneration.
- Developers – bringing together land/assets and expertise to deliver projects and investments

# ...and across the Core Cities we have similar types of investment projects in our pipelines

## 1. City Centre Grade A Office

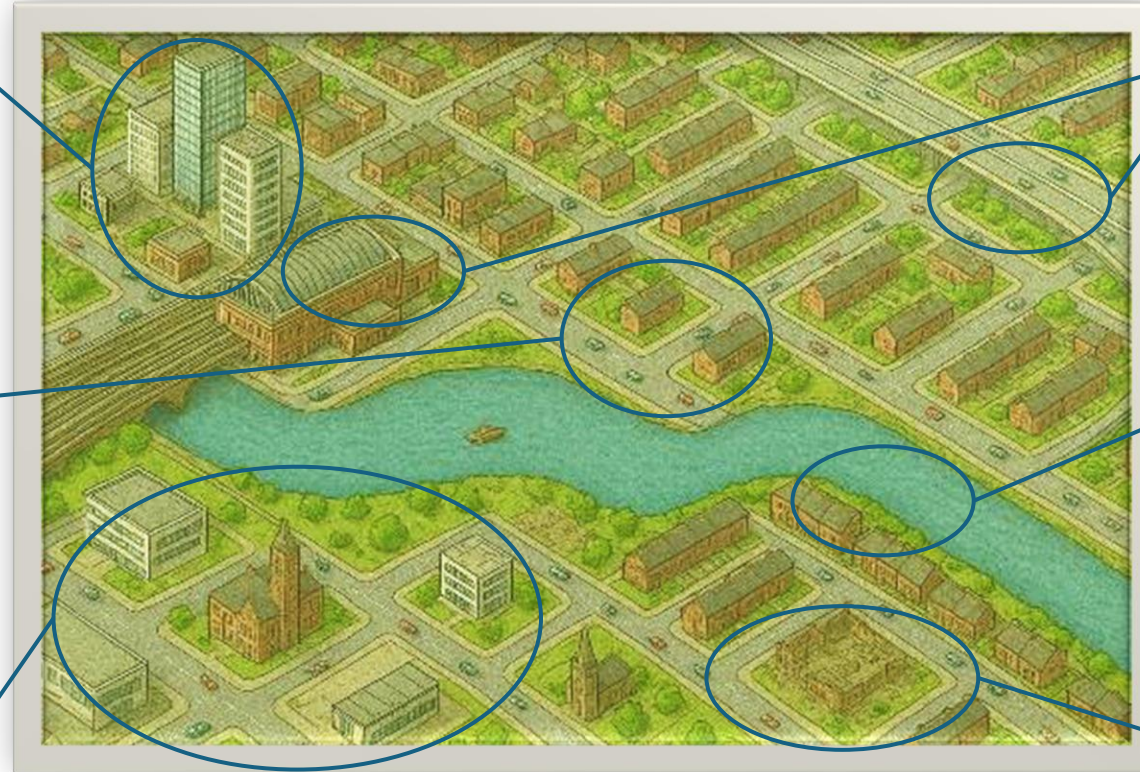
- Critical infrastructure for Industrial Strategy sectors
- Mismatch between demand and supply
- Blended financing needed

## 2. Brownfield Urban Housing

- Small-site infill densification
- Challenge of aggregation and scheme development
- Need to deliver affordable housing

## 3. Innovation Districts

- Need for laboratory, studio and flexible workspace
- Proximity to university
- Integrate with business growth programme.



## 4. Urban Transport

- Opportunities as much about regeneration benefits as transport improvements
- CDEL hungry. Coordination needed with CA/DA

## 5. Net Zero Infrastructure

- District level heating and energy generation opportunities + retrofit
- Financing models required to extract payments

## 6. Major Regeneration

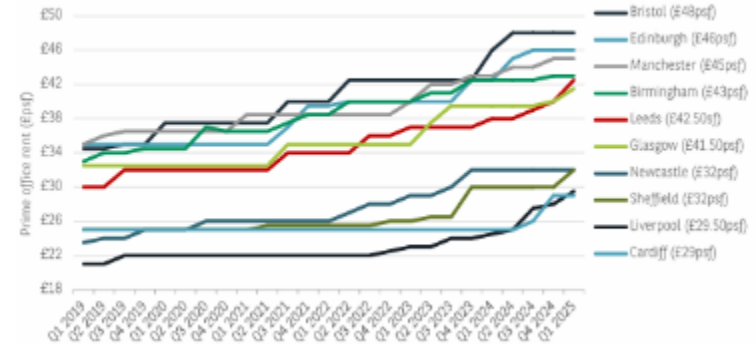
- Mixed-use opportunities on site specific locations
- Potential for large housing numbers – urban extensions
- Development corporations?

# 1. City Centre Grade A Office

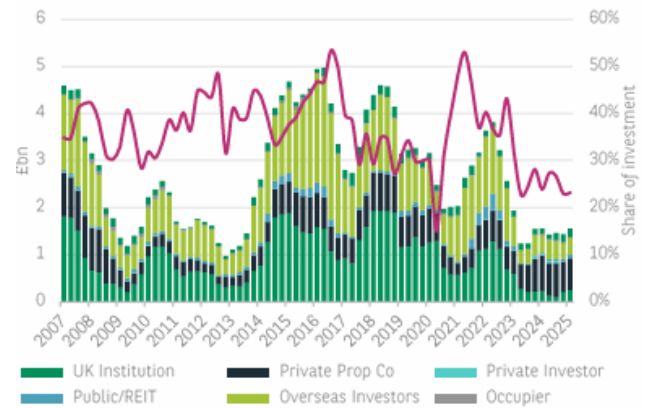


- All Core Cities report demand for high quality (Grade A) city centre office space. This is reflected in rising rents and low vacancy rates. Demand coming internally – from growing businesses wanting more/better space – and new business (large and small) looking to locate in Core Cities.
- At the same time, supply is constrained. Investment is down against historical rates, reflecting the disparity in risk appetite of investors and the expectation of much higher yields than London.
- Broadly two types of project in Core City pipelines: i) new, purpose-built Grade A city centre office blocks; ii) Repurposing existing building stock, often with heritage considerations. Both struggling for viability in current short-term market conditions, with unrealistic expectations of pre-lets.
- Local Authority finance flexibility constrained as a solution. Tools such as anchoring lease-wrap agreements and put/call options on sites difficult given stretch on local government financing and requirements for short-term liquidity to fund statutory services.
- Currently gap in national public financing landscape for city centre office. NWF current remit does not cover commercial real estate and not Homes England’s primary focus. If we are to realise the agglomeration benefits in our city centres across the identified IS growth sectors then we need a mechanism to draw in national financial transaction levels.

Big Ten regional prime office rent (city centre)



Big Ten office investment by investor type, rolling annual



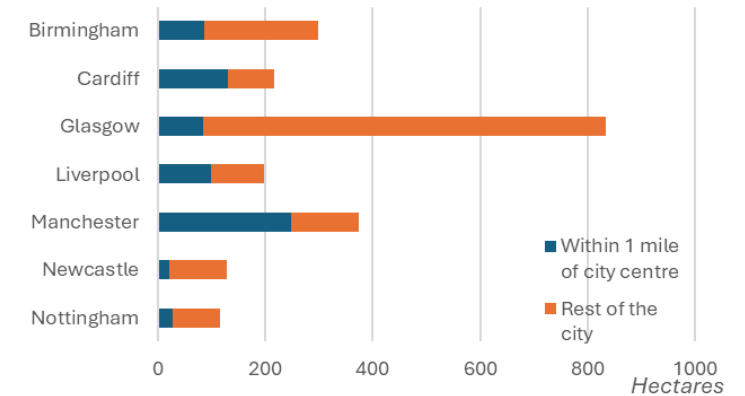
## Asks of Government

1. Provide the National Wealth Fund with an explicit financing remit for city centre Grade A office development to boost growth in key industrial strategy sectors.
2. NWF to explore patient equity investments in office developments in Core City Centres.

## 2. Brownfield urban housing

- Across our cities we have numerous smaller brownfield sites that would be ideal for meeting the national housing ambitions. These include former retail and light industry, former warehouses and showrooms, small car parks, derelict land, and vacant or sub-standard housing.
- The amount of new housing that these sites could accommodate ranges, depending upon local demand, tenure and density, but are often less than 20 total. They are often more ideally suited to specialist urban housebuilders or SMEs rather than the volume housebuilders.
- Given their nature, the viability is often more challenging. They have higher site assembly and remediation costs and the margins are tighter. This is particularly challenging when we look to integrate affordable housing requirements and sustainability obligations.
- There is a good case for development vehicles operating locally that could work across multiple sites – designing, developing, procuring – as part of a partnership with housing associations and as a revolving facility. There are different models underway, whether as revolving fund facilities that came out of the EU JESSICA scheme or more recently being explored as part of the announcement on Small Sites Accelerator and with an active Homes England as partner.

Vacant brownfield land within 7 Core Cities



### The declining ratio of income to debt interest is limiting the ability of housing associations to invest in new stock

The ability of housing associations to service increased borrowing to support new house building has declined, driven by reduced operating margins and competing priorities to invest in existing stock.

7. Sector level operating margin (%) and social letting interest cover ratio, 2018 to 2023



### Asks of Government

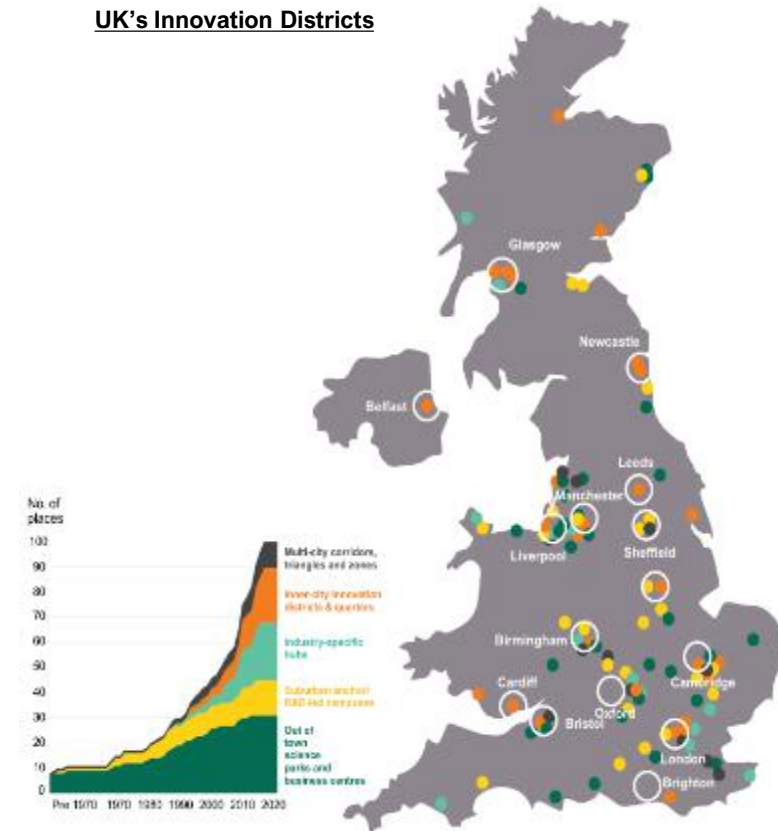
1. Deploy and expand revolving housing delivery funds across all the English Core Cities, in collaboration with Homes England, Housing Associations and MCAs.
2. Explore similar options for our cities in Scotland, Wales and Northern Ireland with DA Governments.

# 3. Innovation Districts



- All Core Cities have an innovation district/knowledge quarter as part of our economic and spatial plans that look to maximise the commercial potential of our universities and research assets (e.g. teaching hospitals).
- Investment requirements are twofold: i) investment in the buildings and equipment needed by new and growing businesses – laboratories, studios and co-working spaces that are within walking distance; ii) access to seed funding and venture capital to establish and grow innovative businesses. Critical to success is the management resource in and around innovation districts to facilitate spillovers and match innovators to investors.
- Both local authority and university financial capacity is limited given respective financial pressures.
- There are a panoply of funds, schemes and initiatives that have been used to grow innovation economies. The move towards devolution is helping in joining up levers but ringfencing of new funds (e.g. LIPF) place a limit on what can be achieved on the ground.
- There are also numerous public finance institutions with an interest in investing in innovation districts – from the early-stage role of Innovate UK, the business growth potential from British Business Bank, and the investment in the wider built environment infrastructure from NWF and the British Business Bank. Overcoming the coordination challenge is key.

UK's Innovation Districts



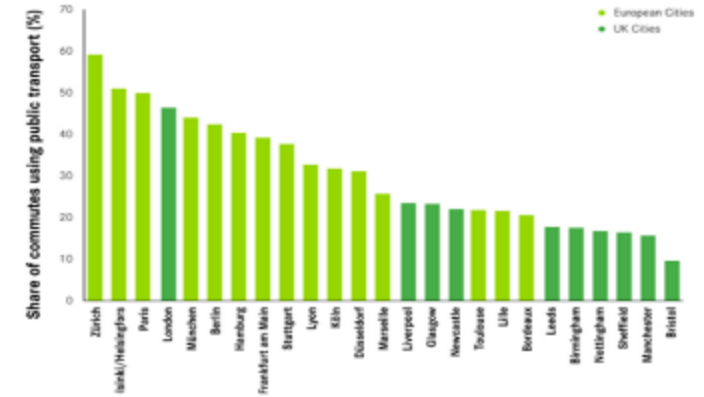
## Asks of Government

1. Bring together NWF, Homes England, British Business Bank, Innovate UK and Office for Investment with Core Cities and CAs/DAs for a coordinated discussion about how to use funding and financing levers.
2. Introduce flexibility into existing levers – e.g. investment zones – to deploy funding where it is needed

# 4. Urban transport



- Welcome recognition of the importance of inter- and intra-city connectivity for growth in the Spending Review. Challenge remains given how grant dependent transport schemes are and competing pressures across DA/CA geographies.
- Within our cities, transport improvements are integral to wider economic development and regeneration plans. Transport investments are often as much about opening new sites for development, improving commercial space in and around stations or reducing physical barriers between communities from outdated urban ring-roads and flyovers, as they are about marginal journey time savings.
- The commitment in the Green Book review to place-based business cases could provide a better way of capturing the dynamics and interconnected benefits of urban transport investments. We would want to be at the forefront of adopting this new approach.
- We would also be keen for discussions on how we can draw more investment into transport in our cities, recognising how many cities in other countries are able to fund public transport networks through borrowing against fares and Tax Increment Financing. Alongside our Mayors/National Governments, we want to explore how we can capture value from transport and use this to finance investment in infrastructure.



Source: Census 2011, Eurostat Transport Cities and Greater Cities (2016 data)

### Extract from Green Book Review 2025 (HMT)

No.	Finding	Action
1	<b>Insufficient emphasis on place-based objectives</b>	HM Treasury will work with relevant departments, including MHCLG and the Department for Transport (DfT) as well as local and regional government, to introduce place-based business cases. These will bring together the different projects that are needed to achieve the objectives of a particular place. Place-based business cases will make sure that the government properly assesses the complementarities between different projects, such as housing and transport.
2	<b>Ineffectiveness at assessing transformational change</b>	HM Treasury will improve the Green Book guidance on appraising transformational change. HM Treasury will commission an independent review of the Green Book discount rate to make sure that the government is taking a fair view of the long-term benefits that arise from transformational investments.

### Asks of Government

1. Commit to early adoption of place-based business cases as advocated in the review of the Green Book for regeneration and economic development plans in the Core Cities.
2. Explore innovative financing models – including land value capture – to fund transport improvements.

# 5. Net Zero Infrastructure



- As part of 3Ci, Core Cities and London Councils identified a need for c.£200bn investment to reach Net Zero for our cities. This will only be achieved through leveraging private sector finance.
- Through the 3Ci work we identified a number of challenges, including the need for aggregation and scale across neighbourhoods and cities of lots of individual projects, how to capture the stream of benefits from the investments that can be used to secure the investment, and the requirements for capacity and specialist capability to develop the pipeline to investment grade standard.
- We have also developed various financing models for different types of technology and engineering solution in our cities – whether that is district heating networks, installation of solar on roofs and car parks, electric vehicle charging rollout or neighbourhood level retrofit programmes. We have done this work in collaboration with institutional investors and are looking to learn from the demonstrators and replicate and scale the approach.
- The continued engagement of Government, in particular the NWF and Great British Energy, on how they can partner in these schemes is key. Alongside the need to integrate these investment pipelines into wider investment plans across the other asset classes discussed in this paper.

## Estimates of investment need for Core Cities and London for transition to net zero (£bn)

Version	Commercial Building Decarbonisation	Domestic Building Decarbonisation	Renewable Electricity Generation	Transport	Waste
Upper bound	97	136	26	70	4
Average	41	96	17	48	3
Lower bound	19	53	9	25	2

## Heat networks in Core Cities



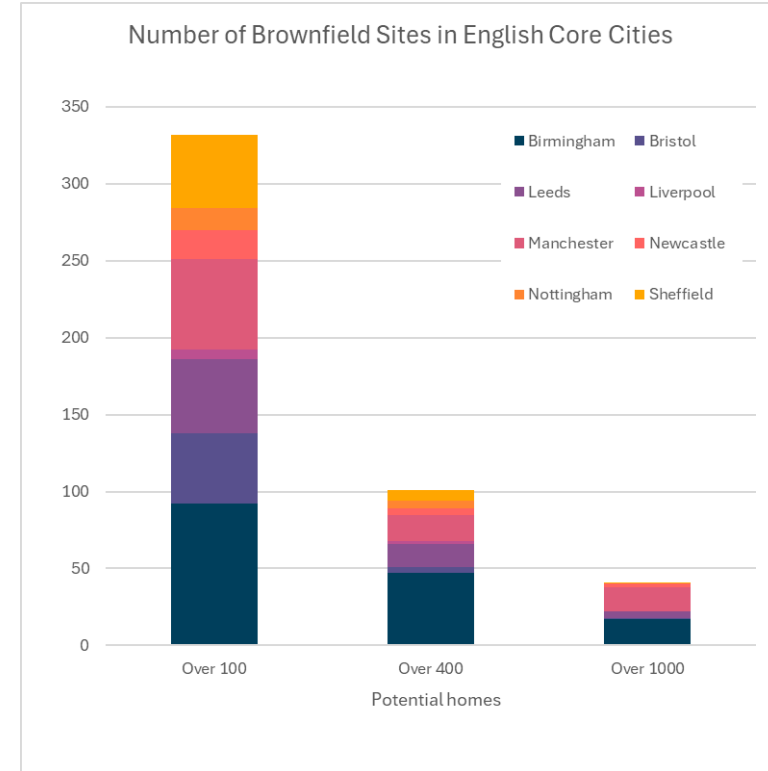
### **Asks of Government**

1. Engagement with Departments and Agencies to learn the lessons from the 3Ci work on different investment models for net zero.
2. Access to specialist capability to help improve the quality of the investment proposals in our pipelines.

# 6. Major regeneration



- As recognised by the New Towns Taskforce, the Core Cities offer the chance to deliver significant housing growth as part of mixed-use urban regeneration schemes. Two Core Cities were selected in the 12 sites – Manchester and Leeds – and one adjacent to Bristol.
- But for all Core Cities, including in Glasgow, Edinburgh, Cardiff and Belfast, there are brownfield sites that are ripe for development, delivering housing growth and realising the economic benefits of densification. They will be central in each cities economic and spatial plans in meeting their housing need.
- Delivering major regeneration schemes are complex. They are long-term and require multi-year funding certainty. Land ownership is often fragmented, and site remediation tends to be complicated and expensive. Coordination is also needed to deliver the necessary transport and utility infrastructure, and to ensure that local public services are available to accommodate growing populations. This is a joint effort between city council and Mayoral/Devolved Authority.
- There are good arguments for a dedicated delivery vehicle, whether as a form of development corporation or special purpose vehicle. Designing the best model that balances accountability, capability, efficiency and financial/risk management is critical.



## Asks of Government

1. Strategic Homes England discussions on major regeneration sites in Core Cities, whether they have been designated as New Towns or not. Equivalent discussions in Scotland, Wales and Northern Ireland.
2. Exploring the potential role for different development corporation models.