

SEARCHING FOR REAL ESTATE INVESTMENT

INVESTING IN UK CORE CITIES



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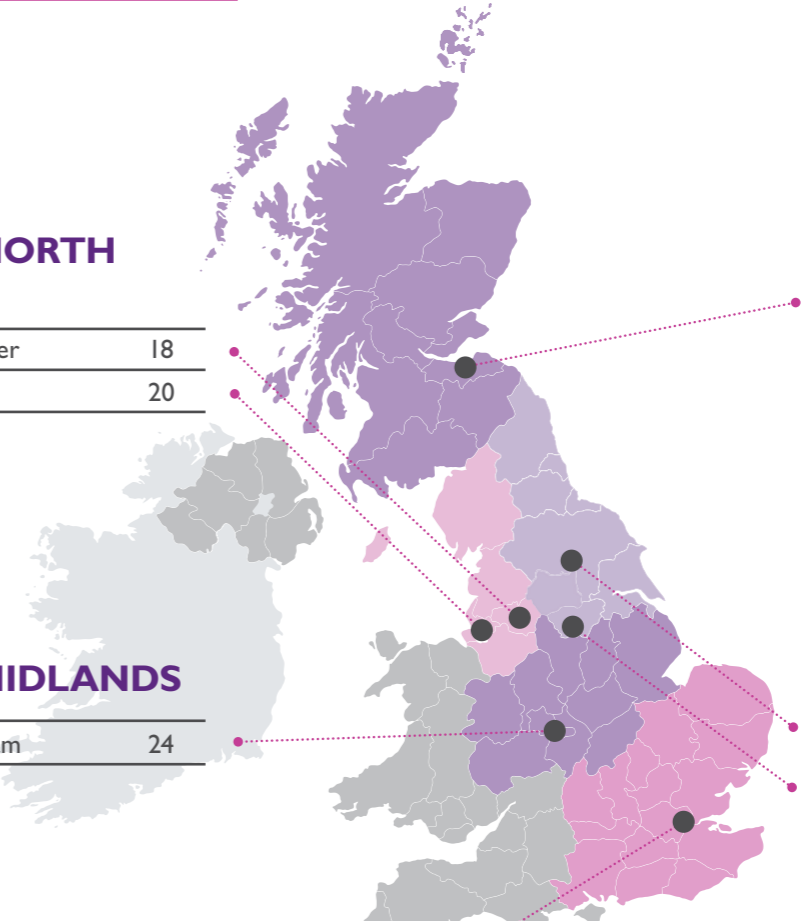
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INTRODUCTION



The UK is the one of the world's deepest and most liquid pools of investable real estate and has long been regarded a safe investment environment by investors. Mirroring the improvement in the UK economy as a whole, the pace of the UK's commercial real estate (CRE) market picked up significantly throughout 2013 and exceeded many of the forecasts that were made at the start of the year.

THE INVESTMENT LANDSCAPE IN THE UK

The UK's CRE market is vast, valued at £569bn in the British Property Federation's Property Data Report 2013. Retail and office sectors comprise approximately a third of the market each (valued at £207bn and £157bn respectively) with warehousing, factories, hotels and other commercial property accounting for the remaining £205bn.¹

The UK real estate market was heavily impacted by the financial downturn. Only London, seen by investors as a safe-haven investment destination, was relatively unaffected, with a negligible difference in West End prime yields between mid-2007 and 2013. The past year has seen a change in both activity and confidence. Throughout 2013 improvement in the UK economy has gathered pace and is expected to continue on this upward trajectory through 2014.

In line with the UK's wider economic growth, investment in UK real estate has increased, driven in part by renewed investor confidence. The number of transactions in October 2013 was 8.5% higher than October 2012, with a 1.4% rise between September 2013 and October 2013.² The occupier market has also seen increased activity. Occupiers who may have postponed decisions during 2011-12 have been more active in 2013 accounting for the increase in take up this year, particularly in the office sector.

Traditionally the largest owners of commercial investment property in the UK have been UK institutional investors. However, overseas investors play an increasingly significant role and now match UK institutions in their share, each accounting for 22% of direct ownership in 2012.³ This mirrors the trend in the UK equity market and in the near future it is expected that overseas investors will become the largest category of owner.

THE UK'S CORE CITIES

London has long been the preferred CRE investment destination in the UK; it is a global city that attracts investors from across the world. However, it is not the best option everyone: such is the demand for high value single assets in the capital that a

dearth of quality investments at lower price points has emerged. A "ripple effect" can be seen through H2 2013, with investors who have previously focussed solely on the capital now identifying opportunities in other UK cities and regions.

The UK has a number of 'core cities', stable and sizable investment environments that offer a variety of single assets and portfolios at a range of prices with some attractive yields. UK institutional investors have always opted to invest in these cities. More recently, overseas ownership in these cities has steadily increased as investors have identified opportunities across a range of asset classes. These opportunities, coupled with the UK's stable and transparent legal system, are helping to drive confidence from overseas investors.

This report provides an introduction to the range of opportunities available in UK core cities, together with representative market transactions that provide an indication of price ranges and expected yields. Strong sectors and industries are identified in each region and city, providing an overview of the diverse nature of the UK CRE landscape.

ABOUT DLA PIPER

DLA Piper is deeply embedded in the UK real estate industry and works with domestic and overseas investors on a wide range of real estate investments across the UK. Our dedicated teams advise on areas of law including construction and engineering, regulatory, tax and funds law. We manage every type and size of transaction, quickly mobilising teams of any size.

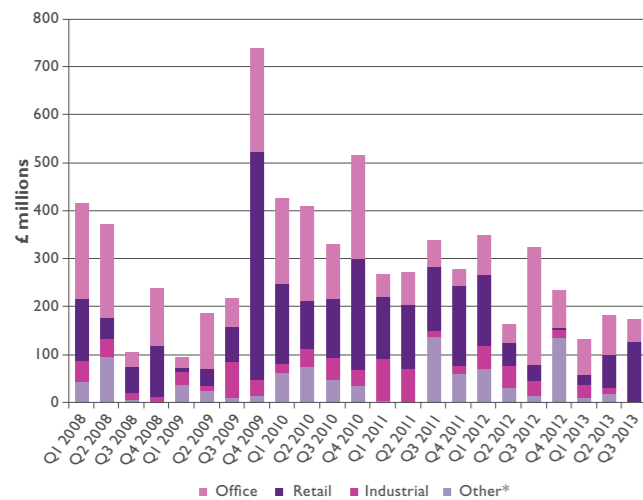
Investing is not always straightforward and a key component for success is a thorough understanding of the local market, not just from a country perspective, but also a regional or city perspective. As well as being a leading global law firm we pride ourselves on our local market knowledge. We have more than 150 Real Estate experts based in London, Birmingham, Edinburgh, Leeds, Liverpool, Manchester and Sheffield.

We hope that you enjoy reading our guide to investing in real estate in the UK, an established but still exciting market.

SCOTLAND

In addition to being a substantial part of the UK, Scotland is a separate country from England with its own legal system, meaning that various legal processes are different from the rest of the UK. We have set out some of the key differences in land ownership at the back of this report.

REAL ESTATE INVESTMENT IN SCOTLAND



Source: Knight Frank, Property Data
*Other is comprised of Leisure and Mixed-use property

Scotland has a population of 5.3 million⁴ and a regional economic output of £106.3bn⁵. The Treasury predicts growth in Scotland to be 0.7% during 2013 and 1.5% for 2014.⁶ According to Ernst & Young's European Investment Monitor on foreign investment projects, the recorded number of investment projects coming into Scotland from outside the UK significantly increased by 49% from their level in 2011 to reach 76 projects during the year, taking the number of projects to its highest annual level for 15 years.⁷

Scotland is hosting the Commonwealth Games and Ryder Cup in 2014 in addition to the Year of Homecoming, opening up numerous opportunities for the country and in particular the hospitality and leisure sector.

Historically, major sectors have included shipbuilding and other heavy industry and a large rural economy; today financial services, tourism and biotech are leading the way.

SECTOR FOCUS: ENERGY

Since the discovery of North Sea oil in the 1970s, Aberdeen has come to be seen as an important energy hub, gaining the nickname of "Energy Capital of Europe". It has the second highest concentration of offshore energy expertise after Houston, Texas in the US and is home to multinational contractors and operators as well as many Scottish supply and service companies.⁸ Recently there has been an increase in offshore oil production and this is expected to grow to around 2m barrels of oil a day by 2017 from 1.5m in 2013.⁹

The city has attracted capital investment to maximise this oil and gas recovery from the UK continental shelf which in turn has led to increased economic activity, including demand for offices and other commercial property. The energy industry supports a thriving



business community with a strong professional and financial services sector; while tourism, food and drink, and life sciences are also well represented in and around the city. Aberdeen has a population of 217,120.¹⁰

MARKET ACTIVITY: KEY INVESTMENT DEALS IN 2013



Livingston Designer Outlet, Livingston
Value: £52m
Investor: LaSalle Investment Management



The Kingdom Centre, Glenrothes
Value: £34.3m/9.7% NIY
Investor: Mars Pension Fund



2-4 Waterloo Place, Edinburgh
Value: £46m/7.3% NIY
Investor: M&G Real Estate



78-90 Buchanan Street, Glasgow
Value: £17.42m/6.5% NIY
Investor: Lothbury Investment Management

Source: Knight Frank

DLA PIPER CASE STUDY

An international consortium led by Artisan Real Estate Investors acquired the Caltongate site in Edinburgh City Centre. Plans cover a total area of around 220,000 sq ft, centred around a £6.5m civic square with office space, 400 hotel bedrooms, 28 retail units and 145 residential units. DLA Piper acted on behalf of Artisan Real Estate Investors in relation to the acquisition, managing a range of complex legal issues and interests of parties.

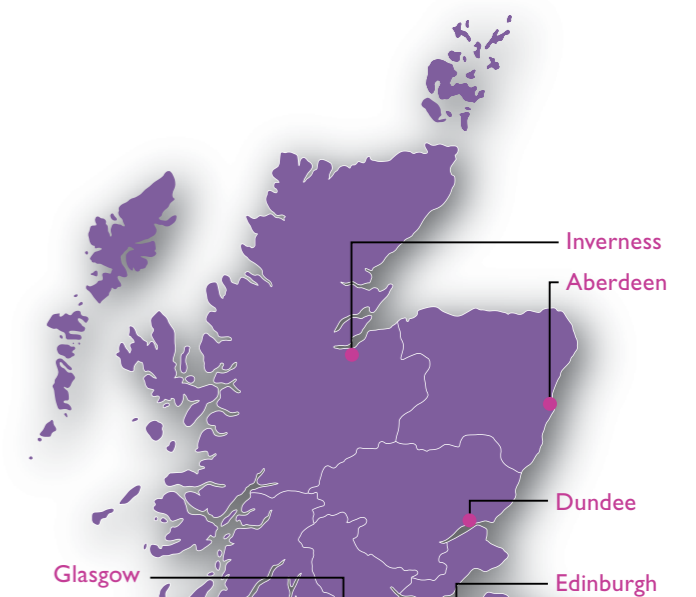
CITY SNAPSHOT: GLASGOW

Glasgow is Scotland's largest city with a population of 1.151 million and is the UK's largest and most successful shopping location outside London's West End. The St Enoch Shopping Centre was acquired for c. £190m in October 2013 by Blackstone and Sovereign Land. The 850,000 sq ft centre is in the heart of Glasgow and benefits from a catchment of 2.2m people within a 45 minute drive.¹¹

Glasgow is hosting the Commonwealth Games in 2014: Glasgow City Council estimates that local businesses have already received around £180m in games-related contracts, contributing to the creation of an expected 1,000 new jobs in the city.

DLA PIPER IN SCOTLAND

DLA Piper works closely with national and international companies on their investments and developments in Scotland, including acting for Patron Capital Advisers LLP on its acquisition of the shares in Cala Homes, advising Tiger Developments on its joint venture with Interserve for the £200m development of 650,000 sq ft "The Haymarket" scheme, acting for Scottish Water on the sale of two of its sites for residential development at Fairmilehead, Alnwickhill, Edinburgh, advising Motel One on the construction of its first hotel in the UK, acting for Goodman on the development of



BP's North Sea headquarters and acting on behalf of Coif Fund in the acquisition of Pavilions 2 and 3 at Aspect 32, Aberdeen.

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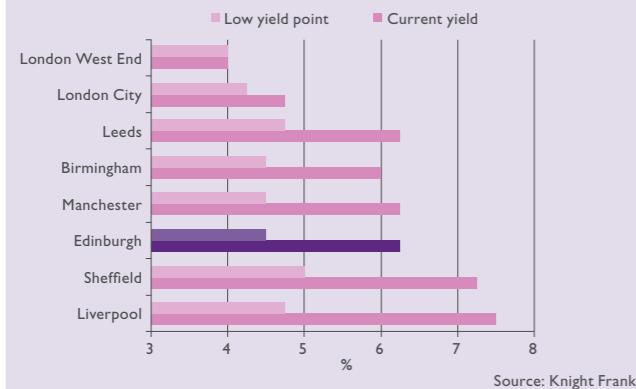
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EDINBURGH



Edinburgh has a population of just under 500,000, and the wider city region population is approximately 1.6 million.¹² It has worldwide influence in the fields of science, business, education and the arts and houses the headquarters of more FTSE 100 companies than any other UK city except London.

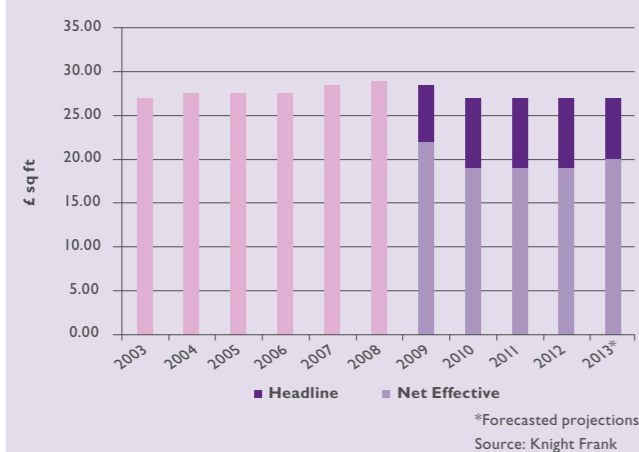
PRIME YIELD DIFFERENCE



ANNUAL TAKE-UP



ANNUAL PRIME RENTS



Edinburgh is Scotland's judicial and administrative centre, and is home to the world's foremost arts festival. The city centre is a UNESCO World Heritage Site and is home to vibrant general insurance, corporate finance, broking and professional services sectors. Edinburgh has extensive transport links to the rest of the UK, with journey times to London just over an hour by plane, and four hours by rail. The city's airport offers more than 130 routes within the UK, Europe and further afield. The city's connectivity is set to benefit from the opening of a new c£800m tram line from the airport into the city centre in 2014.

Around 70,000 students are enrolled at Edinburgh's internationally recognised universities, and the City Region's workforce is one of the most highly qualified in the UK, with over 44% of the population holding a degree-level or professional qualification.¹³



KEY BUSINESS SECTORS

Edinburgh's **financial sector** is the fourth largest in Europe in terms of equity assets.¹⁴ Banking operations that are have UK or Scottish headquarters in Edinburgh include The Royal Bank of Scotland Group, Scottish Widows Bank, Standard Life Bank, Tesco Bank, Clydesdale Bank, HSBC and the Co-operative Bank. Edinburgh was recently chosen to house the headquarters of the UK Green Investment Bank.

Edinburgh is one of Europe's top locations for the **science and technology sector**. The Edinburgh Science Triangle is a collaboration of seven science and technology parks with research institutes and hospitals. These include the Roslin Institute, world-famous for the creation of Dolly the sheep, and the Edinburgh BioQuarter, a landmark life sciences development that combines a state of the art teaching hospital with bespoke biomedical research and development facilities.

Edinburgh has a thriving **hotel, leisure and tourism sector**. Around 4 million visitors a year inject over £2bn a year into the economy.¹⁵ Hotel occupancy rates are the second highest in the UK and the city is home to the Edinburgh Festival, a world-renowned annual celebration of the arts.



"Edinburgh will remain a key destination for us as inward investors. Its unique attributes; being a European capital city, with its business and tourism strengths, well educated workforce and therefore strong commercial tenant base, will ensure that it continues to attract real estate investors who are attracted to its high returns."

Lukas Nakos, Artisan REI

MARKET ACTIVITY: INVESTMENT IN EDINBURGH

The Haymarket is a £200m joint venture development at the west end of Edinburgh city centre involving the current landowner Tiger Developments and Interserve, bringing together 70,000 office and retail space together with leisure and open public spaces.¹⁶

The Atria is an £85m office development at the heart of Edinburgh's prime business district, The Exchange. It is being delivered by City of Edinburgh Council and comprises two buildings providing 200,000 sq ft of Grade A offices. At the time of its launch, it was the largest speculative office development over 100,000 sq ft outside London in 2013.¹⁷

The Caltongate site in Edinburgh's Old Town is one of the city centre's most significant development opportunities. The site will contain a 400 bed hotel, Grade A office space, 28 new retail units and nearly 200 new homes. The site is owned by a consortium led by Artisan Real Estate Investors.¹⁸

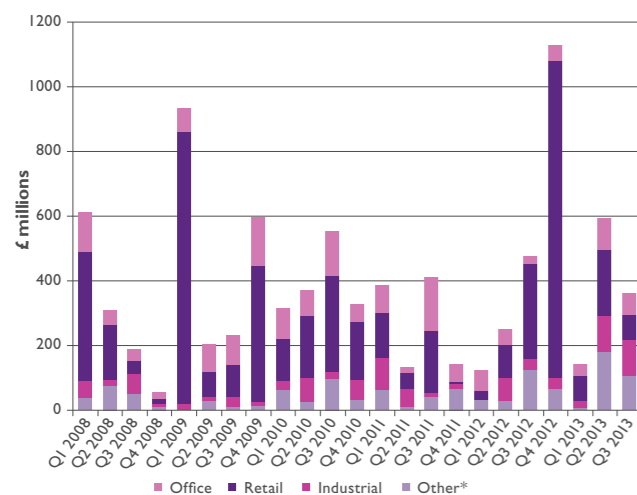
Waverleygate, the former GPO building at the east end of Edinburgh's Princes Street which now forms Grade A offices, was acquired in early 2013 by PRUPIM from Highcross. PRUPIM paid £46m, reflecting a net yield of 7.3%.¹⁹



YORKSHIRE & THE NORTH EAST

Yorkshire is the largest county in the UK, recognised as both a geographical territory and a cultural region. It has a mixed economy, combining traditional industries such as heavy industrial and light manufacturing with financial services, retail and the public sector. Further north is North East region. Cities in the North East include Durham, Newcastle upon Tyne and Teesside, which are UK centres for the chemical industry, particularly pharmaceuticals. The combined regional economic output is £135.2bn.²⁰

REAL ESTATE INVESTMENT IN YORKSHIRE AND THE NORTH EAST



Source: Knight Frank, Property Data
* Other is comprised of Leisure and Mixed-use property

Centrally located in the UK, Yorkshire is home to a number of the UK's major companies, operating across a broad spectrum of sectors. These include manufacturing, financial services, healthcare and medical technologies, creative and digital, energy and mining. It also boasts some of the country's best known businesses, from the supermarket chains Asda and Morrisons, to energy giant Drax and food giants such as Arla Foods and McCain Foods.

The contribution of the 12 higher education institutions in Yorkshire and the Humber can be measured in many ways – economic development and growth, income generation, job creation, world leading research, innovation and knowledge exchange, business start-ups, and record numbers of graduates from the UK and overseas.

SECTOR FOCUS: FINANCIAL AND PROFESSIONAL SERVICES

Yorkshire and the Humber has a strong financial and professional services sector that is centered in the Leeds City Region, with more than 250,000 people working in the financial services sector here. The sector currently generates £13bn per annum, and is projected to grow by 51% between now and 2022.²² The Bank of England has a major presence in Leeds, with a cash centre that is responsible for bulk note handling in the North of England.

There are 30 national and international banks with northern or regional headquarters located in Leeds and it is also a key centre for equity, venture and risk finance. There are also more than 200 accountancy practices and 150 law firms located in the Leeds city region, with audit and corporate finance two particular strengths in the region. There is also the largest concentration of call centres in the UK, with companies such as Direct Line, HSBC, First

Direct and Barclays operating processing and customer contact centres in the Leeds City Region.



MARKET ACTIVITY: KEY INVESTMENT DEALS IN 2013



The Light (Leeds)
Value: £91.8m/7.2% NIY
Investor: Legal & General (JV, UK)



2/3 Brookfields Park (Rotherham)
Value: £86.6m/5.5% NIY
Investor: Legal & General (UK)



Hillstreet Shopping Centre (Middlesbrough)
Value: £49.4m/9.6% NIY
Investor: PIMCO (JV, Luxembourg)



The Green student housing (Bradford)
Value: £42m/7% NIY
Investor: Arzan Wealth (Dubai)

Source: Knight Frank

DLA PIPER CASE STUDY

DLA Piper acted for UK Asset Resolution, the Government owned financial institution, on the sale and leaseback of two Grade A office buildings in one of the North East's leading Enterprise Zone business parks.

The purchaser was a US based REIT who achieved an initial yield of c.8%, rising through the term based on five yearly RPI rent reviews with a "collar and cap", compounded annually.

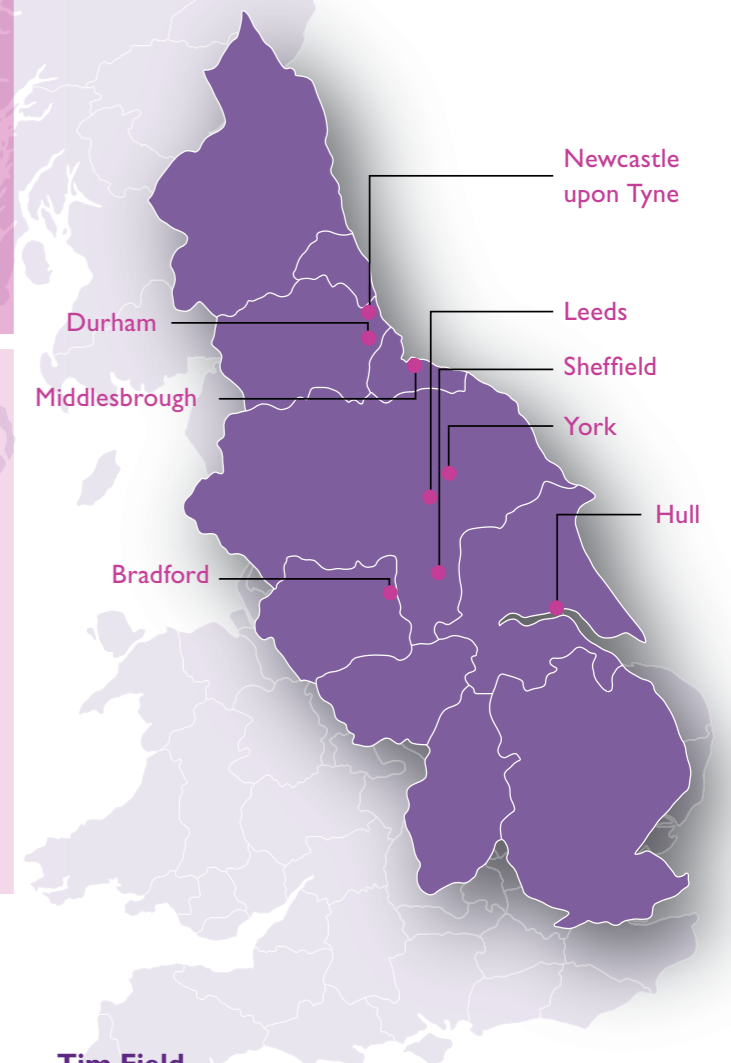
CITY SNAPSHOT: HULL

Hull, traditionally a shipping centre, today embraces the opportunities brought by new and expanding sectors. It remains a busy port, handling 10 million tonnes of cargo per year²¹ and has capitalised on infrastructure opportunities, reducing bridge tolls and creating new road links. It has taken a share of the UK's tourism and leisure industry, operating roll-on roll-off ferry services to continental Europe that handle more than a million passengers per year.

Other industry in the city is focused on the chemical and health care sectors, with several well-known British companies, including BP, Smith & Nephew, Seven Seas, and Reckitt Benckiser having facilities in Hull.

DLA PIPER IN YORKSHIRE & THE NORTH EAST

DLA Piper works closely with numerous UK and international businesses and public sector bodies, both in Yorkshire and the North East and across the UK. Our Yorkshire offices have an especially strong retail, manufacturing, developer, public sector and corporate occupier client base. Recent transactions include the UK rollout of a new format store for American Greetings, the acquisition of debt portfolios and refinancing's for clients such as Oaktree Capital Management, Knightsbridge Student Housing and Arcadia Group, portfolio acquisitions and disposals and large scale developments.



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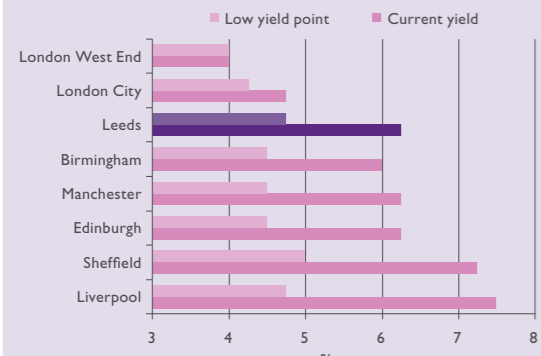
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LEEDS



The Leeds City Region is the largest City Region economy in the UK outside London, with an annual economic output of £55bn, 100,000 businesses and a workforce of 1.4 million.²³ It is one of the UK's most varied economies, with financial and professional services, education and health and manufacturing just some of the sectors that contribute to its diversity.

PRIME YIELD DIFFERENCE



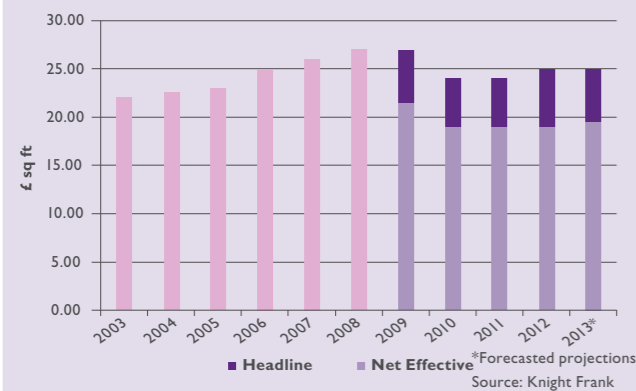
Source: Knight Frank

ANNUAL TAKE-UP



*Forecasted projections
Source: Knight Frank

ANNUAL PRIME RENTS



*Forecasted projections
Source: Knight Frank

Some £4.4bn has been invested in commercial property development in Leeds over the last decade, with a further £5.9bn of projects in the pipeline.²⁴ The city is well-connected nationally and internationally, with journey times to London at just over two hours by rail, and Leeds Bradford International Airport connecting it to numerous destinations across Europe.

Over 180,000 people are employed in knowledge-intensive occupations, making Leeds the second largest centre for knowledge-based industries outside London,²⁵ and it also has one of the UK's most highly self-contained workforces: 93% of people who live in the Leeds City Region also live there.

The concentration of financial and professional services firms contributes to high office take-up: 539,000 were leased in Q1-Q3 2013, well over the five-year average of 386,000 and likely to exceed the 2004 record of 600,000 by year end.²⁶



KEY BUSINESS SECTORS

Leeds is one of the largest **financial and legal centres** in the UK. It hosts the only subsidiary of the Bank of England in the UK and is home to over 30 national and international banks and 150 law firms²⁷ with many regional headquarters based in the city. Leeds is also a hub for equity, venture capital and risk finance.

Manufacturing is a core sector – it is the third largest in the UK with 50%²⁸ of the UK's manufacturing base within a two-hour drive from Leeds. Specialist sub-sectors include engineering, publishing and printing, food and beverage, and medical technology.

There is a large **public sector** hub in Leeds with some 24%²⁹ of the workforce employed by government departments including the Department for Work and Pensions, HMRC, the British Library and the Department of Health.

Leeds has an extensive **retail district** and is the principal shopping centre for the whole of the Yorkshire and the Humber region with 3.2 million people in the catchment area. Five miles of shopping streets contain 2.3m sq ft retail space,³⁰ set to further increase with the new Victoria Gate scheme.

“As the largest financial centre outside of London, and home to key financial and professional services firms, the Leeds City Region is a thriving business centre. With excellent connectivity around the UK, eight Higher Education Institutions, and vibrant retail and leisure sectors, the Leeds City Region offers a wealth of investment opportunities”.

Roger Marsh, Chairman, Leeds City Region Enterprise Partnership



MARKET ACTIVITY: REAL ESTATE INVESTMENT IN LEEDS

The 2013 letting of 76,413 sq ft at **Broad Gate** to Yorkshire Building Society by Highcross was the largest single office transaction in central Leeds for almost 10 years.³¹

Trinity Leeds, owned by Land Securities, opened in March 2013. The scheme was the largest retail development in Europe of the year and has 817,000 sq ft of total space, 678,000 of which is retail. Annualised net rent is £14.9m³²

The Mint is a large office development built to the highest BREEAM 'excellent' rated standard, and this year signed Jet2 airline as a tenant, taking 71,000 sq ft of office space for its new headquarters.³³

KPMG has agreed a pre-let for a 61,000 sq ft office development in **Sovereign Square**, the first on one of three office buildings proposed around a new area of green public space. The development was forward funded by a deal between Muse Developments and the British Steel Pension Fund.³⁴

Hammerson's £130m **Victoria Gate** scheme is in a premium retailing quarter anchored by luxury retailer Harvey Nichols and the new development will include a flagship John Lewis store, an arcade with retail units, restaurants and cafes, leisure space and a multi-storey car park for up to 800 cars.³⁵

Roydhouse Properties has unveiled plans for **Central Square**, a 195,000 sq ft office and leisure project that will provide much needed Grade A office space in Leeds' CBD. Completion is expected by 2016.³⁶

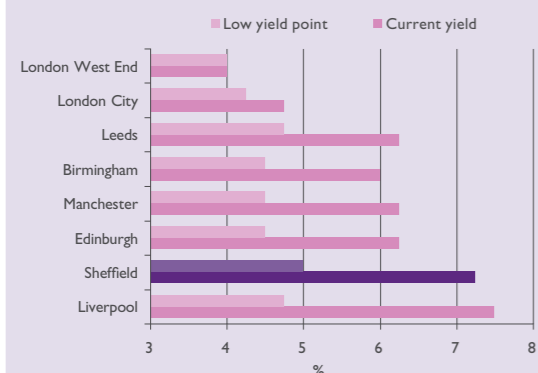


SHEFFIELD



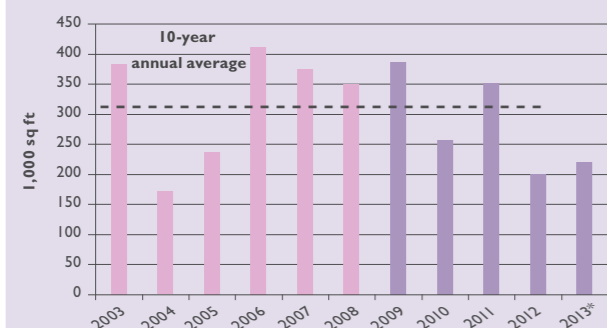
The Sheffield City Region has over 1.8 million inhabitants and approximately 55,000 businesses.³⁷ Annual economic output of more than £24.7bn, predicted to reach £29.7bn by 2022.³⁸ Facing a legacy of declining heavy industry, the city has undergone an economic transformation in recent years.

PRIME YIELD DIFFERENCE



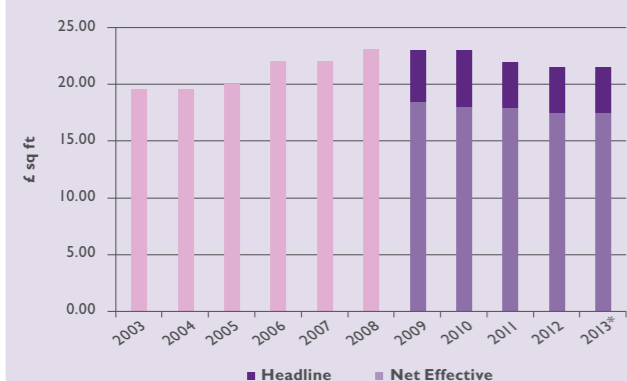
Source: Knight Frank

ANNUAL TAKE-UP



*Forecasted projections
Source: Knight Frank

ANNUAL PRIME RENTS



*Forecasted projections
Source: Knight Frank

“Made in Sheffield” is a widely recognised hallmark of quality and design, originally applied to steel products and in recent years used for business sectors such as advanced engineering and industrial manufacturing. Traditionally, Sheffield was the heart of UK steel production and the coal mining industry. Since the decline of these in the 1970s and 1980s Sheffield’s economy has shifted focus and the city has seen substantial investment and transformation, focussing today on a variety of business sectors that include advanced manufacturing, healthcare technologies, creative and digital industries and a developing low carbon sector.

The economic transformation over the past 20 years has seen a period of above national average employment growth, with jobs in the city increasing by 22% between 1995 and 2008, and the creation of new jobs in strongly performing business sectors, such as the creation of 16,000 new jobs in business services.³⁹ Economic output has also increased and the skill level of employees has risen in line with the need for technically skilled labour in key sectors. These factors have all contributed to significant real estate development in the city, with asset classes including residential, office, retail and student accommodation seeing growth over the past 10 years.



KEY BUSINESS SECTORS

Sheffield is becoming a leading **research** centre, with the Advanced Manufacturing Research Centre (AMRC) and Nuclear AMRC (NAMRC) developing parts for Boeing’s 787 Dreamliner and for Formula One racing. The Sheffield-Siemens Wind Power Research Centre, established by the University of Sheffield and Siemens is developing wind turbine generators.

There is a substantial **retail** sector: Meadowhall shopping centre has 280 retail units on its 1.5 million sq ft site.⁴⁰ New Retail Quarter is a development currently in early planning phases that will be unveiled in spring 2014, with total retail space possibly amounting to 700,000 sq ft.

Benefitting from developments such as iPort (see right) and a higher than average availability rate of 9.8% Sheffield is one of the UK’s **logistics** hubs. Industrial and logistics space in the city has also seen the most significant increase in prime rents in the region, growing 14.3% between 2011 and 2012.⁴¹ The sector is further supported in the region by the University of Sheffield’s Logistics and Supply Chain Management Research Centre.



“With world-class products, services and skills on offer, there is a vast amount of opportunity ahead for Sheffield to tap into – we’re really seeing the city pull together as one cohesive entity to maximise these opportunities and mark Sheffield out as a forward thinking, vibrant place to do business.”

Philip Hollister, Director, J F Finnegan Limited

MARKET ACTIVITY: INVESTMENT IN SHEFFIELD

Sheffield’s **Heart of the City** regeneration project is nearing completion, with planning approval given to **St Paul’s Office 3**, a 78,000 sq ft office block that will be developed by CTP Limited. There is increasing demand for Grade A office space in the CBD, but Sheffield’s supply is currently very limited.⁴²

iPort, a £400m inland port has started construction and will be the UK’s largest port and logistics complex. The development is in Doncaster, part of the Sheffield City Region and will include 5.75 million sq ft of rail-linked warehousing with a rail freight terminal for national and international consumer freight. The project is being developed by Verdion and is backed by the Healthcare of Ontario Pension Plan.⁴³

Norges Bank Investment Management (NBIM) announced that the Norwegian Government Pension Fund Global acquired 50% of **Meadowhall** shopping centre for £348m and entered into a joint venture agreement with British Land, which holds the remaining 50%. British Land manages the centre on behalf of the partnership.⁴⁴

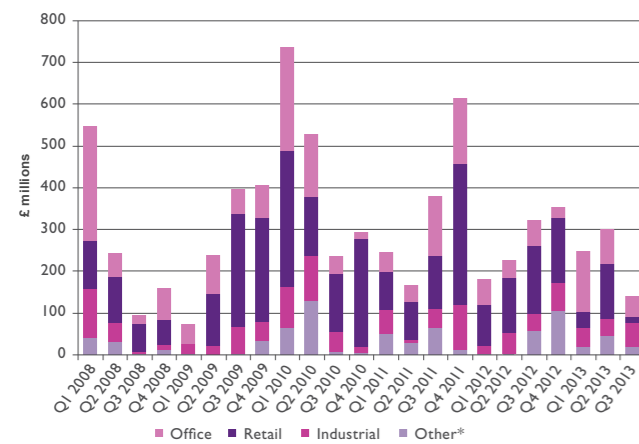
Following the 2010 acquisition of **the Moor** Estate from RREEF, Scottish Widows Investment Partnership’s Property Trust has been redeveloping area. The new 79,000 sq ft Market opened at the end of 2013 and earlier in the year Scottish Widows announced three more retail schemes in on the Moor estate.⁴⁵



THE NORTH WEST

The North West covers the counties of Cheshire, Cumbria, Greater Manchester, Lancashire and Merseyside. The two largest cities in the region are Manchester and Liverpool, important business hubs that have seen significant investment over recent years. Once renowned for their industrial heritage, both cities have now developed strong and resilient commercial, service and retail sectors.

REAL ESTATE INVESTMENT IN THE NORTH WEST



Source: Knight Frank, Property Data Q3 2013 data is incomplete
 * Other is comprised of Leisure and Mixed-use property
 ** Please note, Q1 2011 saw the sale of Trafford Shopping Centre in Manchester for £1.6bn. The deal has been removed because of skewing of data. It was the largest single property acquisition in UK history.

With a population of over 7 million, the North West is the third most populated region of the UK and has a regional economic output of £130.6bn.⁴⁶ In August 2013 Lambert Smith Hampton reported that the total value of commercial property investment transactions for the North West was at its highest level for two years, with a 38% increase in investment from Q1 to over £292m in Q2 2013.⁴⁷

Historically the North West has been at the heart of UK industry and this can be seen today with strong manufacturing, industrial and logistics centres still based in the region. The North West makes the largest contribution to UK manufacturing than any other region⁴⁸ and is also the second largest producer of electricity from renewable sources in the UK. It generating 3,871.5 GWh in 2012, 16% of England's total production.⁴⁹

SECTOR FOCUS: MANUFACTURING

Manufacturing is a major generator of wealth for the North West. The region has just over 323,000 manufacturing employees, representing 14% of total employment in the sector nationally, the highest figure of any UK region. Manufacturing generated economic output of approximately £51,000 per employee per annum in 2011, significantly higher than the national average of £35,000 per employee across all sectors. Key areas for manufacturing include:

- **Pharmaceuticals:** this sector employs almost 2,500 workers in the region in the manufacture of basic pharmaceutical products, making up almost 40% of national share.
- **Nuclear processing:** Cumbria and Lancashire account for almost 99% of all nuclear fuel processing employment in Great Britain. Key sites are Sellafield in Cumbria and Springfields near Preston in Lancashire.



- **Aerospace:** BAE Systems and Rolls-Royce have major operations in the North West, employing more than 20% of the national workforce in this sector.
- **Chemical manufacturing:** The North West is the largest regional chemicals exporter, achieving exports in excess of £13bn in 2011.⁵⁰

MARKET ACTIVITY: KEY INVESTMENT DEALS IN 2013



One Angel Square (Manchester)
 Value: £142m
 Investors: Grundbesitz Europa; Gingko Tree



Coliseum Shopping Park (Merseyside)
 Value: £81m/5.2% NIY
 Investor: The Crown Estate (UK)



100 Barbirolli Square (Manchester)
 Value: £41m/9% NIY
 Investors: Oaktree Capital, Moorfield Capital



Omega North (Warrington)
 Value: £52.8m/5.6% NIY
 Investor: Standard Life (UK)

The year till September has seen a total of five overseas investor deals in the North West – three of which were joint ventures. Total overseas investment was £227.2m with an average weighted yield of 8.97%. Total overall property investment in the North West was £705.64m, spread across 84 deals.

Source: Knight Frank

DLA PIPER CASE STUDY

Relovast B.V., a Dutch REIT, sold Towers Business Park, Didsbury to an overseas investor for total consideration of £47m. Towers Business Park is a multi-let office park with occupiers including British Airways, John Lewis, Vodafone and Cisco Systems. DLA Piper represented Relovast B.V. on this deal.

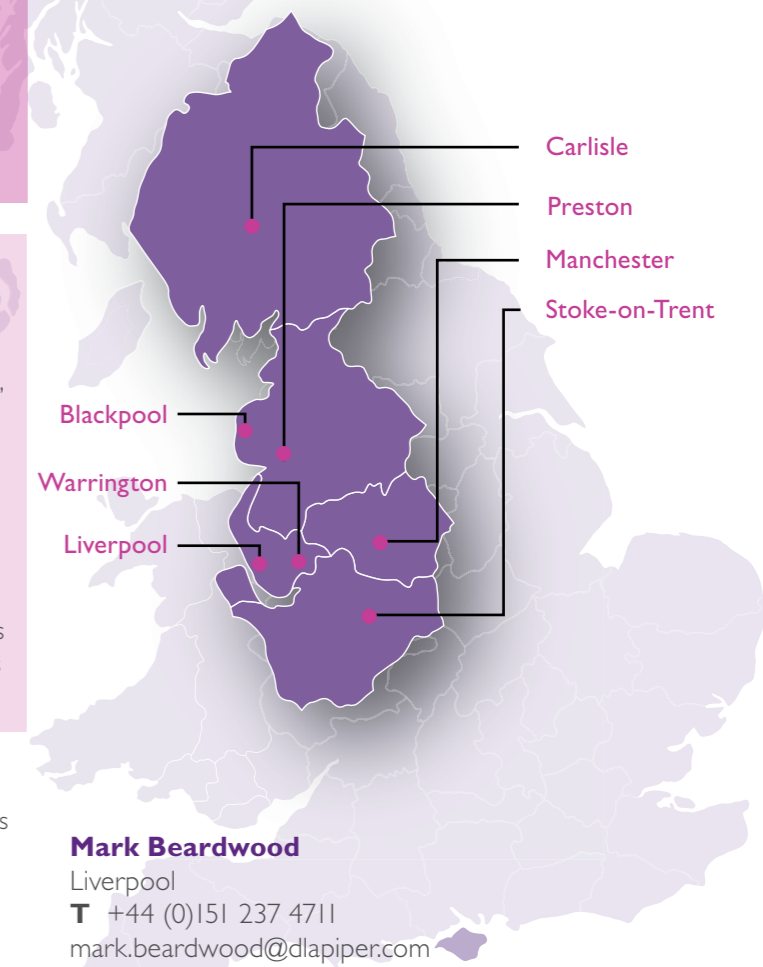
CITY SNAPSHOT: WARRINGTON

Despite its proximity to significant retail areas in both Liverpool and Manchester, Warrington has a robust retail sector of its own; Golden Square is a 675,000 sq ft, 140 retail unit shopping centre in the town centre with a catchment area of 1.8 million people.⁵¹

Omega is a £1bn, 575-acre mixed-use development at Warrington with a substantial logistics component. Planning permission was recently granted for a 700,000 sq ft logistics centre for the Travis Perkins Group, which will join existing tenants Brakes and Hermes at the site.⁵² Brakes' pre-let was forward sold at the end of 2012 at a 6% yield.⁵³

DLA PIPER IN THE NORTH WEST

DLA Piper in the North West works closely with numerous UK and international businesses and public sector bodies, both in the North West region and also UK wide. Our North West offices have an especially strong pension fund and investment management client base. Recent transactions include acting for Dutch REIT Wereldhave on the sale of a portfolio comprising two shopping centres and London offices for a consideration of £243m. DLA Piper acted for English Partnerships on its landmark Kings Waterfront Arena and Conference Centre in Liverpool and is currently advising Liverpool Football Club in relation to its stadium expansion proposals.



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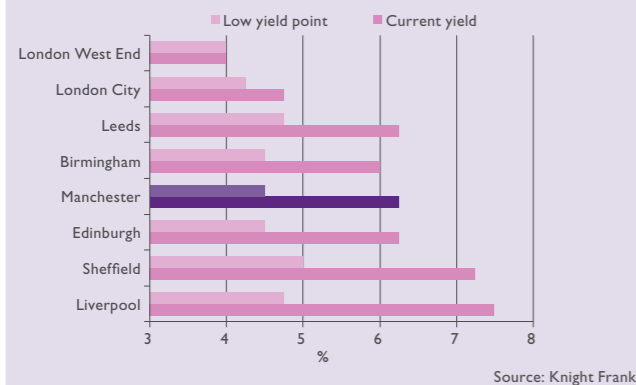
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MANCHESTER



With a population of 2.7 million Manchester is a dynamic, vibrant and fast-growing city with a proud tradition of entrepreneurship, creativity and innovation. The metropolitan area of Greater Manchester generates £47bn economic output annually. There are 1.14 million people working in Greater Manchester in 93,000 businesses.⁵⁴

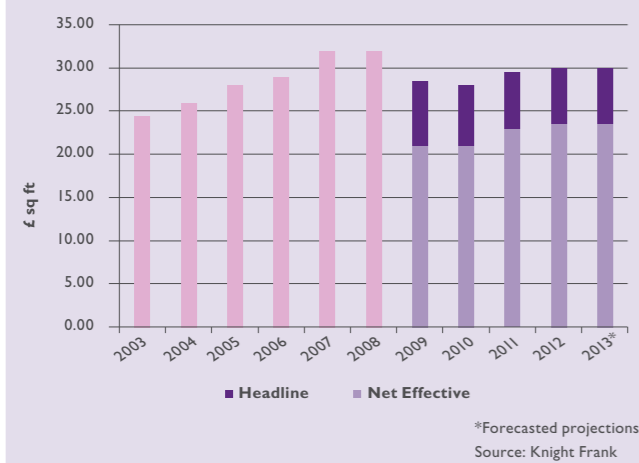
PRIME YIELD DIFFERENCE



ANNUAL TAKE-UP



ANNUAL PRIME RENTS



Several factors help sustain the economic growth of Greater Manchester, including five universities, thriving retail and leisure sectors in the city centre, shopping centres such as the 2,000,000+ sq ft Trafford Centre and good national and international transport links – Manchester International Airport flies to 225 destinations and handles 22 million passengers a year.⁵⁵ The city has experienced substantial economic development in recent years, driven in part by a large-scale and rapid expansion of the service sector, particularly financial and professional services. The Co-operative Group, the world's largest consumer owned business, is based here, and banks including RBS and BNY Mellon also have a large presence.

Fast national transport links and a modern international airport are two factors that have attracted some global companies to base their global, regional and national headquarters in Manchester. Companies based in the Manchester City Region include Umbro, PZ Cussons, Brother, Etihad, Aegis, Kelloggs, Adidas and Siemens.



KEY BUSINESS SECTORS

Manchester has invested £3.5bn building a global hub for **creative industries** and has the largest cultural and creative cluster outside of London, employing 265,000 people and generating £5.4bn economic output annually.⁵⁶ Google chose Manchester as its first regional office. **MediaCityUK** in Salford Quays is the largest purpose-built media location in Europe, home to a number of BBC business divisions and ITV Granada. The University of Salford has also relocated its media-related teaching and research faculty here.

With much of the UK accessible within a four-hour drive and the World Freight Terminal situated at Manchester airport, **logistics** is a key business sector. Major logistics firms such as Kuehne & Nagel and Wincanton are based here and the area is a major distribution hub for global companies including L'Oréal, Office Depot and Procter & Gamble. The World Freight Terminal handles more than 170,000 tonnes of cargo each year and provides dedicated freight services to North American and Asian markets.

Manchester is the original industrial city and **manufacturing** still employs nearly one-in-ten residents in Greater Manchester. Around 50,000 of those work in advanced manufacturing, which generates £2.4bn of economic output every year.⁵⁷ Key companies based in the area include NXP, Siemens and Holroyd.

There are over one million international visitors to Manchester every year and **tourism** is valued at £6.6bn per annum.⁵⁸ The conference and exhibition trade contributes to this figure, with more than 5 million delegates visiting annually for conferences and business events.



MARKET ACTIVITY: INVESTMENT IN MANCHESTER

Manchester Airports Group (MAG) announced in October 2013 a joint venture agreement with Beijing Construction Engineering Group (BCEG), Carillion PLC and the Greater Manchester Pension Fund (GMPF) in relation to the development of the £800m Airport City project at **Manchester Airport**.⁵⁹

One Angel Square is a landmark, highly sustainable office building that completed in February 2013 and is the headquarters of the Co-operative Group. The building forms the centrepiece of the new 4 million sq ft NOMA development in the northern quarter of Manchester city centre. The building was sold on leaseback terms for £142m to a JV between RREEF Real Estate and Gingko Tree Investment.⁶⁰

US-based Invesco Real Estate acquired **1 York Street** from Manchester-based developer Bruntwood for £42m. 1 York Street comprises 111,000 Grade A office space with a 6.5% yield.⁶¹

“Growing confidence in the national economy is mirrored by our own figures for Manchester; we have been involved in the creation of nearly 1,600 new jobs in the first half of the 2013-14 financial year.”

MIDAS, Manchester's inward investment agency

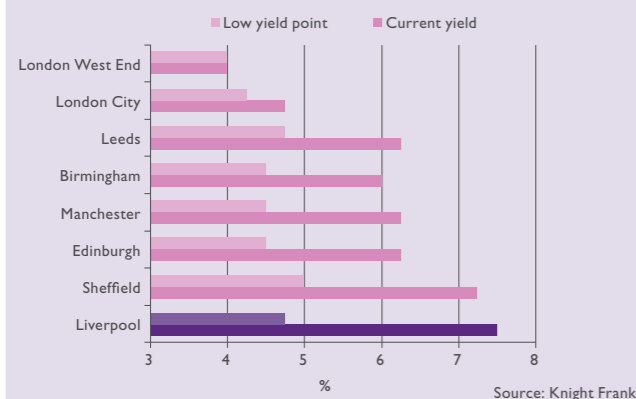


LIVERPOOL



The Liverpool City Region comprises the City of Liverpool and the surrounding local authority districts of Halton, Knowsley, Sefton, St Helens and Wirral. It has 1.6 million people and 47,500 businesses that contribute £22bn to the UK economy.⁶²

PRIME YIELD DIFFERENCE



Liverpool City Region has experienced strong growth over the past 10 years, and substantial investment by the private sector has transformed confidence and outlook. The economy has been relatively resilient throughout the economic downturn and an international festival for business that takes place in 2014 is evidence of further optimism and an appetite for economic growth.

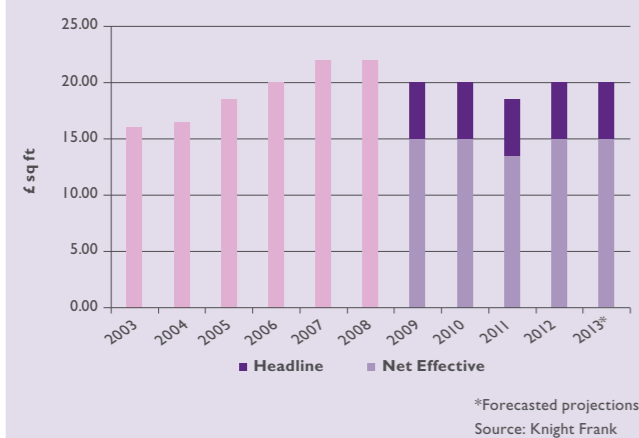
Liverpool has strong national and international connectivity with both Liverpool John Lennon Airport and Manchester Airport, used by passengers travelling to and from the Liverpool area. London is two hours away by train and the road network offers fast routes to nearby ports and other cities.

Visitors bring £3.4bn to the economy⁶³ and Liverpool has not only capitalised on its music heritage with tourism but is also expanding its conferencing capabilities with a new exhibition centre that opens in 2015.

ANNUAL TAKE-UP



ANNUAL PRIME RENTS



credit: Jill Jennings

KEY BUSINESS SECTORS

Life Sciences accounts for over 57,000 jobs and almost 10% of economic output. This dynamic community is home to over 100 medical companies delivering products and services worth in excess of £1.5bn per annum.⁶⁴

Liverpool has a long history and a wealth of experience in **financial services**. While banking is the most important subsector in terms of scale, asset and wealth management is a notable strength, with Liverpool being the most important English location outside London for this specialist activity. Pension and life assurance administration and management is also a significant employer.

The global transition to a **low carbon economy** presents an extraordinary economic opportunity that Liverpool is placing itself to capture. It is now the leading UK West Coast renewable engineering centre and an emerging hub for hydrogen energy.

Liverpool City Region's ports, airport, road, rail and **logistics** assets together comprise key freight capability for the UK and Ireland. A £1.8bn SUPERPORT scheme is investing further in these assets, including a new deep-water container facility and 6-lane Mersey crossing. The scheme will create 20,000 jobs.⁶⁵



credit: Craig Easton

“Over the last few years the Liverpool City Region has witnessed an astonishing regeneration and offers global businesses a wealth of investment opportunities. The brand of Liverpool will continue to bring in new international investors specially in the property development and infrastructure sectors.”

Mark Basnett, Executive Director Liverpool City Region Local Enterprise Partnership

MARKET ACTIVITY: REAL ESTATE INVESTMENT IN LIVERPOOL

Liverpool Waters is a 60 hectare dockland redevelopment that will regenerate a large area of Liverpool, creating a mixed-use commercial and residential waterfront quarter. The total investment from Peel Holdings could reach £6bn. The entire scheme has a 30-40 year delivery programme.⁶⁶

Mersey Gateway is a much needed £600m second Mersey crossing that will further improve connectivity between Liverpool and the surrounding area. Construction starts in 2014 and completion is expected by 2017.⁶⁷

Liverpool2 is a new deepwater Container Terminal at the Port of Liverpool. Costing more than £300m it is part of a scheme that will transform global supply routes by offering direct access to North West England.⁶⁸

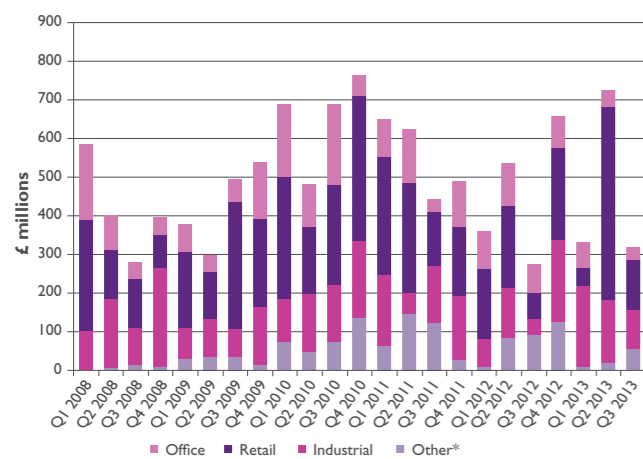
The **BioInnovation Centre** is the first phase of developing Liverpool's BioCampus and will comprise 70,000 sq ft laboratory space alongside commercial business facilities. The £28m facility will sit alongside the new Royal Liverpool Hospital and is predicted to attract some 5,000 science and technology experts on completion in 2014.⁶⁹



THE MIDLANDS

The Midlands comprises the East and West Midlands, and includes the major regional commercial centres of Birmingham, Derby, Leicester, Northampton and Nottingham. The region has a population of over 10 million⁷⁰, with a regional economic output of £177bn⁷¹ and £34bn in exports.⁷²

REAL ESTATE INVESTMENT 2008-2013



Source: Knight Frank, Property Data
* Other is comprised of Leisure and Mixed-use property

The Midlands is forecast to be the fastest-growing region in the UK for goods exports by 2017. Foreign investment has soared by more than a third in the West Midlands in the past year – outpacing the UK average three-fold. The region recorded a 32% increase in foreign investment projects in 2012/13.⁷³

The West Midlands benefits from more investment from India than any region outside London and is the UK's third largest recipient of Indian investment (behind UAE and the US).

Chinese investment in the region has grown steadily over the past decade. NVC Lighting Technology Corporation announced it was doubling the size of its current UK operation and investing in a 49,000 sq ft facility and MG Motor, owned by automotive firm, SAIC has made a substantial investment in the transformation of its Longbridge factory, including a new engine test centre.

SECTOR FOCUS: AUTOMOTIVE AND ADVANCED ENGINEERING

The UK automotive industry is the largest sector in terms of UK exports by value and generated £27bn of revenue in the UK in 2011.⁷⁴ Manufacturers based in the Midlands include PSA Peugeot Citroën, Jaguar Land Rover, MG Rover, JCB and Toyota.

Jaguar Land Rover, owned by Tata Group, opened its headquarters in Coventry in 2008 and currently employs 22,000 people. The existing regional manufacturing skill set was a draw, with the Midlands also offering economic incentives via the regional growth fund, providing £67m for engine and plant development and £25m for the supply chain.⁷⁵

Rolls-Royce, the aerospace, marine, energy and defence designer and manufacturer, is headquartered in Derby and currently employs 12,000 people. 74% of its £5.7bn sales are exported and in partnership with local universities it has invested significantly in research and development facilities.⁷⁶



Toyota is based at a 600-acre site near Derby, chosen for its development potential, skilled local workforce and transport links to all parts of the UK and Europe. To date, Toyota has invested £1.85bn developing its UK sites. The Derby plant currently manufactures approximately 140,000 cars each year, 85% of which are exported to other parts of the world, including Japan.⁷⁷

MARKET ACTIVITY: KEY INVESTMENT DEALS IN 2013



Bullring Shopping Centre, Birmingham
Value: £307m (33% stake)/5.7% NIY*
Investors: Hammerson, CPPIB



Gracechurch Centre, Sutton Coldfield
Value: £88m/7.8% NIY
Investor: M&G Real Estate



Huntingdon Road Distribution Centre, Kettering
Value: £60.5m/6.4% NIY
Investor: LondonMetric



Brackmills Industrial Estate, Northampton
Value: £47m/13.9% NIY
Investor: M&G Real Estate

2013 has seen a total of 10 deals by overseas investors, totalling £426.8m at a weighted average yield of 6.26%. This sum is largely dominated by the £307m, 33% stake in the Bullring Shopping Centre taken by Hammerson and CPPIB. There have been 111 deals transacted in the Midlands to September, representing a total volume of £1.246m.

Source: Knight Frank

DLA PIPER CASE STUDY

KSL Capital Partners, a US travel and leisure private equity firm, acquired the Belfry, a renowned hotel and golf resort in Wishaw, Sutton Coldfield in 2012.

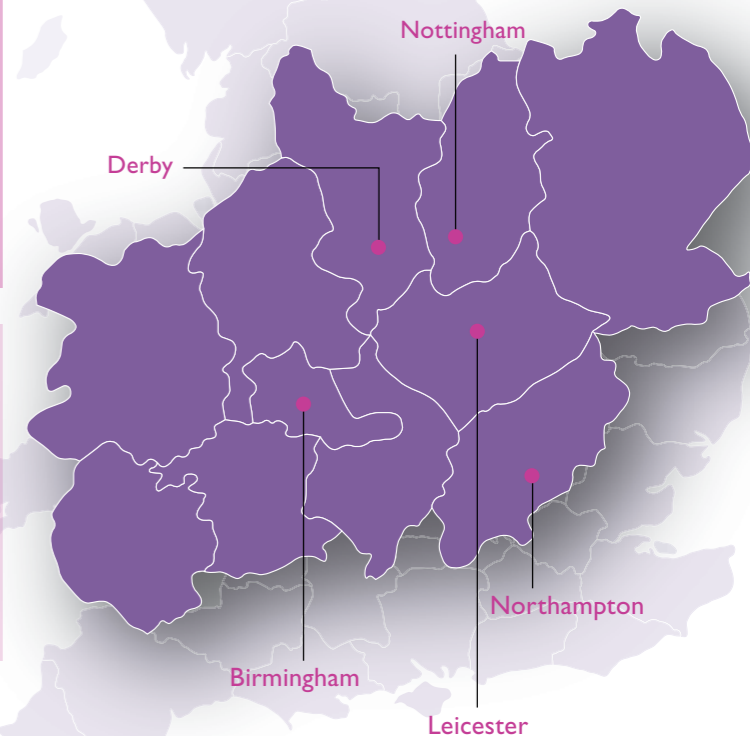
DLA Piper advised on all aspects of the purchase, including the hotel management agreement with hotel operator De Vere Group. Our Birmingham office led the transaction, working with our offices in Sheffield, London and Hong Kong.

CITY SNAPSHOT: DERBY

Derby has invested £1.25bn in the last five years as part of a £2bn regeneration masterplan, including the UK's first Westfield shopping centre (£340m) and £20m on Infinity Park Derby, a new R&D hub located alongside the headquarters of Rolls-Royce. Nearly 12% of employment in the city is in advanced manufacturing and engineering, four times the national average.⁷⁸

DLA PIPER IN THE MIDLANDS

DLA Piper works closely with a variety of leading national and international companies on their investments and developments in the region, including acting for the developer on the landmark redevelopment of Edgbaston and the Essex Cricket Ground, acting for the ODA on the procurement and ongoing management and design and construction of the five venues in the Olympic Park including the Aquatics Centre and Velopark, and also advising Birmingham City Council on its £650m redevelopment of New Street Station.



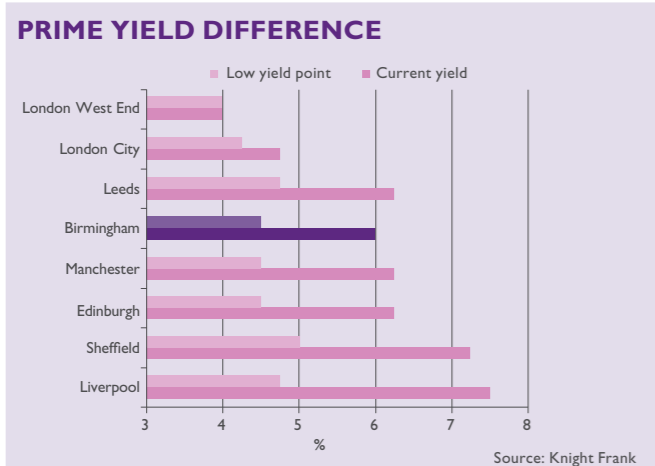
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BIRMINGHAM

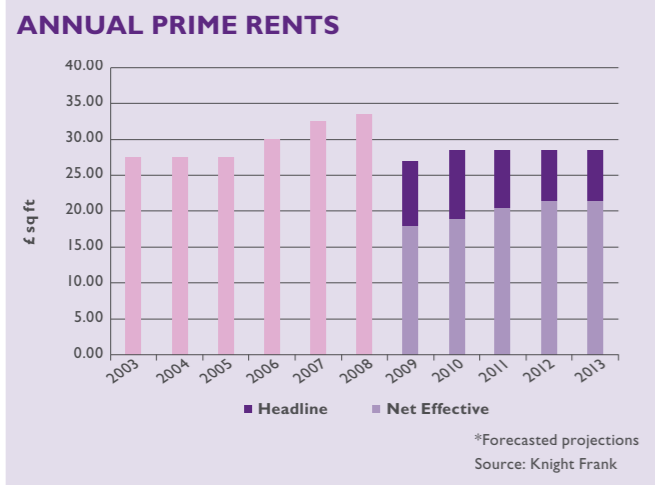
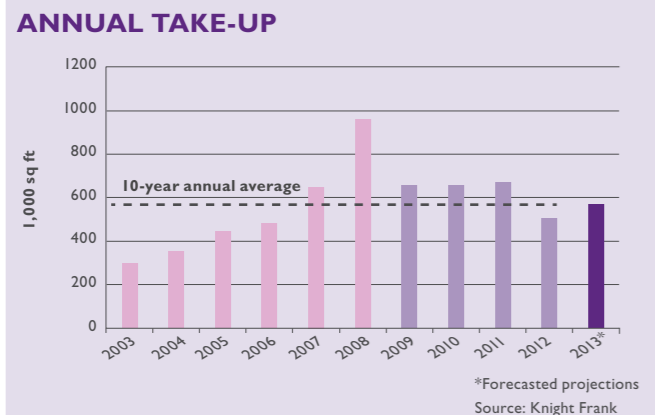
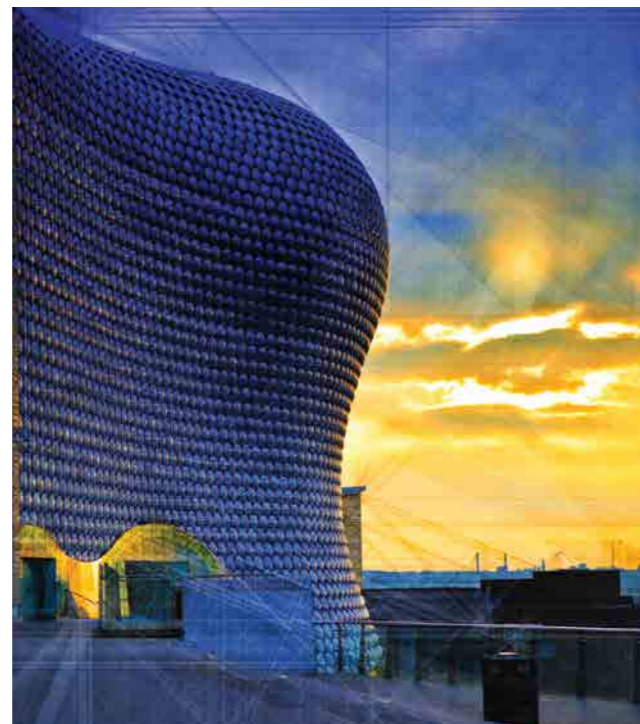


With a population of 1,085,400 Birmingham is one of the most populous cities in Europe and also one of the youngest – 45% of residents are under 30.⁷⁹ With five universities, 75,000 businesses, more than 100 trains to London each day and easy access to 400 million people across Europe, Birmingham is one of the UK's busiest and best-connected cities.⁸⁰



Birmingham has invested heavily in its growth, with an estimated £18bn to be spent on commercial infrastructure by 2026. Three train stations connect the city with the rest of the UK, and New Street Station is currently undergoing a £600m refurbishment. HS2 rail is planned to open in 2026, reducing the journey time to London to 49 minutes and Birmingham Airport has direct flights to over 100 destinations in Europe, the US and Asia. A proposed £7bn scheme would increase capacity to 70 million passengers per year.⁸¹

The city's regeneration includes the redevelopment of the Bullring shopping centre; Brindleyplace, the UK's largest mixed-use canal side redevelopment project; mixed-use office, retail and leisure developments such as the Mailbox and the Cube; and the £189m Birmingham library, which opened in 2013.



KEY BUSINESS SECTORS

Birmingham's **banking, professional and financial services** hub is one of the largest in the UK outside London, set to grow further as a result of the regeneration and development of new Grade A office space.

Tourism is an increasingly prominent sector. The c.2,150,000 sq ft (200,000 sqm)⁸² National Exhibition Centre and the International Convention Centre are two of the facilities that give Birmingham a share of more than 42% of the UK's conference and exhibition trade.⁸³

Birmingham is one of the largest **retail** centres in the UK. The Bullring shopping centre in the city centre offers 411,000 sq ft retail space. The revamp of the Mailbox completes in 2015, as does Grand Central, a £600m+ redevelopment that offers 500,000 sq ft retail and leisure space.⁸⁴

The **life sciences** sector contributes £180m to the region's economy and businesses have grown by 40% since 2005. The University of Birmingham collaborates with the majority of the world's top 20 pharmaceutical companies. In **healthcare**, Birmingham hosts the new £545m Queen Elizabeth Hospital and one of the largest clinical trial clusters in the UK.⁸⁵



"Foreign investment into Europe has fallen in recent years. Greater Birmingham is bucking the trend with the number of foreign investments into the area rising by more than half in the last 12 months"

Neil Rami, Chief Executive, Marketing Birmingham

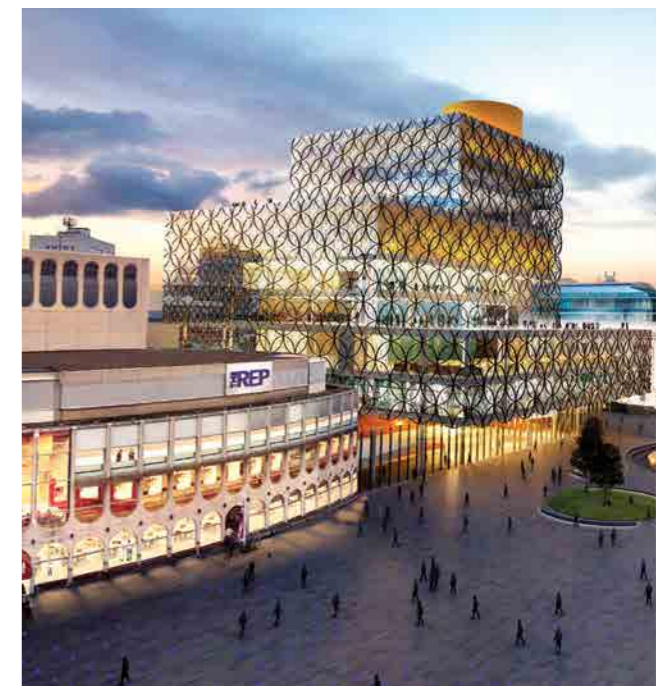
MARKET ACTIVITY: REAL ESTATE INVESTMENT IN BIRMINGHAM

The **Beorma Quarter** is a £150m 600,000 sq ft⁸⁶ mixed-use office, hotel, leisure and retail development, together with a public square. It is funded by Salhia, one of Kuwait's leading real estate development and investment companies.

Deutsche Bank completed one of the largest UK office deals since the downturn, taking all of the 134,000 sq ft of offices at **5 Brindleyplace** for £26.50 per sq ft. It is expanding its operations in Birmingham and understood to be setting up a trading floor at the building. Additionally Deutsche Bank re-gearred to take a 15-year lease on the 68,000 sq ft of offices it currently occupies at **1 Brindleyplace**, reported paying £25 per sq ft.⁸⁷

At 310,000 sq ft, **2 Snowhill** is one of the largest speculative developments in the UK and one of only a handful of buildings over 200,000 sq ft to be delivered outside London in the past year. It is owned by US-based Hines, and was jointly developed by Hines and Ballymore.⁸⁸

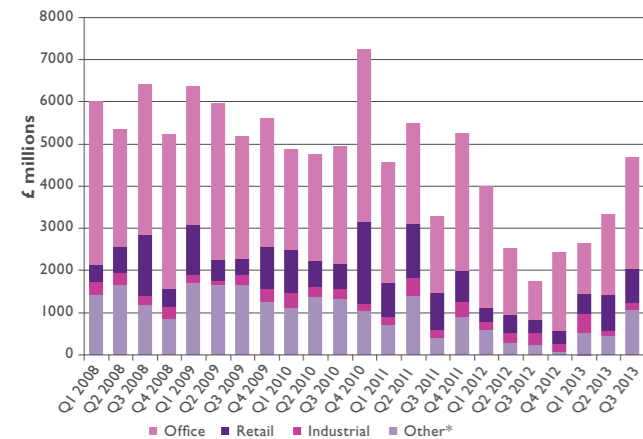
Sydney-based Staywell Group and investment arm Seven Capital are redeveloping the mixed-use **Five Ways** scheme, centring plans on a 300-room Park Regis hotel. It is due to open in 2014.⁸⁹



THE SOUTH EAST

The South East has the largest population and economic output of any UK region, and London sits at its heart. The combined London and South East economic output represents 43% of total UK economic output, with London alone valued at £309bn, accounting for 26%.⁹⁰

REAL ESTATE INVESTMENT IN THE SOUTH EAST



Source: Knight Frank, Property Data
* Other is comprised of Leisure and Mixed-use property

712,000 businesses are registered in South East England, of which 372,000 are located in London. Unemployment rates are some of the lowest in the country, and average household income is the highest in the UK.⁹¹ Almost a quarter of employee jobs are in the professional and business services and finance sector.

The connectivity of the South East is one of its major features: Heathrow is the largest airport and connects to nearly every city in the world, Gatwick is the second largest airport in the UK and Southampton and Kent Airports also handle international travellers. 90% of the UK's deep sea cargo enters the UK via the South East, with major commercial ports such as Felixstowe, London and Southampton some of the busiest in Europe.⁹² These gateways are vital for both importing and exporting goods and services, another key attractor for foreign investment. High speed rail links between the Channel Tunnel and London have increased the volume of traffic to the continent in recent years and provided a wealth of opportunities within the region.

SECTOR FOCUS: TECHNOLOGY

The South East has emerged as a global leader in the tech sector, focussing on software, electronics and biotechnology. Silicon Fen is a biotechnology hub on the outskirts of Cambridge, benefitting from its proximity to the cutting-edge research the ancient university town is world-famous for.

The area is now one of the most important technology centres in Europe: Cambridge biotech companies have attracted large pharmaceutical companies to the region, bringing investment and creating jobs in areas including management, regulatory compliance and marketing. AstraZeneca, GSK and Takeda, are three of the global companies that have moved into the region via acquisitions of locally based companies. The Wellcome Trust Research Centre, where the first sequencing of



the human genome was completed, is also based here. There are 19 science, research, business parks and incubators in the Cambridge area.

MARKET ACTIVITY: KEY INVESTMENT DEALS IN 2013



Shell Mex House (London)
Value: £610m/4.2% NIY
Investor: Siroso



IQ Winnersh (Berkshire)
Value: £245m/5.8% NIY
Investors: Oaktree Capital, Patrizia AG



5 Canada Square (London)
Value: £383m/5.0% NIY
Investor: St Martins Property Group



Midsummer Place (Milton Keynes)
Value: £250.5m/5.09% NIY
Investor: Intu Properties plc (UK)

London and the South East region have seen a total of £4.084bn of overseas property investment in the year up to September. The average weighted yield is 5.65%. When London is removed from the figure, overseas investment for the South East and East of England falls to £625.1m. A total of 450 deals overall have been completed in the South East, with total volume transacted standing at £10.082bn.

Source: Knight Frank

DLA PIPER CASE STUDY

A consortium of high profile, high net-worth individuals based in South East Asia purchased Aviva Tower, a landmark £288m building in the heart of the City of London, from the receivers of The White Tower portfolio. The transaction was one of the most significant real estate investment deals in the UK since the downturn. DLA Piper advised the consortium, managing complex legal issues and the interests of parties across a number of jurisdictions, all within a very tight timescale.

AREA FOCUS: THE M4 CORRIDOR

The M4 corridor is an area running alongside the M4 motorway, which connects London to the West of England and South Wales and has direct access to Heathrow Airport. A large number of high-tech global telecommunications and IT companies are based here, particularly in Berkshire, Swindon and the Thames Valley.

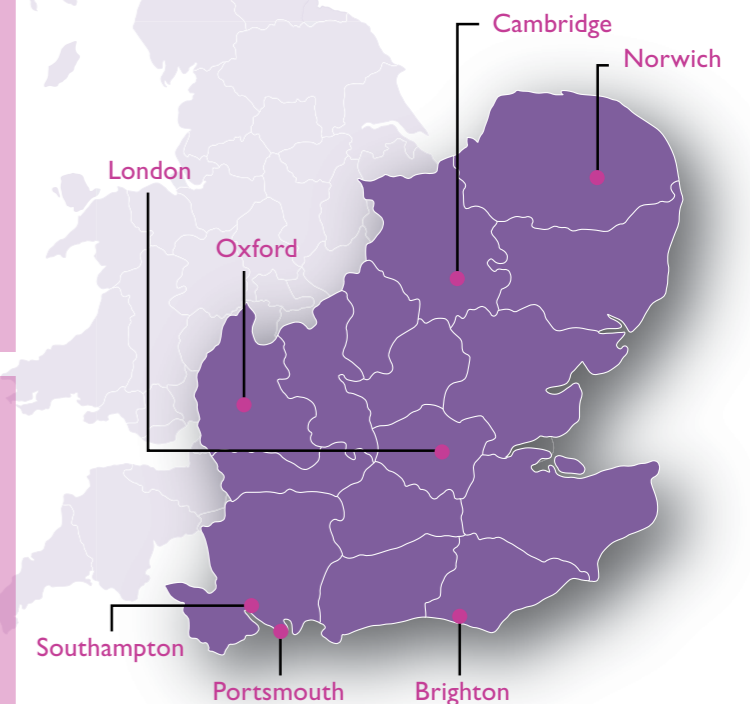
Globally recognised names that have their UK bases here include Panasonic, HTC, Intel, O2, Vodafone, Ericsson, Microsoft and Adobe. Alongside these global giants are companies that develop parts for the telecoms and IT industries, such as Icera, which design chips for smartphones.

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DLA PIPER IN THE SOUTH EAST

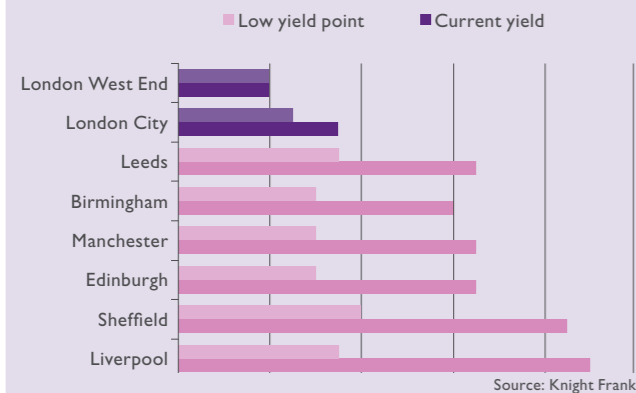
DLA Piper advises leading international companies and private investors on their investments and developments across the South East, including advising a private investor from Asia on the acquisition of 1 Threadneedle Street, Nationwide's City HQ, and providing tax and structuring advice in relation to a Singapore national purchasing a substantial UK investment property, with such investment being structured through a Jersey company.

LONDON

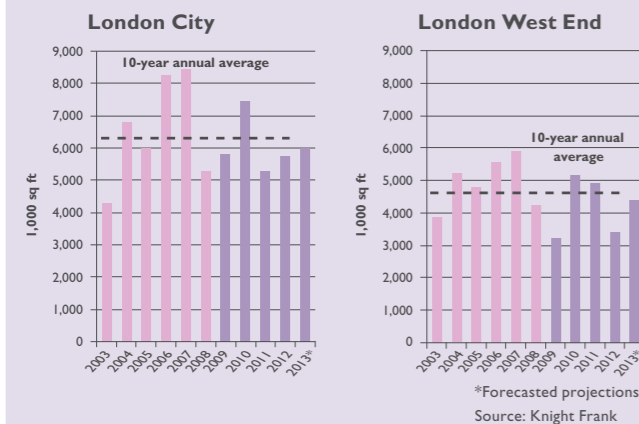


With an estimated 8.3 million residents in 2012,⁹³ London is the most populous metropolitan area in the UK. London is a global city, one of the world's major business, political and cultural centres and a leader in international finance, politics, communications, entertainment, fashion and the arts.

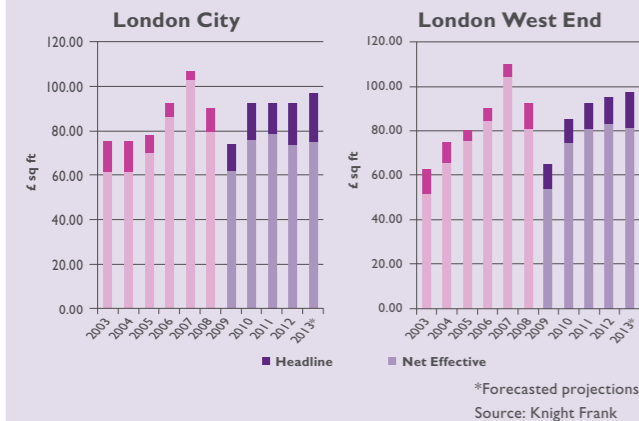
PRIME YIELD DIFFERENCE



ANNUAL TAKE-UP



ANNUAL PRIME RENTS



London's population growth is set to continue: forecast to exceed 9 million by 2021 and to be almost 10 million by 2031. Latest trading statistics show London as having the highest concentration of exporters and importers anywhere in the UK in 2012, principally trading with the EU and the Asia-Pacific region.⁹⁴ The 'Green Economy' is a fast-growing sector: carbon finance is worth between £23bn and £27bn and employs 163,500 people in 9,200 businesses.⁹⁵

London has distinct business geographies with concentrations of different business types in different districts. The main central business districts are the City of London, the West End and Canary Wharf. The City of London is the largest financial and business district in Europe.

Office take-up has accelerated in 2013, reaching 8.3m sq ft by Q3 2013, well in excess of the full year total for 2012 of 7.2m. This is putting upward pressure on rents, which have risen by 5.3% over the past year in the West End and by 6.4% in the City. London's growth outpaces the rest of the UK, with an average growth of 3.2% against the UK average of 2.3%.⁹⁶



KEY BUSINESS SECTORS

London is one of the world's leading **financial centres** with financial services in the City of London representing 22.1% of London's total economic output.⁹⁷ Canary Wharf has developed as London's second financial centre and is the global headquarters of two of the world's largest banks, HSBC and Barclays, and the EMEA headquarters of Citigroup.

Beyond banking there are numerous other leading financial markets – the London Stock Exchange is the fourth largest by domestic equity market capitalisation, Lloyd's of London is the world's foremost specialist insurance market and London has the largest market in the world for gold and silver trading.

Fashion and design are major industries in the capital, with fashion designers such as Vivienne Westwood and Stella McCartney both based in London. Approximately 400,000 people in London work in the broader creative industries sector, which generates 16% of London's economic output.⁹⁸

London is also a major **media** hub, with CNN International, ITV, BSkyB, Channel 4 and Channel Five Broadcasting based in London. Filmmaking is a rapidly growing part of the wider media sector and London is now the third busiest city in the world for filmmaking, behind LA and New York. It has brought £770m of investment to the city over the last four years.⁹⁹

Tourism plays a vital role in London's economy, with iconic world-famous attractions such as Buckingham Palace and The tower of London making London a premier global tourism destination. £7.9 million tourists visited London in the first six months of 2013, spending over £4.9 billion.¹⁰⁰ This, combined with business travel, has contributed to London's resilient hotel sector, with some 5,000 new rooms opening in 2013.



"We have seen very significant amounts of capital invested in London from overseas investors. The market continues to be attractive, it is highly liquid with a real degree of transparency and relatively benign real estate taxes."

Matthew Richards, Jones Lang LaSalle

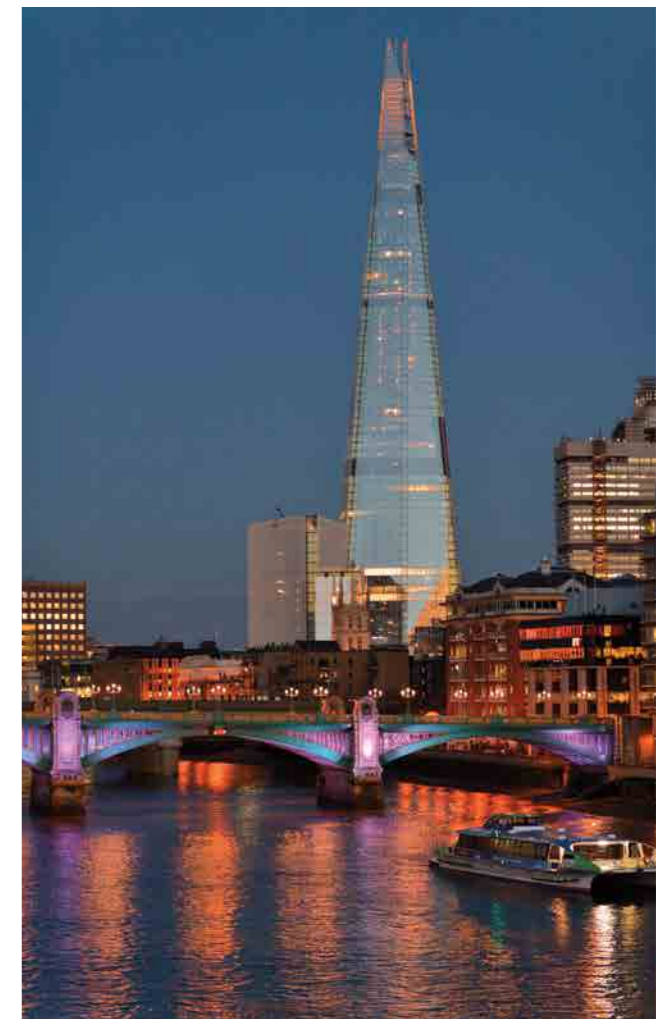
MARKET ACTIVITY: REAL ESTATE INVESTMENT IN LONDON

German real estate investor Deka purchased **Palestra**, a landmark office building on the South Bank for £233m, reflecting a yield of 5.09%. The sellers were Royal London Asset Management and Malory Clifford's Blackfriars Investments.¹⁰¹

Major Chinese insurance group Ping An made its first UK acquisition in 2013 when it purchased the iconic **Lloyd's building** for £260m from German asset management fund CommerzReal.¹⁰²

British Land spent £470m on the assets that comprise the majority of **Paddington Central**, a 1.2 million sq ft mixed-use estate near Paddington station in the West End. The income generating assets reflect a net initial yield of 5.3% on expiry of rent frees, rising to 6.2% when fully let.¹⁰³

Deutsche Asset & Wealth Management acquired **30 Gresham Street** for £310m on behalf of Samsung Asset Management. The 370,000 sq ft property is fully leased to German bank Commerzbank and was sold by Singapore sovereign wealth fund GIC.¹⁰⁴



LEGAL BRIEFING

FOR OVERSEAS INVESTORS

HOW LAND IS HELD IN ENGLAND AND WALES

Freehold	Freehold ownership is permanent ownership, which lasts forever.
Leasehold	Leasehold ownership lasts for a fixed period, which can be anything from a few months to several hundred years. Typically, leasehold investment properties are held for between 125 and 999 years.
Restrictions	There are no legal restrictions on the ownership of real estate by non-residents of the UK.

DEMONSTRATING OWNERSHIP

Registered Title	Any freehold property or leasehold property (with more than seven years of the lease remaining) acquired must be registered by <i>Land Registry</i> , a Government entity. Legal ownership is not valid until this has been done. Once registered, title to the property is guaranteed by the Government. Registering with absolute title provides the highest form of guarantee that the Government can provide. Land Registry records are open to public inspection.
Unregistered Title	Unregistered title is the old system dating from before land registration whereby proof of ownership consists of a physical bundle of documents (title deeds) that trace ownership through the years. This way of demonstrating ownership is being phased out and all property which is bought or sold must now be registered.
Due Diligence	The rule when buying property is " <i>caveat emptor</i> " (buyer beware). This means that it is the responsibility of the buyer to investigate all aspects of the property before purchase, including proof of ownership, environmental searches and structural condition. Usually the buyer will require the seller to respond to a standard set of questions about the property. The buyer can claim compensation from the seller or apply to the court to reverse the sale if any of the answers given by the seller turn out to be untrue and this has a serious effect. The seller is not legally obliged to answer any questions and the buyer should also carry out searches of various public registers containing information about the property. Warranties in the contract are not usual, except as to the status and governance of any corporate or unit trust entity which holds the property.

HOW LAND IS HELD IN SCOTLAND

Feuhold	Feuhold is the Scottish equivalent of "Freehold" in England and Wales.
Leasehold	As in England and Wales, leasehold interests last for a fixed period of time. However, in Scotland, the maximum period for a commercial lease is 175 years (20 years for a residential lease).
Restrictions	As in England and Wales, there are no legal restrictions on the ownership for real estate in Scotland by non-residents of the UK.

DEMONSTRATING OWNERSHIP

Land Registered Title	Ownership or the acquisition/transfer of a leasehold interest (where the original lease is for more than 20 years) in Scotland does not pass until the same is registered. In Scotland there are two systems of registration. The land registration system was introduced to Scotland in 1979 on the basis of compulsory registration on the sale of property. All of Scotland is now covered by this system however in certain transactions the old system of "recording" deeds in the Register of Sasines (see below) still applies. Under the land registration system the title (Land Certificate) issued by the Keeper of the Registers of Scotland is guaranteed by the state. In cases where the Keeper has identified some problem with the title an exclusion of indemnity may be made. Land Register records are open to public inspection.
Sasine Title	The Register of Sasines is the historical register of deeds in Scotland. Under this system title to property is evidenced by a bundle of title deeds that trace ownership through the years. Unlike the land registration system in Scotland recording of a title in the Register of Sasines is not guaranteed by the state-it is merely a public record of the deed evidencing title. The Register of Sasines is open to public inspection.
Due Diligence	As in England and Wales the rule when buying property in Scotland is " <i>caveat emptor</i> " (buyer beware). Usually the buyer will generally rely on its own due diligence investigations including title examination, searches and surveys. The buyer's solicitors will review the title information provided by the seller's solicitors and will usually request that a standard set of searches be provided including property searches and searches of the local authority. Any issues identified will then be raised with the seller's solicitors. There is no standard list of enquiries in Scotland and the responses given have no contractual effect unless expressly stated to be seller warranties in the sale and purchase contract, to be negotiated on a case by case basis. There are also no Standard Commercial Property Conditions in Scotland (unlike in England and Wales) and accordingly the whole contract will be contained in the sale and purchase contract.

FIXED TRANSACTION COSTS

Stage of Ownership	Tax	Amount Payable	Options to minimise tax
Acquisition	SDLT (Stamp Duty Land Tax)*	Variable depending on the asset price Top rate for commercial real estate is 4% (purchases over £500,000) Top rate for residential is 7% (purchases over £2m) A 15% rate applies to purchases of certain single residential properties worth over £2m made via non-natural persons, and structuring advice should be taken	Purchase non-residential property via an off-shore corporate or unit trust wrapper will mitigate SDLT (to zero).
	VAT	20% of the purchase price on commercial properties	By registering for VAT and generally opting to tax, VAT should be recoverable. An investment transaction of income producing assets can be considered a "transfer of a business as a going concern" which renders it VAT free.
Income	Income Tax	20% of rents generated (23% if owner is UK tax resident)	Deductions available for capital allowances and revenue expenditure, e.g. interest costs.
	UK Withholding Tax	20% (income tax) on each rental payment	The UK tax authorities generally agree that rents may be paid gross, allowing the landlord to manage its tax affairs in the normal way.
	UK withholding tax on interest	UK source interest is subject to a 20% deduction, subject to treaty relief and exemptions	
	Annual residential property charge	Up to 0.07% of the value of a high value residential property (over £2m), payable annually by non-natural persons owning residential property	
Disposal	Capital Gains Tax (CGT)	Non-UK residents are generally not subject to CGT. The acquisition vehicle should be managed and controlled off-shore to ensure that capital gains tax is avoided. (CGT can apply to sales of high value (over £2m) residential property from 6 April 2013).	

* Note: In relation to Scotland only, The Land and Buildings Transaction Tax (Scotland) Bill received Royal Assent on 31 July 2013 approving the introduction of Land and Buildings Transaction Tax (LBTT) which will come into effect in April 2015 when Stamp Duty Land Tax (SDLT) will be abolished for transactions involving land in Scotland. The key difference between SDLT and LBTT is that LBTT is a progressive tax rather than a slab tax like SDLT. At this stage there are some issues still to be resolved, however. The rates of LBTT are not included in the Act and are not likely to be announced until autumn 2014 at the earliest.

MARKET FACILITATORS: WHO YOU NEED TO WORK WITH WHEN INVESTING IN THE UK

Brokers/Agents	Selling agents act for the seller. They advertise and arrange viewings for prospective buyers. They operate on a commission basis, payable by the seller on completion. Agents also advise buyers on acquisitions and include due diligence in their "buy-side" services. Buy-side agents also operate on a commission basis, payable by the buyer. Brokers may also source finance for the buyers.
Funders	If finance is required, funders may provide debt/equity for the purchase of the building. Structures vary depending on the type and level of finance provided.
Lawyers	Separate lawyers acting for the each party will negotiate and draft relevant documentation, exchange copies of the written contract once it has been signed by each party and then complete the transaction (including corporate and tax aspects) and deal with post-completion matters such as registration and payment of SDLT. The lawyers acting for the buyer will undertake broad due diligence. Fees vary and could be paid on a fixed fee basis, an hourly rate or a percentage of the sale/purchase price.
Valuers	Valuers determine the market value of a real estate asset. This is essential if external funding is required. For investment properties the estimated market rental or operating income will be considered as part of the valuation.
Building Surveyors	Building surveyors can report on the physical integrity of the building and buyers are advised to ensure that they do.
Others	Accountants and other parties may also be instructed on aspects of a transaction.

REALWORLD

To compare the UK with other jurisdictions visit REALWORLD, DLA Piper's global online guide to real estate that gives you the answers to typical legal questions faced when entering overseas real estate markets.



www.dlapiperREALWORLD.com

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Market Data:

Market data has been included for all regions and cities in this report to give an indication of availability of investment types, prime yields, annual take-up and annual prime rents. We have focused on data from 2009 onwards as this gives a more representative view of the current market conditions; however, some data from 2003-2008 is included for background information. It is provided as an aid to assist you to understand general market conditions in each city and should not be used as the basis for making any investment decisions. No legal responsibility can be accepted by DLA Piper, Knight Frank Research or Knight Frank for any loss or damage resultant from decisions made using this data.

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