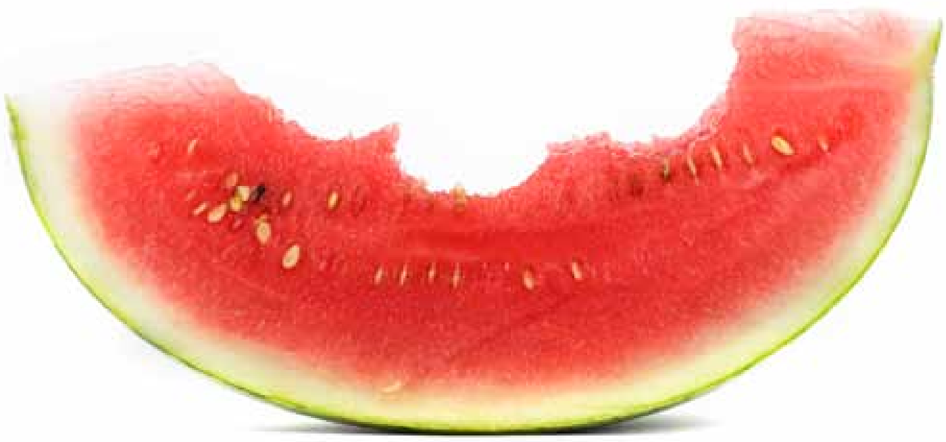
NABARRO

CLARITY MATTERS

Global Investor Appetite

Who's Hungry for UK Real Estate?



Investor appetite – key findings

Our research of over **600 national and international investors, occupiers and advisers** can be distilled into six headline findings which provide a contemporary insight into the UK real estate market now and in the future.

"People come to the UK, they make an investment decision and know there won't be any surprises. There is stability in Government, the political system, a sophisticated real estate industry, transparency – all backed up by professional advisers."

1. When is investor and occupier appetite due to peak?

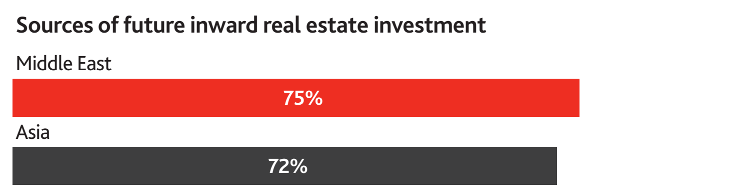
73% of respondents believe the attractiveness of the UK will increase over the next **2 years**.

64% of respondents believe this will be the case in **5 years**.

The UK will remain attractive in the short-term (up to five years) although in the longer term (10 years or more) it may lose out to emerging markets where prices are lower.

2. Who has the appetite for UK investment?

Middle Eastern and Asian investors are leading future investment into the UK although there is real estate investment demand from a truly global range of investors.



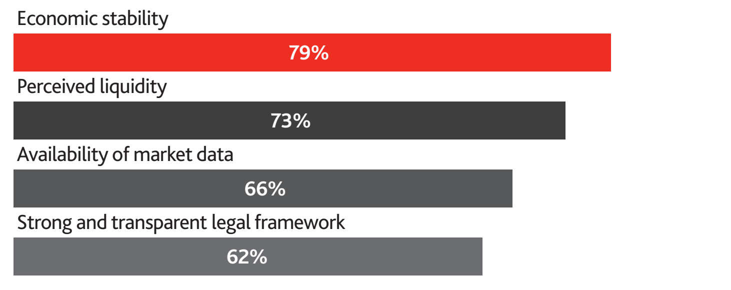
3. What do investors have the appetite for?

44% of respondents feel that the most highly prized assets are prime offices and residential.

Not far behind are distribution and industrial whilst retail property appears to be falling out of favour with only **24%** of respondents citing it as attractive.

4. Why do investors have an appetite for the UK?

There are many drivers encouraging investment into the UK:



Conversely, the tax regime is seen as a deterrent alongside complex planning laws.

5. How are investors financing their appetite for UK real estate?

There is a clear move to alternative finance and funding of real estate projects through non-bank institutions.

67% believe insurance companies will become a significant source of funding.

58% expect that financing through equity capital markets will become increasingly attractive.

6. Where else will investor appetite be focused?

Whilst sentiment around UK real estate is very positive at present, the study shows that the UK will need to be wary of competition from emerging economies.

Increasing investment attractiveness into BRICS (68%), Latin America (63%) and South-East Asia (61%).

Contents

About the research

On behalf of Nabarro LLP, the Strategy Consulting and Research team at FTI Consulting undertook a series of in depth qualitative interviews with investors during May 2013. Harnessing the insight from this, we created a poll of investors, occupiers and agents achieving over 600 responses during June. These results were then analysed and the interim findings debated at a roundtable event hosted by Nabarro. Please note that the standard convention for rounding has been applied and consequently some totals do not add up to 100%. For further information related to the research methodology please contact the Strategy and Consulting team at FTI Consulting on market.research@fticonsulting.com

Giles Barrie, Managing Director, Strategic Communications, FTI Consulting

"In 10 years as editor of Property Week I was rarely sent a survey of investors and occupiers with more than 200 responses – so for Nabarro's research to have garnered the opinion of 600 major players in the global property market is a huge achievement in itself. Deep analysis of those big players' views also show London operating on a different plane from many other world cities, but that our capital cannot afford to rest on its laurels in any way"

Foreword

In recent years, we have seen a healthy increase in the appetite of global investors for UK real estate. Indeed, in the last five years, London has been the most traded market in the world with, in 2013, over 50% of central London commercial real estate in the ownership of overseas investors. The big question is whether that appetite is now satisfied or are overseas investors hungry for more?

Here at Nabarro we decided to contribute to the debate and investigate whether the current trend looks set to continue and the factors influencing investment into the UK.

During the course of this research, we have interviewed and polled hundreds of investors and occupiers from around the world on future global investment trends. The findings have been enlightening. The overwhelming result is that the UK, and particularly London, will remain highly appealing, in the next five years.

As international investors become more familiar with the UK, we are also seeing some, but not all, of these investors looking to the UK regions for higher returns. This is perhaps not unexpected as the yields on central London commercial real estate remain low due to high levels of demand and scarcity of opportunity. Where development and higher risk is involved, overseas investors are typically entering into joint ventures with local partners.

The continued draw of the capital city's trophy assets will not surprise you. What may surprise you is where the money is coming from (and in time may be going to). Some of the world's emerging markets look set to challenge the more established jurisdictions. Who will you be doing business with in the next five years?

The opportunity to delve deeper into the UK real estate market has been a fascinating experience. We believe you will find the research informative, whether you are an investor, developer, funder, occupier or adviser. If you are interested in UK real estate, please look at page 24 for some of the ways we can help.

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#UKREappetite

What value does the UK hold for global investors?

Roundtable discussion – June 2013



Nabarro and FTI Consulting invited a panel of experts to debate the outlook of the UK real estate market as a destination for investment. Fund managers, investors, developers and advisers came together to share their insights on the following topics:

- Appetite for UK real estate investment over the next 10 years.
- Whether UK property represents good value for money.
- Assets and locations that will offer the best opportunities in the next five years.
- Government policy and its impact on real estate.
- Countries which will lead investment in UK real estate over the next decade.

Several panellists said that more could be done by the Government to leverage the quality of higher education in the UK, harnessing this to drive overseas investment. Much was made of the opportunities for investing outside of London and the hunt for value. The stability and perceived liquidity offered by the UK was highlighted as a major draw, however it was acknowledged that current policies such as the Community Infrastructure Levy skew the market and impinge on new development.

Roundtable attendees

Alex Jeffrey, Chief Executive, M&G Real Estate
Ciaran Carvalho, Head of Real Estate, Nabarro
Gerald Kaye, Development Director, Helical Bar
Giles Barrie, Chair and Managing Director, FTI Consulting
John Slade, Chief Executive Officer for the UK, BNP Paribas Real Estate
Jon Zehner, Head of Global Capital Markets, La Salle Investment Management
Justin Berry, Senior Director, Central London Capital Markets, CBRE
Mark Swetman, Director, Hines
Nicholas Frankopan, Managing Director, Oak Investment Management Group
Tim Sketchley, Managing Director, Old Park Lane Management

Giles Barrie: We are here to gauge the appetite for the UK investment market over the next 10 years with a particular emphasis on what global investors think. The investment market has been very strong for the last two to three years, particularly as a safe haven. Is that going to be sustainable going forward, will there still be value for money and also where will new sources of finance come from?

Jon Zehner: The UK benefits from the transparent rule of law – everybody likes London. For the last few years the US has been favoured over Europe and the UK because investors were scared by it, probably led by the Americans. So I think that's now changing. I also suspect that I am not the only one sitting scratching my head over some of the pricing for prime assets in places like London. Is it sustainable?

Alex Jeffrey: One positive for all of us is that real estate as an asset class is getting increasing attention. Real estate demonstrably has delivered good returns on a risk adjusted basis. When we looked at the performance of our Life Fund going back to the start of IPD in 1980, it's delivered 9.5% per annum. I agree with the comments made in your report.

We've done a deal with John Slade where a major sovereign owned fund from Asia came in and invested in the UK in good quality property in the Tesco Portfolio just a few weeks ago. It just demonstrates that people like long dated income, which the UK offers more than any other country. These were 26 year leases.

John Slade: Entrepreneurs tend to come to London first and some people only come to London. The institutional investors tend to spread more. I was very pleased to see Spitalfields Market, which was linked with a sale to US investors, go for such a high price but in another way horrified because it almost looks like the market's moving to an even more expensive stage.

Justin Berry: If you can buy retail at 4% in London, then relative to where overseas investors are coming from in their own market, that may actually look very, very cheap. If you are a property company buying in Hong Kong or you're an institution buying in Taiwan, yields are down at 2% and the average lease length is three or four years.

Gerald Kaye
Helical Bar

"Rents can easily go to £70, £80, £90. Rent is a small cost for all of the businesses in central London."

Jon Zehner
La Salle Investment Management

"The UK benefits from the transparent rule of law – everybody likes London."

Alex Jeffrey
M&G Real Estate

"Glasgow, Edinburgh, Birmingham, Manchester and Bristol are all places with significant activity and quite a lot of interest."

Nicholas Frankopan
Oak Investment Management Group

"A very easy win for minimal expenditure would be to cut the time that it takes for authorities to grant planning permission."

Mark Swetman
Hines

"Hines see the UK as a big expansion opportunity."

John Slade
BNP Paribas Real Estate

"I don't think we can afford to live without Europe and I also don't think Europe can afford to live without us."

Nicholas Frankopan: Some secondary is priced as secondary even if it's good secondary. I will always insist on anyone who has a commitment to London that they take at least 20% and put it outside London because it's mad not to.

Can the Government help the real estate market?

Alex Jeffrey: If you look outside of London, cities like Aberdeen are extremely strong at the moment. Glasgow, Edinburgh, Birmingham, Manchester and Bristol are all places with significant activity and quite a lot of interest.

Tim Sketchley: As a family office we've been investing in UK real estate for the last 20 to 25 years. We think the London market is overheated. It's feeling pretty much at the top at the present moment and most of us around this table have done at least two or three cycles in this property market. You buy the building, you don't buy the market.

Gerald Kaye: The investment market hasn't necessarily been underpinned by the occupation market and it's been pretty slow in the last two or three years. I think the market is beginning to turn. We saw three people going for 60 Holborn Viaduct. The rent free periods will drop back enormously and the rents will start to grow. Rents are now back to where they've always been for the last 25 years, but these rents can easily go to £70, £80, £90. Rent is a small cost for all of the businesses in central London.

Mark Swetman: The West End's got an issue with rates. When you look at the City, the total cost, compared to the West End – it's a no brainer. Which is why you will see Amazon and Google going east rather than going west because the rates makes a huge impact on your total occupation costs. Hines sees the UK as a big expansion opportunity, in the regions as well. We've just done a deal in Manchester for a potential office opportunity there and we invest heavily in Birmingham.

Gerald Kaye: If you've got an empty building you're paying the full rates liability, so I think that's a real issue. The Community Infrastructure Levy is just about payable in central London but outside London I see it killing any development.

Alex Jeffrey: The fundamental point is that there needs to be more growth. Connected with that is my other point which is about regulation and new legislation. After the financial crisis and certainly after this one there's a danger that the pendulum on regulation swings back in favour of tighter rules and that it goes too far. We now have to accept that we operate within a globalised environment and businesses can go and set up shop elsewhere. It's very easy for politicians to do banker bashing and certainly get headlines but how does that affect financial service players interested in taking on more space in the UK or in the EU generally because they can just as easily go and open elsewhere.

Jon Zehner: Investing in infrastructure has to be a good thing. Crossrail is really good. The airport capacity issue needs to be addressed. I think the quality of the rail system and the road system in the country is beginning to show. It's ageing and something needs to be done about that. I don't know why the Government doesn't embrace the quality of higher education here more fully. And if we talk about Asia, the Asians get it, they all want to be here because UCL and Cambridge are

Which asset class would you select and where would you choose to invest over the next five years? And which countries do you think will lead investment into the UK over the next decade?

world class and the Government doesn't seem to be embracing and emphasising that.

John Slade: I don't think we can afford to live without Europe and I also don't think Europe can afford to live without us. We are one of the major financial capitals in the world, we're ahead of anywhere else in Europe. A lot of Europe's financial transactions are done in London. We didn't go into the Euro years ago and are probably all very proud and delighted we didn't. There are very few countries at the moment that aren't in a trading block that are being very, very successful and I think we have to be.

Justin Berry: It'll be offices in Edinburgh, Aberdeen or Manchester, with money coming from the Taiwanese insurance sector.

Alex Jeffrey: UK private rental sector and in terms of around the world, I'd actually pick Japan. In terms of the major flows of institutional capital I'd probably go for the Chinese insurance companies.

Ciaran Carvalho: You'd probably want a broadly diversified portfolio, some London offices and also maybe logistics. The Chinese will be the major overseas investors.

Jon Zehner: In the UK, I still think mezzanine debt is the best risk/reward opportunity. In terms of money coming in, in the next couple of years it's got to be the Koreans. I think also that over the next five years it will be the Chinese insurance companies as those regulations have changed.

Mark Swetman: I will be seeing the best returns in the central London office market. India I think is going to be a huge market to watch.

John Slade: I'm looking at residential very hard on a personal basis around Shoreditch, Hackney, Hoxton, I think that's great.

Gerald Kaye: Office and residential in EC1 and the Chinese.

Tim Sketchley: I'd buy a fund and that fund has got to invest in central business district offices in London.

Nicholas Frankopan: I think buy the building not the market, which is an excellent quote from Tim.

Tim Sketchley
Old Park Lane Management

"You buy the building, you don't buy the market."

Justin Berry
CBRE

"If you can buy retail at 4% in London, then relative to where overseas investors are coming from in their own market, that may actually look very, very cheap."

Giles Barrie
FTI Consulting

"The investment market has been very strong for the last two to three years, particularly as a safe haven. Is that going to be sustainable going forward?"

When is investor and occupier appetite due to peak?

73%

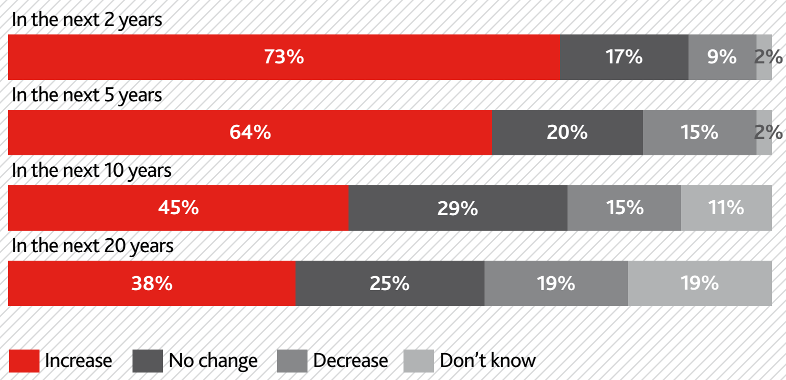
of respondents believe the attractiveness of the UK will increase in the next two years.

Although investors expect the UK to become more attractive and offer good value in the short- and medium-term, over the long-term, the attractiveness will decrease. The UK will have to compete hard with developing markets with investors focusing more on opportunistic returns in the UK. However, global occupiers believe that the UK will continue to be attractive up to 10 years from now.

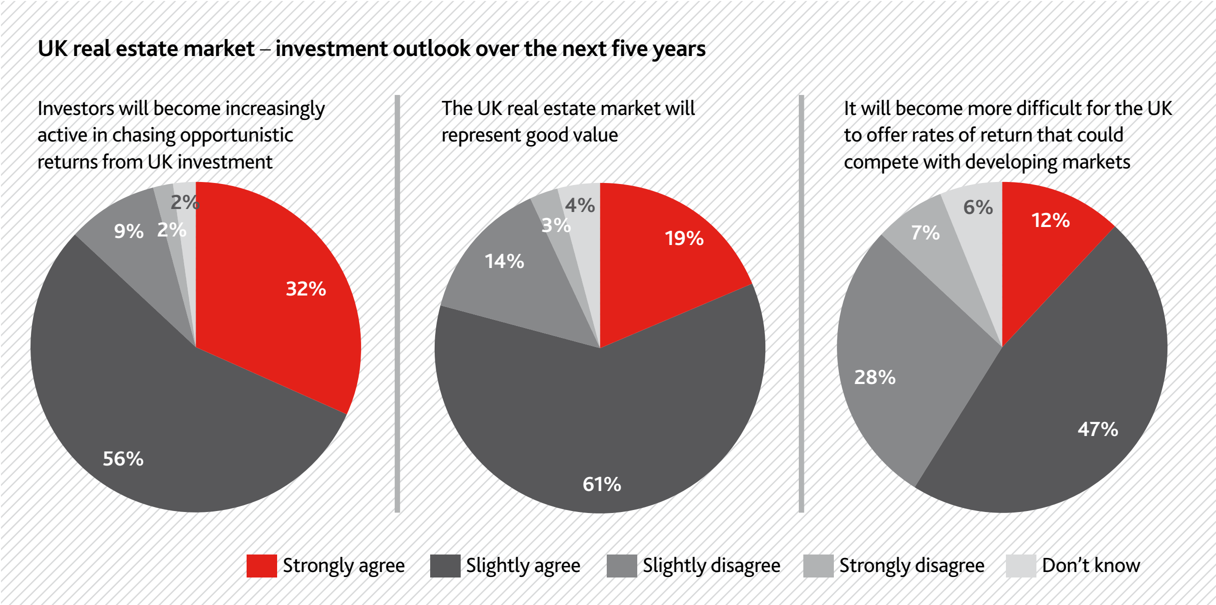
Investors

Investors expect the UK to become more attractive in the short-and medium-term with 73% saying that the attractiveness will increase in the next two years and 64% convinced it will also increase in the next five years. However, long-term projections differ with only 45% of investors expecting the UK to become increasingly attractive and nearly a third (29%) saying the attractiveness of the UK will not change in the next 10 years.

Changing attractiveness of the UK real estate market to investors

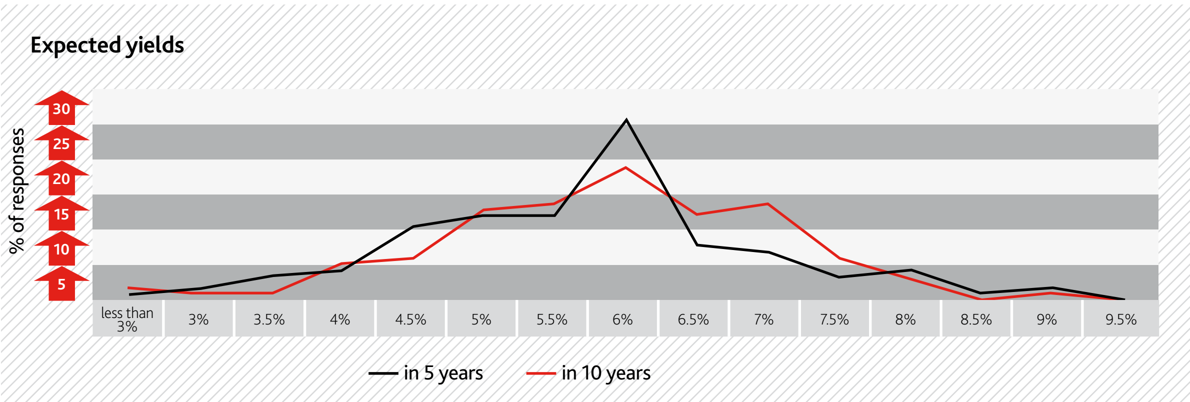


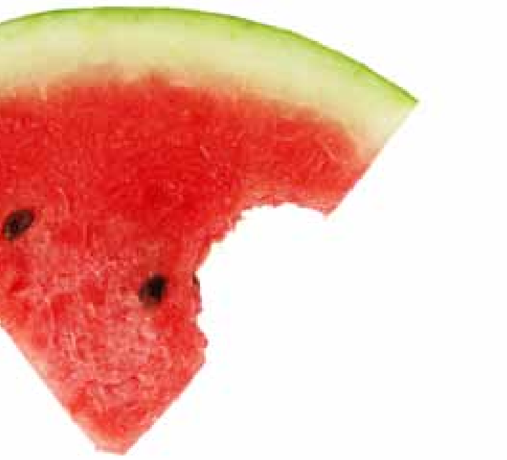
Overall, investors are likely to become increasingly active in chasing opportunistic returns from UK investment in the next five years and many (80%) feel the real estate market will continue to represent good value. At the same time, 59% of investors agree that it will become challenging for the UK to offer rates of return that can compete with developing markets especially as many occupiers will be under pressure to reduce operating costs and may seek to reduce rents.



Research participants are expecting annual yields after tax of around 5.5% to 6.5% in the next five years and 5% to 7% yields in the next 10 years. Asian investors in particular are satisfied with this performance, given that yields in their home markets have, in many cases, fallen below 3%. There is now a growing consensus that global investors will begin to explore prime properties outside London, whilst until now they have tended to focus their interest on central London. Regional shopping centres have always held their appeal for global investors, but the indications are that central business district offices in strong cities like Manchester, Birmingham and Aberdeen will perform well.

The level of interest in the UK market from overseas investors may, at first glance, appear surprising given the fact that the UK is only slowly emerging from recession and that outside London property values have been falling. However, the UK, particularly London, is seen as a safe haven benefiting from the flight of capital from more volatile jurisdictions; the currency opportunities created by the depressed pound (the impact of this fluctuates – sterling has already fallen this year to its lowest level in two years but then risen again); and the lack of competition following the slow-down in activity by UK investors.



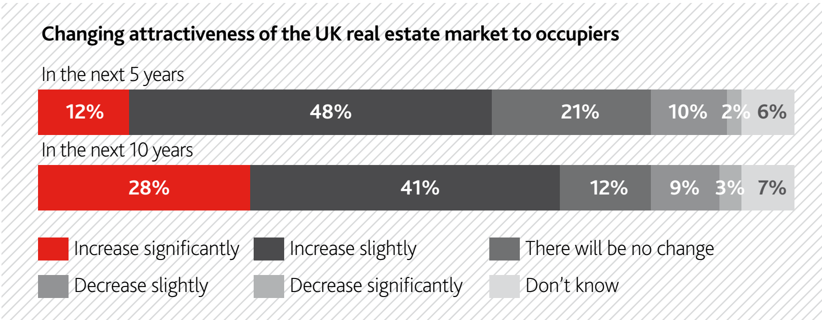


Asian investor

"I probably see the UK becoming a less attractive location over the next five years, I don't see London diminishing in attractiveness, but other cities will become more attractive."

Occupiers

Global occupiers believe the UK will become an increasingly attractive market for occupancy with 60% agreeing that the attractiveness of the UK will continue to increase in the next five years and 69% agreeing it will increase in the next 10 years.



69% of our respondents claim that their organisation is likely to increase headcount in the next five years. Similarly, 63% are likely to increase the number of offices and 72% are also likely to increase their capital investment.

There are, however, interesting disparities among the occupiers polled.

- The UK tax regime is seen as attractive by French occupiers, with 40% saying this is the most attractive characteristic of having operations in the UK. This compares with 18% of occupiers overall naming the UK's tax regime as its most appealing characteristic. We suspect that the UK's relatively lenient labour laws, compared to those in France, also play a part in encouraging French occupiers to the UK.
- Indian occupiers are worried about UK immigration policy, with 69% agreeing that a restrictive policy would be a deterrent to having operations in the UK. This compares with 40% of overall occupiers agreeing that immigration policy could be a deterrent.
- There are also major concerns among occupiers over a potential UK exit from the European Union. 69% of German occupiers and 58% of French occupiers say an EU exit would be a deterrent to occupying real estate in the UK. This figure is even higher amongst Indian occupiers (78%).
- The UK's threatened hub airport status is also a cause for concern among international occupiers, with 69% of German occupiers, 54% of French occupiers and 28% of American occupiers saying this is a deterrent to occupying property in the UK.

North American investor

"**Planning** has to be quicker because otherwise it delays construction. The process should be simplified and less conditioned."

Western European investor

"Most of our UK investment is in **central London**. Currently it's around **2bn Euros**, but it fluctuates. The plan is to **invest** an additional 1 to 1.5bn Euros in the next two years."

Asian investor

"The structure of the **UK market** will change a little, but no one holds property **forever**. Even long-term investors want to see some **realisation** of their assets."

UK investor

"It's much easier to find **good value deals** outside of central London."

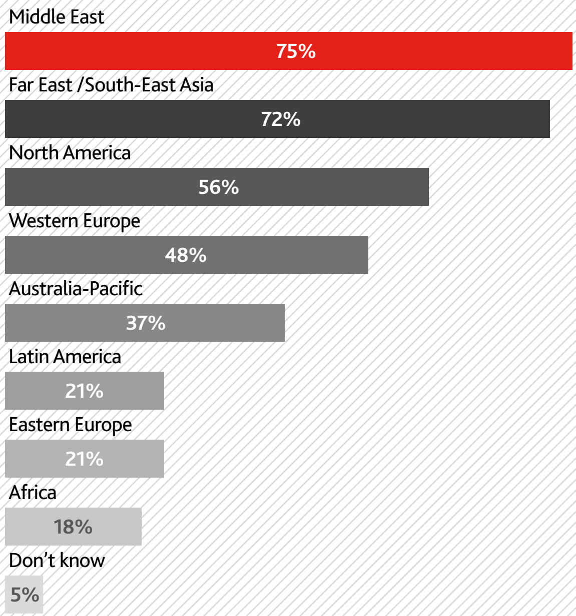
Who has the appetite for UK investment?

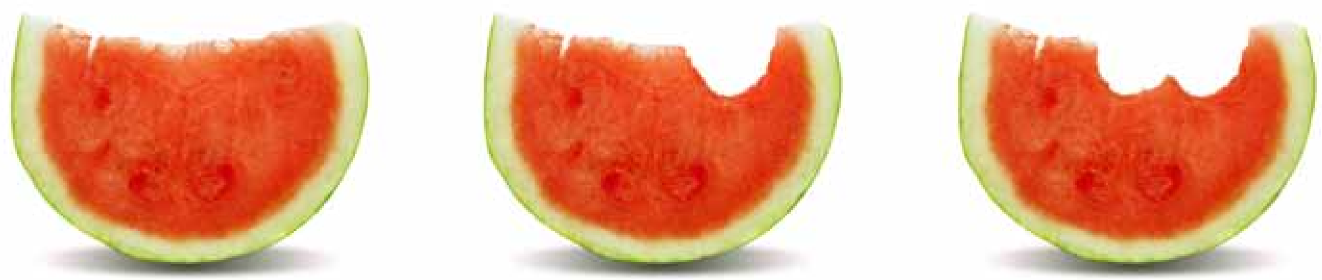
Middle Eastern and Asian investors top the table.

Investment into the UK is truly global and investors from around the world see London as being a safe haven. The Middle East, followed by the Far East/South East Asia, tops the table of investors into UK real estate.

Three quarters of survey participants see the Middle East as one of the main sources of investment in the UK. Investors from the Far East/South-East Asia are another major presence in the UK and the trend is likely to continue with 72% of our survey respondents saying that future investment into UK real estate is guaranteed to come from the Far East/South East Asia.

Sources of future inward real estate investment





The UK, and in particular London, is seen by international investors as a familiar and transparent market as well as a safe haven. Economic stability, a clear legal framework and convenient time zone for conducting business are just some of London's best attributes. The attractiveness of the market among international investors is reflected in the strength of demand from overseas buyers that has been compressing yields and driving up prices in some parts of central London.

Residential property has been popular for Middle Eastern investors, particularly since the beginning of the Arab Spring, reflecting the increasing perception of London as a safe haven. Similarly Chinese high-net-worth individuals are particularly likely to be a significant force in UK residential property as the UK offers them stability, democracy and an opportunity to educate their children in some of the best universities of the English-speaking world.

Institutional investors, however, are leading the charge. Legislative changes in a number of Far Eastern locations – notably for Chinese insurance companies – are expected to lead to a significant outflow of cash. North American pension funds, with Canadian investors currently in the vanguard, are expected to continue to spend, although few expect these buyers to diversify away from their traditional central London hot spots.

"The UK, and in particular London, is seen by international investors as a familiar and transparent market as well as a safe haven."

UK adviser

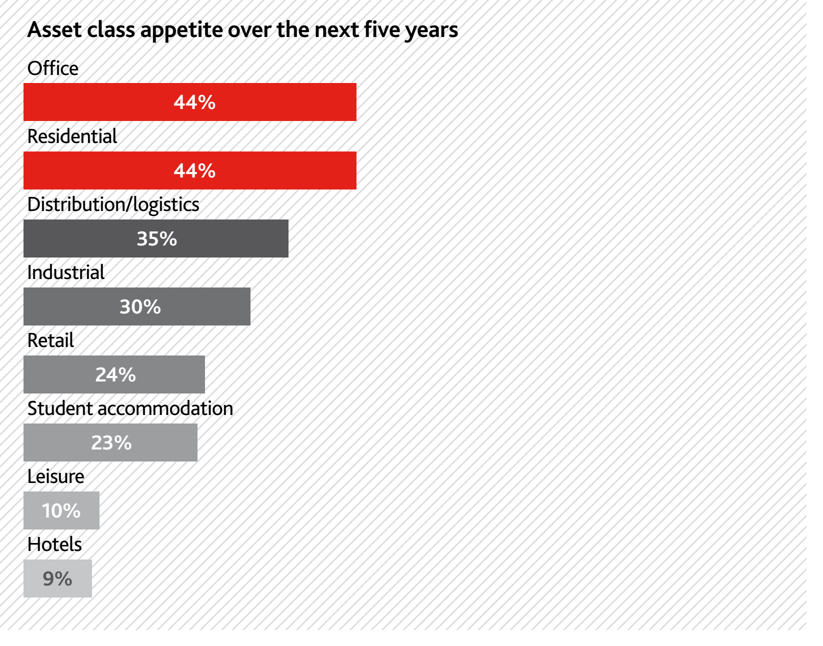
"Overseas investors are not going to go away… London is likely to become more attractive for Chinese investors as they have deep pockets."

What do investors have the appetite for?

44%

of respondents have an appetite for office and residential real estate.

The most highly prized assets are prime office buildings although, notably, residential is level pegging, an asset class which is increasingly in demand. The position of retail may surprise some. With concerns around the impact of internet shopping, it drops to mid-table.



Offices

Despite prime yields in London falling below 5%, offices are still seen as an attractive investment. In the West End restricted supply is underpinning the market with sovereign wealth and overseas institutions being the most active. Whilst a number of significant new sales have come to the market, demand still outstrips supply. It is a similar picture in the City where falling stock levels struggle to keep up with high demand.

Residential

Our survey shows a strong appetite for residential property. The UK residential market is underdeveloped with institutional investors traditionally shying away from the sector. This looks set to change with the likes of M&G Real Estate and Legal & General now investing in the sector. Overseas owners are used to a diverse residential market with high-rise urban developments, multi-family and condominium investments. It is no surprise that they are attracted to some of the exciting London residential schemes. Specialist active asset management is often required but the biggest challenge is likely to be providing the available residential stock to satisfy this demand.

Distribution/Logistics

The strong appetite for distribution property marks a real shift in sentiment. Having suffered from 10%+ national vacancy rates in the 2008 to 2011 slump, lack of development has now led to supply of new distribution space drying up. In addition, the continued impact of the internet revolution on retailing has led to the blurring of boundaries between retail and distribution property with many online retailers demanding more space in the distribution sector.

Industrial

While a third of respondents fear that the supply of prime industrial space will decrease significantly as take-up exceeds replenishment, more believe that high quality well-located industrial real estate is far from being in short supply. This has traditionally been a high-yielding asset class, a trend which has clearly not gone unnoticed in the global market – it reaches a respectable fourth on the table of most attractive assets.

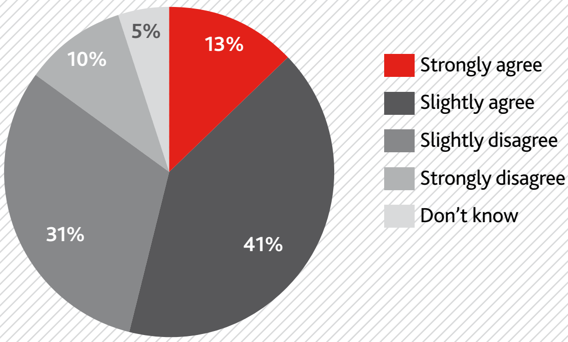
Retail

Respondents are relatively pessimistic about the potential of retail property. This is not surprising: cash-strapped shoppers continue to tighten their belts as real income is squeezed and online retailing continues to grow.

Interestingly, the trend for online shopping has actually triggered demand for a new concept of real estate. Supermarkets are increasingly servicing online orders from large specialised warehouses known as 'dark stores' or dotcom only stores. These retail outlets for the 'virtual shopper' may actually be feeding the popularity of distribution as an asset class mentioned above.

UK real estate market – retail investment outlook

Growth of online retailing will significantly lower investment in the retail property market



Student accommodation

Around 23% of investors believe this sector represents the greatest value. Student accommodation has gradually emerged as a strong, mainstream global investment class. Growth has been driven by the increase in student numbers (particularly from overseas) combined with a dearth of student housing/places in university halls.

Leisure

This diverse sector including restaurants, casinos and cinemas has enjoyed a surge in recent years. As shopping becomes a 'dawn to dusk' pastime, switched on investors are turning their retail into leisure destinations. There is such an overlap between entertainment, retail and leisure that around 25% of all units in Westfield's Stratford centre are not retail. There is even a trend to incorporate large cinemas as an anchor to the retail. Is this mix and diversity the key to prosperity in more austere times?

Hotels

A smaller percentage (9%) of investors see hotels as an attractive investment. This lower level of interest from investors could perhaps be explained by the hotel sector's specialist nature. Value is generally underpinned by a strong operator but increasingly, fewer renowned operators are entering into traditional leases but favouring management contracts. This may free up an operator's own balance sheet and de-risk inadequate demand from paying customers but is less attractive to investors who lose the security of fixed income under a lease.

Which asset class represents best value?

North American Investor

"Residential is going to be very good. Not just prime property in central London but also outside of it thanks to Government schemes."

Asian Investor

"Our focus is on office property."

UK Investor

"I'd focus on the best of the secondary retail because I think it's been under such pressure that it's close to the bottom if not at the bottom."

Why do investors have an appetite for the UK?

+ Economic stability
+ Perceived liquidity
- Tax
- Planning

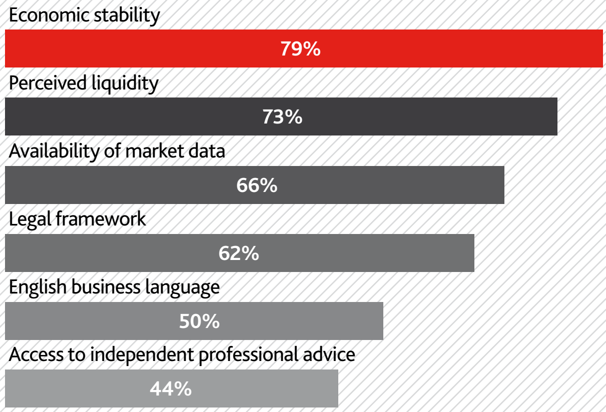
Economic stability, closely followed by perceived liquidity makes the UK real estate market very attractive to investors. Potential deterrents to UK investment include the tax regime, planning laws and the financial instability of other parts of Europe.

Investors

Four out of five investors surveyed highlight the UK's economic stability as having a positive impact on their real estate investment decisions. Other drivers of investment include perceived liquidity (73%). This is surprising given that liquidity in comparison to other investment classes, such as bonds and equities, is often cited as a reason why real estate comprises less than 10% of the total UK investment market (by value). Perhaps this shows that UK real estate has more liquidity compared to other countries.

For UK-based investors, availability of market data (66%) is a given but in countries with a less established real estate market or one with information barriers, availability of market data cannot be taken for granted and it can have a positive impact on selecting where to invest. Likewise, legal framework (62%) and English business language (50%) is valued as is access to independent professional advice with 44% saying that access to an advisory community is a favourable aspect of investing in the UK.

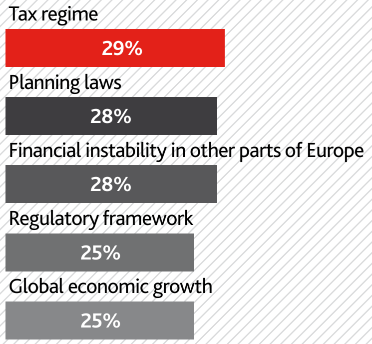
Main drivers of UK real estate investment



However, a number of characteristics of the UK market weigh heavily on the minds of investors and discourage them from investing in the UK. Significant deterrents include the tax regime (29%), planning laws (28%) and regulatory framework (25%).

The tax system being listed as one of the top barriers to investing in the UK is a major concern. However, provided investors are properly advised, the UK tax regime can be very benign with low effective tax rates. In addition, the government has recently relaxed the REIT rules and is working on transparent fund vehicles to encourage investment.

Main deterrents to investing in the UK



The complexity of planning law is also of concern to investors. The UK planning system has developed over several decades and is perceived as a complicated regime to navigate. The Government commissioned Lord Taylor to review planning guidance in the UK and his report identified 200 documents running to over 7,000 pages that needed to be slimmed down or thrown away. Things are improving although the Government has yet to put his recommendations fully into practice.

Delay to the start of development caused by legal challenges to planning permissions has also been a concern. Following consultation in 2012 the Government has now introduced measures intended to remove or at least reduce such delays. It remains to be seen what effect these measures will have.

Financial instability in other parts of Europe is moderating investment even further with 28% of investors saying that the on-going Eurozone crisis is having a negative impact on their real estate asset activity. The general view is that it is beneficial that the UK has not joined the euro. At the same time many economies (especially outside Europe) are growing rapidly and this growth will inevitably mean a decrease in the relative attractiveness of the UK.

Occupiers

With similar results to the investor market, our survey shows that occupiers are attracted to the UK by the English language (55%), economic stability (45%) and access to a diverse talent pool (44%).

The uncertainty around the state of the EU economy and its future is one of the biggest concerns of occupiers – 61% agree that it is a deterrent to having operations in the UK. Not far behind, the risk of the UK leaving the EU was also a frequently cited (55%) challenge for businesses.

Many occupiers are also concerned about the UK's tax regime for domestic trade. The survey reveals that the level of concern is particularly high among domestic occupiers and occupiers from low tax jurisdictions. Conversely (and understandably), occupiers from high tax jurisdictions did not agree that the tax regime in the UK was a deterrent.

Although overall the UK's immigration policy does not have an impact on EU businesses that benefit from the four economic freedoms of free movement of goods, services, labour and capital, the immigration policy looks very different from outside the EU. Indeed, 69% of occupiers based in India believe that the UK's immigration policy is a deterrent to having operations in the UK.

What makes the UK an occupier hotspot?

> "Access to Eurozone without the impediments of the euro currency."

> "English-speaking, financially stable and with a talented and educated group of people."

> "Stable Government and legal system."

> "It's the most important country in Europe and having business in the UK is like opening windows to other parts of Europe."

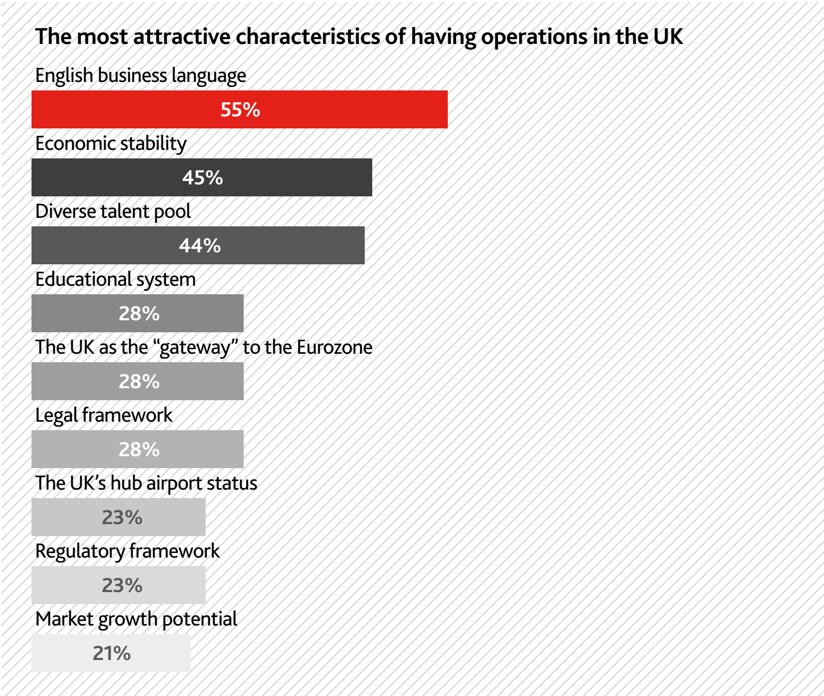
Biggest deterrents to occupiers coming to the UK

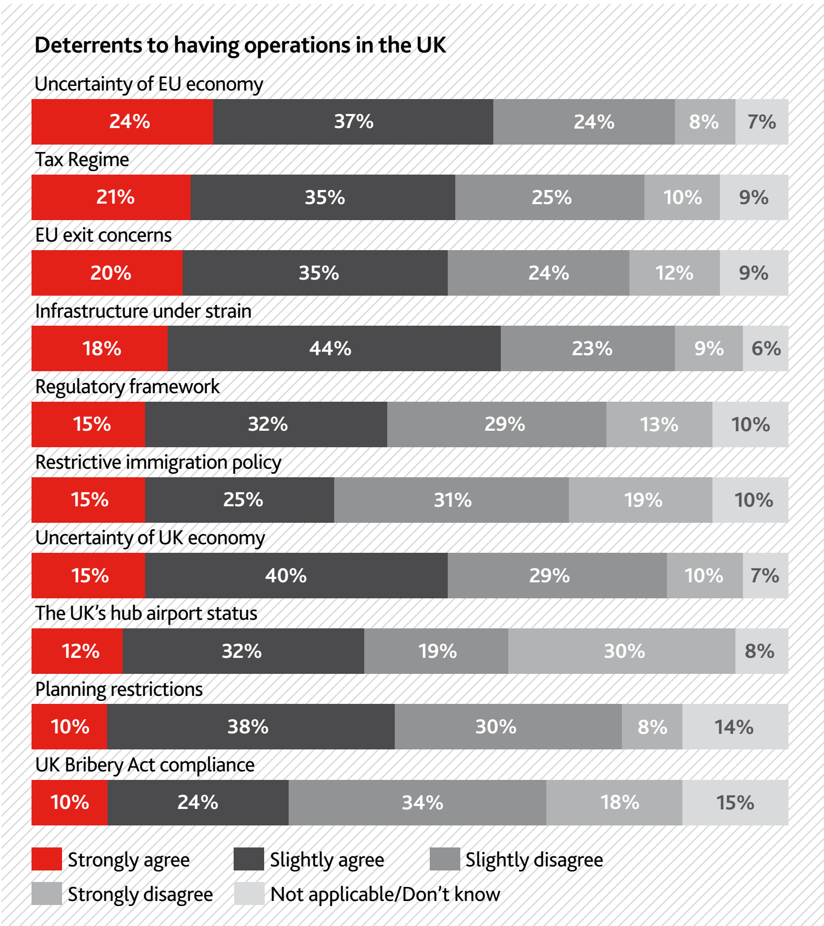
"Tax is a deterrent."

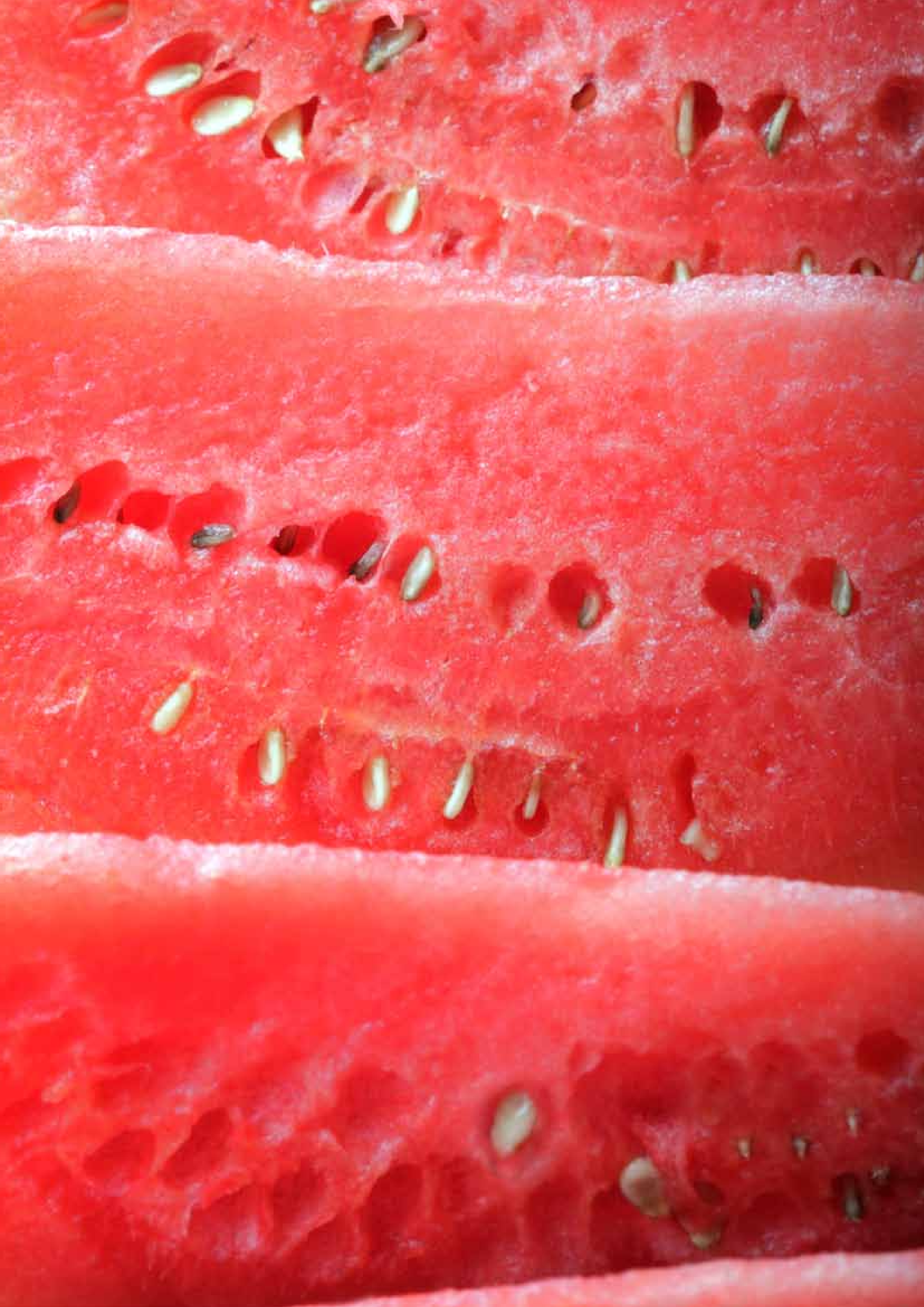
"Lack of 3rd/4th runway at Heathrow."

"Potential UK withdrawal from Europe."

"London's dated transport systems, chaotic traffic situation, housing dilemma and the city being far too large now."







How are investors financing their appetite for UK real estate?

70%

of respondents think non-bank financial institutions will become more active providers of real estate funding.

Ongoing difficulties in the banking sector have caused a decrease in lending to certain investment classes, including real estate. As the availability and attractiveness of financing through commercial banks is unlikely to improve quickly, investors are more likely to rely on alternative forms of finance such as non-bank financial institutions and insurance companies as well as equity of their own or joint venture partners.

70% of survey respondents believe that non-bank financial institutions are likely to become more active providers of real estate funding in the next five years. Similarly, 67% expect insurers to provide increased real estate debt funding. This is not unexpected taking into account developments around insurance regulation – Solvency II will come into effect on 1 January 2014.

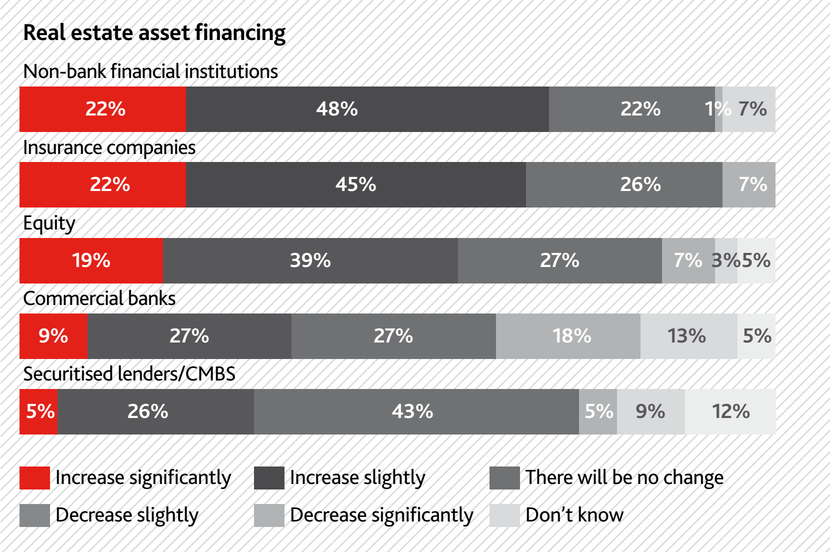
There has been a surge in lending from non-bank sources. The debt landscape is now varied and populated by new entrants with a different approach to bank lenders: debt funds, asset managers and insurers to name a few who are providing senior, junior and mezzanine debt. While their lending has increased dramatically, it is a small proportion of the financing requirements of the commercial real estate sector but will certainly be part of the solution. Some have the capacity to scale up to maintain significant loan assets and will be long-term participants. Others are taking the opportunity to make returns indirectly in the commercial real estate market on attractive pricing with a shorter term view.

Whilst some insurers are looking to lend on the largest commercial real estate transactions involving the finest assets or portfolios for fixed income, some more opportunistic investors will pick off the smaller, more challenging projects which would be unattractive to banks because of the higher capital demands made by such transactions on their balance sheet.

Over half (58%) of investors surveyed expect that financing through equity capital markets will become increasingly attractive in 2013 to 2018. Views about the attractiveness of commercial mortgage-backed securities (CMBS) are mixed. Many (43%) believe that there will be no change in using this form of funding. Whilst new, significant CMBS activity is unlikely in the short-term in the UK (compared to the US), it may lead to good news in due course for debt availability and liquidity.

The most significant factor affecting banks' capacity to lend into the commercial real estate sector is the impact of regulatory capital changes. Under Basel regulations, the requirement of "slotting" real estate loans according to the quality of the underlying commercial real estate asset is seeing some either not lending at all or only lending against the very highest quality assets. The availability of development finance is particularly affected by the imposition of ever more demanding capital adequacy rules.

There is scope for the UK Government to assist by encouraging the growth of new investors and structures. Actions to introduce mortgage REITs, housing REITs and private REITs are still in their infancy but will be a welcome addition to the sector.

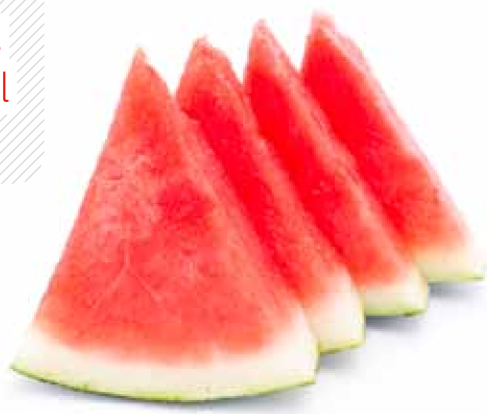


Are you seeking to invest in the UK via debt or equity?

UK adviser
"I can't think in the last two years of more than a handful of deals that actually closed with parallel debt finance. Pretty much all the activity has been with people closing all cash and putting in debt subsequently."

North American investor
"Equity and later debt financing."

UK investor
"We're seeing interest across different parts of the debt capital stack and I think that will only continue."



Where else is investor appetite focused?

BRICS, Latin America, South-East Asia attracting investors

If the UK's attractiveness falls, where will investors turn? The BRICS countries, Latin America and South-East Asia will become the most attractive alternative destinations for global real estate investors in the next five years.

Our research shows a long-term reduction in the level of appetite for the UK which correlates with substantial economic growth in other parts of the world, increasing importance of other global cities and higher yields in other markets and short supply in the UK. These factors mean that investors perceive that the UK will find it increasingly challenging to retain its dominance over emerging locations.

Investment attractiveness in the BRICS (Brazil, Russia, India, China, South Africa), Latin America overall and South-East Asia will increase (68%, 63% and 61% respectively). With 25% of the world's land mass and 40% of the world's population, rapid consumerisation, commercialisation and urbanisation the potential of the BRICS looks compelling. Indeed, our survey participants believe that the potential long-term attractiveness of the BRICS economies exceeds Western Europe by almost 20%.

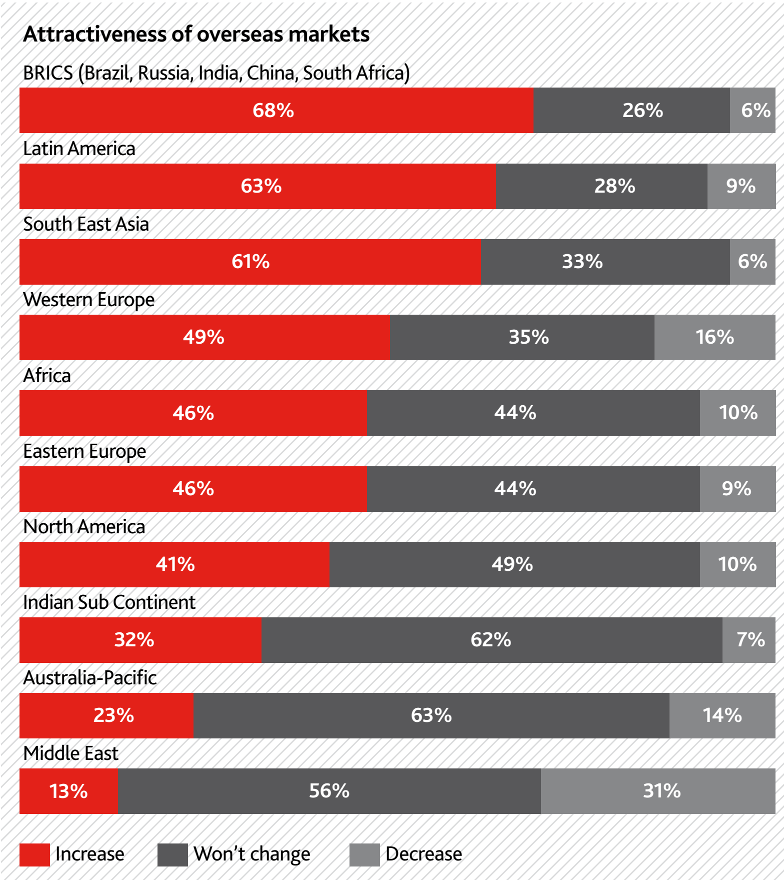
However, investors are also expecting growth beyond Brazil, Latin America's powerhouse. Investors are looking at other markets such as Mexico where there is an enormous housing deficit to fill, increased consumption and where commercialisation will drive demand for retail property as well as quality offices.

According to our survey, interest in the Middle East is most likely to drop with a third of investors saying that the attractiveness of the Middle East will decrease in the future and only 13% saying that an increase is possible.

The strength of BRICS economies comes as no surprise, even if locations like India are no longer enjoying stellar growth. However, Latin America's appeal on its own is far higher than expected, outstripping traditional real estate investment hotspots in Western Europe like Paris, Frankfurt and Madrid. The prospect of strong gains in Africa is also appealing to investors, with the United States lagging as it traditionally does – often being a famous graveyard for investors from outside its shores.

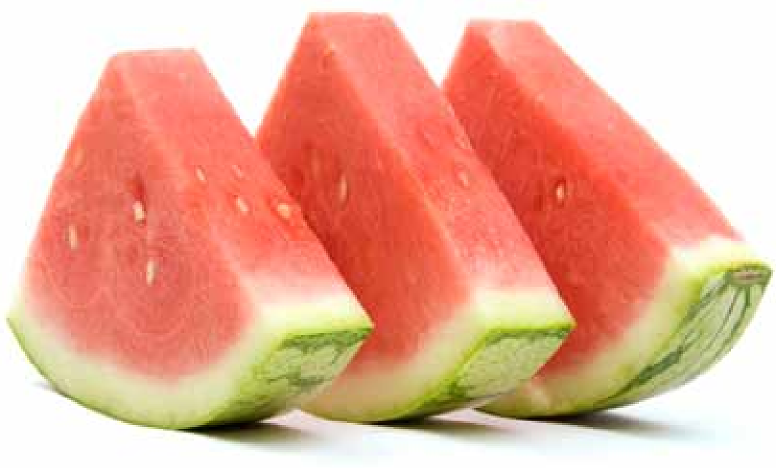
UK Adviser

"Outside of Europe, it would be Sydney and Hong Kong [that will become increasingly important to global investors in the next 10 years]."



Asian Investor

"We see cities in the US and Europe becoming more attractive… China, Japan and Australia will perform better."



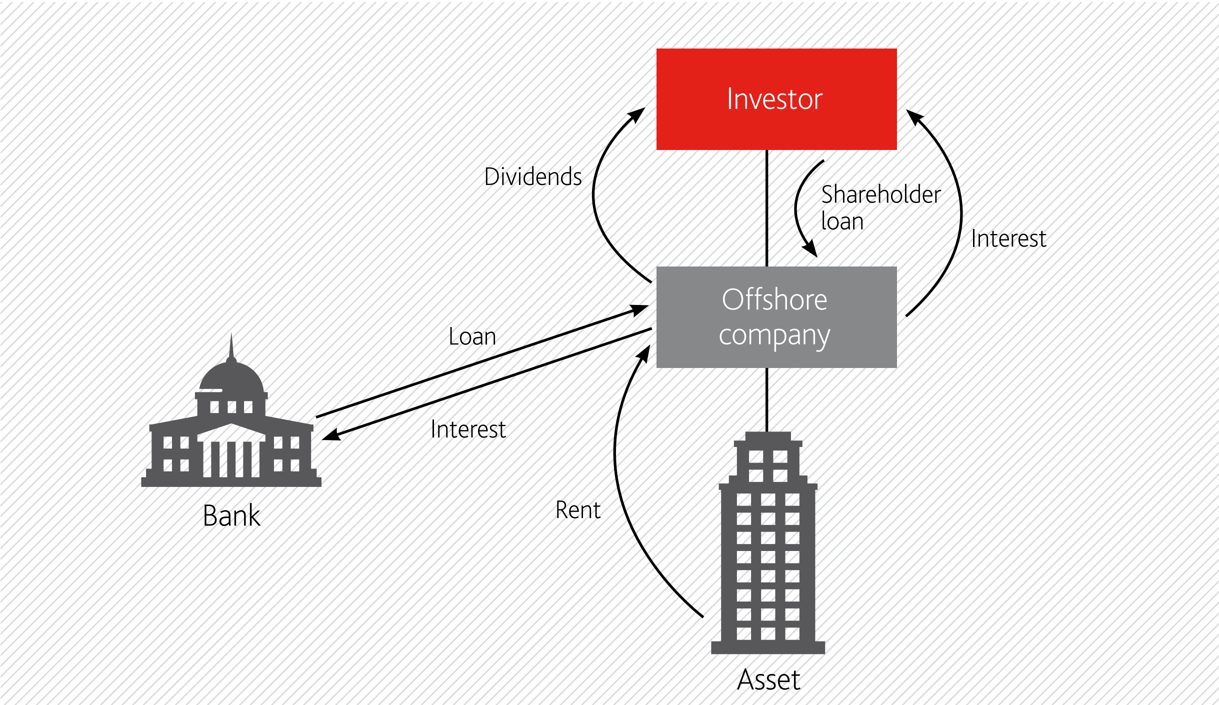
The legal menu – overcoming investment barriers

Our research has highlighted a number of perceived barriers to overseas investment in the UK. We are experienced in guiding clients through such barriers and here are some of our recommendations for navigating the UK's legal framework.

Tax

26% of respondents saw the UK tax regime as a deterrent. In fact, if properly structured at an early stage, investors into the UK can benefit from a very generous tax regime.

A typical structure might take the following form:



The offshore company is subject to UK tax on its net rental income. Deductions are available for interest, depreciation and management expenses. But critically, interest paid under certain shareholder loans is also deductible. The offshore company is not subject to UK capital gains tax. This presents overseas investors with a distinct advantage over a standard UK resident investor.

Stamp duty land tax (SDLT) is chargeable at a rate of 4% on commercial property purchases. SDLT could be the principal tax charge that an offshore investor faces. However, unlike other jurisdictions, properly structured transfers of property rich offshore SPVs are outside the scope of SDLT.

Liquidity

Our research revealed that the UK real estate market is regarded as liquid. Notwithstanding this, the cost and time involved in undertaking real estate transactions can be seen as a barrier to liquidity. Nabarro partners, Ciaran Carvalho and Clare Thomas were part of a recent Investment Property Forum working group alongside investors, property companies and fund managers which considered the procedures for buying and selling real estate. This led to the publication of 'Readiness for Sale – a guide for streamlining commercial property transactions'. The guide is intended to encourage best practice in the UK real estate investment market, to promote liquidity (and thereby enhance value) of real estate as an asset class.

Visit www.nabarro.com for a copy of the Readiness of Sale report and the Nabarro Infrastructure Index.

Land ownership

Whilst our research found that the UK legal framework is generally seen as a positive factor, leases may at first appear unusual to overseas investors who may query why someone would invest in a leasehold asset, for example a 125 or 999 year lease, instead of a freehold property.

This form of ownership has historically been common, for example in the West End of London where freeholds have been in the same family for generations. There are also legal reasons. Purchasers of freehold interests are not necessarily required to comply with positive obligations e.g. covenants to pay contributions for common services or maintenance obligations. Leases get around this issue by creating a directly enforceable link between the landlord and tenant and therefore, you will often find long leases on the sale of apartments. Provided a long lease contains certain safeguards (such as mortgagee protection clauses) it should not be a barrier to investment in UK real estate.

Planning

There is no doubt that planning has, in the past, been an impediment on development. However, the UK Government is making great efforts to liberalise the planning regime. For example: it has recently increased the categories of development that can be carried out without the need to obtain planning permission; it is actively seeking to cut planning 'red tape'; and has introduced new time limits on the ability of objectors to challenge planning permissions once granted. This all bodes well for a more dynamic framework – after all 'time is money' and can increase risks associated with a particular project.

"The UK Government is making great efforts to liberalise the planning regime."

We can't guarantee swift decision-making by planning authorities, but we can apply the expertise we have gained from advising on some of the UK's most complex development projects to make it more likely. We know how to run effective pre-application discussions and the legal parameters within which political lobbying may be conducted.

Infrastructure

We know from the views expressed to us as part of this research that there is a perception that the UK has under invested in road and rail infrastructure. There is also uncertainty about airport capacity in the south east. However, our recent Infrastructure Index suggests that the UK is a top destination for infrastructure investment.

This is borne out by investment in major projects like Crossrail, the advanced preparations for HS2 and the current consideration of airport strategy for London. However, it will still be important to check that the infrastructure required to serve your investment will be delivered when and where you need it.

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About Nabarro

We are a major commercial law firm renowned for our positive and practical approach to our clients' business needs. Our commercial real estate group has an unrivalled reputation for advising on the largest and most complex UK and European real estate transactions and investment for some of the world's most significant investors, developers, funders, occupiers and advisers. Our team consists of over 200 real estate lawyers, well known for being specialists across the whole real estate life cycle, from financing, acquisition and planning to development, investment and sale. Our market leading teams also specialise in funds and indirect real estate, environment, construction, litigation and tax.

Our real estate practice is highly ranked in Chambers and Partners and Legal 500 and we have recently been shortlisted for The Lawyer Awards as Real Estate team of the Year.

The firm's headquarters are in central London with offices also in Sheffield, Brussels and Singapore. For cross-border work we draw on longstanding relationships with a network of selected firms worldwide, with strategic alliances with partner firms GSK Stockmann & Kollegen in Germany, August & Debouzy in France, Nunziante Magrone in Italy and Roca Junyent in Spain. More information can be found at www.nabarro.com.

About FTI

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. With more than 3,915 employees located in 24 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management, strategic communications and restructuring. The company generated $1.58bn in revenues during fiscal year 2012. More information can be found at www.fticonsulting.com.

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