BNP Paribas Real Estate is the market leader in commercial real estate services across Europe with €752m of gross turnover, €172m of profit before tax and 3,800 employees in 37 countries.* As part of BNP Paribas Bank, we offer our clients access to finance, financial markets intelligence, a Global network and leverage on the bank’s relationships.

KEY FIGURES

- €20.3bn of assets under management across Europe
- €250bn assets valued in the last 12 months
- £3bn investment deals in the UK alone for clients
- £3.5bn investment deals generated by our Dubai and Hong Kong platforms in 2014
- 35m sq m of property managed across Europe for investor clients

One of the market leaders in Europe in commercial Property Development in Europe

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LONDON BY NUMBERS

75%
Three quarters of Fortune 500 companies have a London office.

8.61m
8.61m - London's population has grown every year since 1998 and in January 2015, surpassed the previous record of 8.6m people in 1999.

17m
London continues to be a vibrant tourist destination, attracting 17 million international visitors in the last 12 months.

LONDON REMAINS THE FINANCIAL CENTRE OF THE WORLD

Over the last 18 months, London has continued to reinforce its status as the financial centre of the world. Investment into London has increased quarter on quarter with even more global capital flowing into our great city, a large proportion of which into real estate.

Central London commercial property investment reached just under £20bn throughout 2014 (on a par with 2013) with 73% from overseas buyers. The last 12 months saw some of London’s trophy assets change hands – the Gherkin now belongs to Safra, a dynasty owned by America (well a Brazilian-Lebanese family via its New York office) and the HSBC Tower (and indeed most of Canary Wharf now) is Qatari owned. The appetite for London’s biggest, most high profile buildings continues; a trend that we think is unlikely to end. What we also see is a continued appetite for smaller investment opportunities across all assets – activity which also helps drive the market.

The emerging submarkets this guide highlighted in 2013 have planted themselves firmly in our London maps – King’s Cross is unrecognizable today in comparison with just a few short years ago.

BNP Paribas Real Estate has become a force to be reckoned with in London: our capital markets teams delivered over £3bn of investment deals for our clients, ranging from sub-£20m lots to £500m+ assets, and negotiated on 10m sq ft of commercial space in the UK in the last 12 months. We absolutely believe in London as a real estate centre; we are the top advisers in London and that is why we’ve produced this guide.

The guide aims to help overseas investors understand the London market and what changes may be in store forwards. Our experts can advise you on entry to the London market, asset selection, asset management and property management so that your property strategy is in safe hands and your assets rise in value. We can also consider your debt position if gearing is required.

Throughout this document, our experts will guide you through the different makeup of the London submarkets, all you need to know about London, examples of transactional deals we have done with overseas investors, and of course, where the next opportunities are coming from. We have also teamed up with some of the best UK legal minds at Nabarro to bring you a clear understanding of tax and legal terms. We house a dedicated research team of experts who leverage on the wider BNP Paribas Group to provide market intelligence and forecasting to our clients and business lines. This team has provided the stats and market context running through the Guide.

Lastly a message to investors: it is increasingly important in this fast-paced London market to be ready to move quickly when advisers bring real estate opportunities to you. If you can make a quick decision and trust your advisers, you are more likely to be a winner in this market. With all eyes on London, speed can make the difference.

John Slade is Chief Executive Officer at BNP Paribas Real Estate.
TOP 10 REASONS TO INVEST

ONE  CONFIDENCE IN LONDON REMAINS HIGH – ECONOMICALLY AND POLITICALLY

London is at the heart of the strongest G7 economy and confidence remains high. Yes, there are some political factors to be wary of in the coming months but General Elections, EU Referendums and Mayoral Elections aside, London will always be a politically and economically safe place to invest. London is one of the leading global financial centres with strong economic fundamentals. It has proved time and again it can withstand economic shocks and perform as an economy in its own right, even when the UK economy is frail. The lower yields in London reflect the lower risks attached to investing in this strong economy.

TWO  LEASE TERMS

Average lease lengths in London are 10 years for offices and retail. In Asia, however, buildings tend to have shorter leases and are multi-let. "Overseas investors appreciate the fact that buildings are often occupied by a sole tenant that is there for the long term, making it simpler to asset manage a property from afar," says Andrew Cruickshank, senior director of international investment for BNP Paribas Real Estate.

THREE  LONDON CONTINUES TO BE POPULAR WITH OVERSEAS INVESTORS

Overseas investment continues to rise, and in our last guide we stated that 64% of London investment was from overseas; in 2014 this has risen to 73% and continues to rise. In 2014, the Gherkin at 30 St Mary Axe was bought by Brazilian/New York investors, and the HSBC Tower at Canary Wharf was bought by Qatars. The liquidity of the London market ensures there are always investment opportunities and always deals.

FOUR  LONDON OFFERS DIVERSE MARKETS WITHIN A MARKET

London is recognised as one of the largest and most dynamic cities in the world and, as such, offers a wide range of investment opportunities. The diverse occupier base, many of which cluster into certain submarkets (e.g. insurance in EC3 and TMT in northern City fringe), offer investors exposure to market-leading covenants in banking, insurance, media, technology, fashion, educational and industrial. These occupiers require different sized buildings with different designs and specification. The dynamism of London is being reflected by its ability to evolve and create new submarkets such as King’s Cross, Stratford, Southbank and Silicon Roundabout which are now established destinations.
THE TOP 10 REASONS TO INVEST IN LONDON

FIVE INFRASTRUCTURE INVESTMENT
Major transport and infrastructure investment, such as Crossrail and HS2, continues to improve London’s connectivity as well as fuelling regeneration and creating new development and investment opportunities. It has also led to the expansion of central London, with areas such as Stratford being considered as ‘core’ thanks to the super fast connection to the City and West End.

SIX MEDIA TECH TO DRIVE DEMAND
The technology, media and telecommunications sector is commonly abbreviated to TMT but we have started a move to rebrand this as Media Tech, given the polarity between the old media such as newspapers, PR firms and publishing houses against new media such as app developers and digital start-ups. In BNP Paribas Real Estate’s latest research into the sector, we found that two-thirds of media tech companies (64%) are looking to increase the number of employees in London over the next three years, an increase of 18% in headcount overall. 2015 looks set to be a great year for the London office market with the supply demand balance favourable to landlords, and significant rental growth expected.

SEVEN AVAILABILITY OF DEBT
The debt market has continued to improve. We are in a period of historical low interest rates coupled with low bank margins. This has resulted in borrowers being able to secure competitive financing terms on London assets. With London assets generally having a stable and diversified income profile, there is an increasing number of local and foreign financial institutions who are offering competitive debt terms on these assets.

EIGHT LONDON RETAIL AND RESIDENTIAL CONTINUE TO BE ROBUST
London’s retail property market continues to experience a period of strong growth, driven by a combination of favourable exchange rates for tourists; high levels of consumer expenditure in the capital and international retailers competing for space. Indeed, recent research found that London was now the most visited city in the world with 18.9 million tourists visiting in 2014, spending £12.8bn, the highest for any global city (Mastercard Global Destination Cities Index). Continental luxury brands continue to flock to central London and particularly the Regent Street / Bond Street locations, where they are a magnet to the international high net worth clientele, many of whom have UK homes. Similarly, London’s residential market is outperforming the rest of the UK and not just in the £1m+ category. In fact we see large growth prospects in the sub £1m category as well. In particular: London residential values under £1m are forecast to grow by 46.4% over the next 5 years, which is the highest predicted growth, followed closely by the £1m-£2m value range.

NINE LONDON OFFERS OVERSEAS INVESTORS AN ATTRACTIVE TAX REGIME
There is generally no UK tax on capital gains for non-UK resident investors buying property in London, even on deals negotiated or signed in the UK. When calculating taxable rental income, interest on a loan to a non-resident landlord secured against the property is generally deductible. Despite the introduction of anti-avoidance rules it is still possible to reduce SDLT on real estate transactions by the use of corporate structures.

TEN TRANSPARENCY AND LIQUIDITY, WHATEVER THE CYCLE
The simplicity and efficiency of the UK legal system and market practices means investors are able to access accurate market information about particular assets, as well as about the market in general. The liquidity of the London market means that entry and exit are always possible.
HOW WE DID IT

London may be one of the easiest markets to invest in globally, but new buyers still need to do their homework and pick a trusted expert adviser. They could also enter the market via a JV with an established local player. Here are some examples of recent deals BNP Paribas Real Estate has advised on for international buyers.

THAI FAMILY OFFICE

Andrew Cruickshank, senior international investment director at BNP Paribas Real Estate has been working with a Thai family, based in Bangkok for four years. The family now own six buildings in London following a strategy of diversifying their holdings in 2011, giving them the chance to benefit from London’s growing commercial and cultural prominence.

In 2014, Andrew purchased a prime West End building, a 70,000 sq ft office and retail building for his client, which offered long secure income leased to good covenants, with good rental growth potential.

Andrew said: “BNP Paribas Real Estate’s relationship with the client is now more established, with property management and professional advice being provided, which is important to the client because being based in Bangkok, they need a safe pair of hands via a local expert.”

QATARI INVESTOR

In 2014, BNP Paribas Real Estate’s West End Investment director Gregor Wallace was introduced to a Qatari private investor who was interested in diversifying their existing portfolio through purchasing UK property.

Specifically, the client was interested in prime London office investments with growth potential and asset management, and perhaps development opportunities.

130 Shaftesbury Avenue in London’s prime West End was purchased as part of this strategy because the building was modern and recently refurbished, it had a good micro location in Westminster and it was Sharia Compliant. Furthermore, its potential change of use and low passing rents made it a good asset management opportunity. The building comprises 60,130 sq ft of office space and is currently multi-let.

Gregor Wallace said: “We negotiated the purchase at £1,000 psf capital value which the client was delighted with given recent comparable deals, and the net yield was also attractive in comparison to other Soho and newly refurbished buildings. The client is now looking to work with BNP Paribas Real Estate on further purchases of the same ilk.”

NORTH AMERICAN INVESTOR

In November 2014, David Barry, senior international investment director at BNP Paribas Real Estate, advised global real estate private equity firm Madison International Realty on its purchase of a 50% equity stake in 133 Houndsditch and The Houndsditch Estate, EC3, London from TIAA Henderson Real Estate.

With a value of approximately £200m, the combined estate comprises five properties and 326,000 sq ft on a unique 1.75-acre freehold island site in the city of London, approximately 300m from Liverpool Street and Crossrail station. BNP Paribas Real Estate sourced the opportunity and successfully assisted Madison International in creating a new 50/50 Joint Venture with TIAA Henderson Real Estate for the entire Estate.

TIAA Henderson Real Estate is one of the leading landlords in London. Madison International is a global real estate private equity firm headquartered in New York, that provides equity to commercial real estate owners and investors seeking to sell partial ownership interests, joint venture, monetize value or restructure their balance sheets. In addition to this transaction, BNP Paribas Real Estate also successfully assisted Madison International in the landmark sale of their €500m+ office building in Frankfurt, Germany.
GUIDE TO LONDON’S SUBMARKETS

Whatever your investment strategy, London has something to offer, as our overview over the following six pages shows.

THE CITY

THE CITY: FOR BIG PLAYERS

If you have large amounts of capital to invest, this area should be top of your list. While the City offers a range of lot sizes from sub-£20m assets, there are many properties of £200m and over with strong covenants. Recent transactions of this scale include the purchase of the 514,710 sq ft Gherkin by Safra Group for £725m and the 525,000 sq ft Bank of America Merrill Lynch HQ building in EC1 by Norges for £583m.

With average office lease lengths of between five and 15 years, compared to between five and 10 years for offices in the West End, the area is ideal for those looking for long-term income.

Rents have been steadily growing since 2009 from £43.50 per sq ft; today they stand at £62.00 per sq ft and we forecast that they will rise to £74.00 per sq ft by the end of 2017. Current supply is being absorbed, decreasing from 7.86m sq ft in 2011 to 5.6m sq ft in at the end of 2014.

The provision of retail and leisure amenities has grown substantially in the past few years and this is principally for the City’s employees. There is also growing interest in mixed-use developments, of which Land Securities’ 300,000 sq ft One New Change, EC4, is a prime example as it provides the City of London’s shopping centre and a thriving bar and restaurant scene.

There has been £8.2bn of transactions in the City during 2014 – a big jump since our last investing guide in 2012 where £6.89bn was transacted. 73% of investment in 2014 was from overseas.

OCCUPIERS

Finance is by far the most important sector to the City, accounting for 50% of the occupier base. However, it is also dominated by professional services firms such as lawyers and accountants (30%) and insurers (10%). Since our last guide was published, the media tech sector has emerged as a strong City occupier, responsible for 20% of take up in 2014 and our research predicts that the Square Mile will continue to be a favourite location for many media tech firms in 2015-2017.

Take-up in the City in 2014 reached 7.3m sq ft, the second highest volume since 2000 and only surpassed by 2010’s figure of 7.73m sq ft. Notable deals in 2014 included a 439,921 sq ft letting to Amazon at Principal Place, E1, 322,686 sq ft let to M&G Investment Management Ltd at 10 Fenchurch Avenue, EC3, 198,360 sq ft let to Mizuho Bank Ltd at New Ludgate, EC4 and Schroders taking 310,000 sq ft at Brookfield and Oxford Properties’ One London Wall Place.

Prime rents in the City core continued to rise from £54.50 per sq ft in Q1 2013 to £62.00 per sq ft by the end of 2014, with tower buildings up to £74 per sq ft, and rents of up to £85 per sq ft achieved on the best tower floors.

DEVELOPMENT

The City will see 2.5m sq ft of new office space coming to market between 2015 and 2017, the majority of which will be in 2015 including 1.82 New Ludgate comprising 350,000 sq ft which are already 65% pre-let. In fact many schemes coming through the pipeline are substantially pre-let meaning supply is constricted which will lead to further rental growth.

A FAVOURITE WITH

The City has a very international mix of investors who consider the district a safe haven for their capital. Transaction data for 2014 shows the market was most popular with Asian investors, accounting for 39.3% of transactions and North American investors at 32.1%. South American investors and European investors were some way behind on 12.1% and 13.4% respectively.

### CITY POST CODES:

- **EC1** professional/financial/media; **EC2** financial district; **EC3** insurance district; **EC4** professional services

### MOST FAMOUS FOR:

- The City of London is a world leading financial centre. A total of 300,000 are employed in the financial services sector and more funds are invested in the submarket than in the next top 10 European cities combined – according to the London Financial Sector Survey, BNP Paribas Real Estate reported that the City remains the world leading financial centre, with 82% of respondents citing the capital as the global leader, compared with just 16% who specified New York.

### LANDMARK BUILDINGS:

- The Gherkin, Tower 42, Lloyds of London, the Heron Roundabout

### PRIME RENTS (£/SQ FT)

<table>
<thead>
<tr>
<th>Year</th>
<th>Prime Rent</th>
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<tr>
<td>2014</td>
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<td>2013</td>
<td>£62.00</td>
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<td>Forecast</td>
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<th>Forecast</th>
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<td>£74.00</td>
<td>£62.00</td>
<td>£74.00</td>
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</tbody>
</table>

### VACANCY RATE

- **6.25%**

- Forecasts for the next five years indicate that the City will see a vacancy rate of around 4.0% by 2017.

### FORECAST (£/SQ FT)

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<th>Year</th>
<th>Prime Rent</th>
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<td>2016</td>
<td>£72.00</td>
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<table>
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<tbody>
<tr>
<td>BNP Paribas Real Estate</td>
<td>£74.00</td>
<td>£72.00</td>
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</tbody>
</table>

### PRIME OFFICE YIELDS

- **6.25%**
THE WEST END

**WEST END POST CODES:** W1, SW1, W2, SW3, SW7 and W8

**MOST FAMOUS FOR:** Retail. The West End is a shopper's paradise, offering everything from cheap and chic fashion to luxury designer goods on its famous streets such as Bond Street, Oxford Street, Regent Street and Piccadilly. Also known for its theatres and Georgian architecture.

**LANDMARK BUILDINGS:** Houses of Parliament, Buckingham Palace, The Ritz Hotel.

<table>
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<th>2016</th>
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<td>Victoria</td>
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<tr>
<td>Soho</td>
<td>£82.50</td>
<td>£84.00</td>
<td>£85.00</td>
<td></td>
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<tr>
<td>North Oxford Street East</td>
<td>£80.00</td>
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<td></td>
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<tr>
<td>North Oxford Street West</td>
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**PRIME RENTS (£/SQ FT) & YIELDS**

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<th>Prime Rent Forecasts (%)</th>
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<td>Vacancy rates</td>
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<td>Investment (%)</td>
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<td>Overseas investment (%)</td>
<td>4.57%</td>
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**PRIME OFFICE YIELD**

3.5%

**VACANCY RATE**

3.61% 

**TRANSACTION DURING 2014**

£136.00 

**PER SQ FT RENT FORECAST IN 2017**

3.5%

**PRIME OFFICE YIELD**

3.61% 

**VACANCY RATE**

THE WEST END: A SAFE BET

London's West End property market reflects the vibrant, mixed use nature of the wider location which is made up of the seven principal villages of Mayfair, St James, Soho, Covent Garden, Fitzrovia, Noho and Victoria – each with its own unique character.

London's West End commercial property market offers investors a real mix of opportunities from luxury hotels and residential, high quality offices along with high street and high-end retail.

Historically the West End is seen as a safe and robust market to invest in with fewer peaks and troughs than other London markets.

Recent investment deals in the West End include the purchase of New Scotland Yard, SW1 by Abu Dhabi Financial for £370m and the purchase of 6 St James's Square, SW1 by Korean Teachers for £265m.

The constrained supply pipeline has resulted in the West End experiencing a vacancy rate of 3.61% as at the end of 2014, well below the five year average rate of 6.03%.

Looking forward we estimate that there is 1.01m sq ft of completions in 2015 with 23.07% of these already pre-let.

Prime rents in the West End now stand at £117.50 per sq ft; and grew by a total of 7.80% in 2014 alone.

Looking forward, we anticipate that the continue imbalance between supply and strong tenant demand will result in c. 17.20% rental growth over the next three years.

**BEST LOCATIONS TO BUY IN**

Established prime locations include Mayfair and St James, but for those with an appetite for higher returns and interesting opportunities, Soho, Victoria, Paddington, and north of Oxford Street are areas we predict will continue to outperform in 2015 and beyond.

**A FAVOURITE WITH**

Aside from the UK institutions, the market is popular with Far Eastern investors, accounting for 28.2% of 2014 transactions, followed by investors from Europe (25.6%), North America (24%) and Middle East (19.5%).

**OCCUPIERS**

In common with the rest of central London, the West End market as a whole saw a strong rise in leasing activity during 2014. Total take-up grew by 27.16% year-on-year, to reach 3.80 million sq ft, which is broadly in line with the five year average of 3.40 million sq ft.

The West End continues to experience a wide range of take up by sector. Given its location and the eclectic mix of building styles, the area continues to be attractive to corporate and independent occupiers of different sizes.

The TMT industries were one of the most active occupiers during 2014 accounting for 16% of total take up. We anticipate this trend to continue as such tenants move away from the traditional core and seek more vibrant areas, in keeping with their brand.

Supply in the West End has remained consistently below the long term average of 6.03 million sq ft. We estimate current supply to total 3.61 million sq ft which is 59.90% below the 5 year average.

**THE WEST END**

- **W1, SW1, W2, SW3, SW7 and W8**
- **Most famous for:** Retail. The West End is a shopper’s paradise, offering everything from cheap and chic fashion to luxury designer goods on its famous streets such as Bond Street, Oxford Street, Regent Street and Piccadilly. Also known for its theatres and Georgian architecture.
- **Landmark Buildings:** Houses of Parliament, Buckingham Palace, The Ritz Hotel.
- **Prime Rent Forecast (£/sq ft):**
  - St James/Mayfair: £127.00, £135.00, £136.00
  - Victoria: £82.50, £84.00, £85.00
  - Soho: £82.50, £84.00, £85.00
  - North Oxford Street East: £80.00, £82.50, £85.00
  - North Oxford Street West: £95.00, £97.00, £97.50
- **Prime Rent Forecast 2017:**
  - St James/Mayfair: £135.00
  - Victoria: £84.00
  - Soho: £85.00
  - North Oxford Street East: £82.50
  - North Oxford Street West: £97.50
- **Prime Office Yield:** 3.5%
- **Vacancy Rate:** 3.61%
- **Investment (£/sq ft):** £136.00
- **Prime Rents (£/sq ft):**
  - St James/Mayfair: £127.00
  - Victoria: £82.50
  - Soho: £82.50
  - North Oxford Street East: £80.00
  - North Oxford Street West: £95.00
- **Best Locations to Buy In:**
  - Established prime locations include Mayfair and St James.
  - For those with an appetite for higher returns and interesting opportunities, Soho, Victoria, Paddington, and north of Oxford Street are areas we predict will continue to outperform in 2015 and beyond.
- **A Favourite With:**
  - Aside from the UK institutions, the market is popular with Far Eastern investors, accounting for 28.2% of 2014 transactions, followed by investors from Europe (25.6%), North America (24%) and Middle East (19.5%).
- **Occupiers:**
  - In common with the rest of central London, the West End market as a whole saw a strong rise in leasing activity during 2014.
  - Total take-up grew by 27.16% year-on-year, to reach 3.80 million sq ft, which is broadly in line with the five year average of 3.40 million sq ft.
  - The West End continues to experience a wide range of take-up by sector. Given its location and the eclectic mix of building styles, the area continues to be attractive to corporate and independent occupiers of different sizes.
  - The TMT industries were one of the most active occupiers during 2014 accounting for 16% of total take up. We anticipate this trend to continue as such tenants move away from the traditional core and seek more vibrant areas, in keeping with their brand.
- **Supply:**
  - Supply in the West End has remained consistently below the long term average of 6.03 million sq ft. We estimate current supply to total 3.61 million sq ft which is 59.90% below the 5 year average.
**DOCKLANDS**

**DOCKLANDS: OPPORTUNITY KNOCKS**

There are two main property markets in Docklands: Canary Wharf and the area to the south. On the Canary Wharf Estate it is not often that properties come to market. When they do, they are large lot sizes usually bought by major overseas companies or consortia. It has only been a recognisable office market since the early 90s, and it has prime office rents of £40.00/sq ft in Canary Wharf and £25.00/sq ft in the wider Docklands area.

**OCCUPIERS**

Canary Wharf is dominated by the banking and financial industry and with firms such as Societe Generale taking 280,000 sq ft in 2014, it is a trend which looks set to continue.

There has also been some professional services movement into the Docklands with EY (previously Ernst & Young) taking 205,037 sq ft of space in 2014. There have also been some professional services movement into the Docklands with EY (previously Ernst & Young) taking 205,037 sq ft of space in 2014, including firms such as Societe Generale, 10% other, 10% telecoms/IT, 10% professional, 10% financial, 60% financial, 10% corporate, 10% media, 50% professional, 10% other.

Canary Wharf is a retail destination too: malls such as Cabot Place are occupied by high-end retailers including Tiffany and Waitrose.

A FAVOURITE WITH

Docklands has seen more international investment activity in recent years with 2014 seeing it most popular with Middle Eastern investors, responsible for 42.2% of all purchases, followed by Asian investors (37.3%) and North American investors (20%). European purchases in the Docklands only accounted for 0.5%.

**VACANCY RATE**

8.31%

**TRANSACTED DURING 2014**

£2.68BN

**MIDTOWN**

**MIDTOWN: A GOOD MIX**

Midtown is a mix of the West End’s historical buildings and the new, modern space that investors might find in the City. Deals tend to be between £20m and £50m. Multi-tenanted buildings provide good asset management opportunities for investors.

**OCCUPIERS**

With a vacancy rate of 4.85%, Midtown’s office occupier market remains robust. Take-up reached 1.57m sq ft in 2014, with a mixture of professional services, TMT and the services sectors take the most space.

Significant deals in 2014 included legal firm Mishcon de Reya taking 118,277 sq ft at Africa House on Kingsway and Doctors Laboratory taking 80,394 sq ft at The Halo Building, WC1, followed by a large number of TMT firms taking c 8-10,000 sq ft each.

Midtown prime rents are £68.75 per sq ft with expectations of reaching £78.75 per sq ft in 2017 thanks to new developments coming to market likely to be let quickly.

**DEVELOPMENT**

With a comparatively robust development pipeline, interest and the subsequent demand should remain healthy, with new space coming to the market likely to be let quickly, including schemes such as 10 Bloomsbury comprising 148,774 sq ft and the 248,892 sq ft Adelphi building.

**A FAVOURITE WITH**

In 2014, Midtown transactions were dominated by Asian investors, with 54% of all purchases. European investors followed with 27.8% and then investors from the Middle East, who were responsible for 12.4% of purchases.
NEW KEY SUBMARKETS

KING’S CROSS

King’s Cross Central is changing the face of the area. Covering 54 hectares (134 acres), it is a whole new part of the City with a brand new postcode (NC1) and includes 50 new buildings, 2,000 new homes, 20 new streets, 10 new public squares, 67 acres, and 45,000 people who will live, work and study in the area. Together with its award winning hotels and a growing restaurant and nightlife scene, these projects are creating a thriving commercial and residential community.

A £2.5bn spend on infrastructure over the last decade has served as the catalyst for change and the area’s rapid growth. The relocation of the Eurostar international rail terminus to King’s Cross St Pancras has resulted in substantial investment and development. Overall, the area’s industrial landscape has changed into a modern business district with extensive retail and leisure amenities offering London a new, vibrant and exciting place to live and work.

London BioScience Centre, The Guardian and the global giant Google are placing King’s Cross at the centre of their future business strategies. Google has chosen King’s Cross for its new UK headquarters and in early 2013 purchased their site for £650m. By late 2013, Camden Council had granted permission for a state-of-the-art 920,000 sq ft building which will include a swimming pool and running track on the roof, a climbing wall between floors and a 20,000 sq ft bike shed for its 5,000 staff. In addition, the US technology giant has committed to a further 360,000 sq ft of offices at 6 Pancras Square, a scheme developed by BNP Paribas Real Estate, who also leased the space to Google on behalf of the landlord.

Limited availability and strong demand has seen further upward rental movements across London and in particular in King’s Cross. Increasing rents in the prime West End markets have continued to push companies to this new popular sub-market. In particular, occupiers from the Technology, Media and Telecoms (TMT) sector, seeking larger floor plates at more affordable rents have helped propel King’s Cross from a fringe office backwater into one of the most talked about sub-markets in Central London.

SOUTHBANK

Over the last 15 years the Southbank office market has been characterised by large development and regeneration projects propelling it from a relative office backwater into an exciting and vibrant area capable of attracting a full range of occupiers, from large blue chip companies to small TMT start-ups.

The gradual completion of these new large scale office developments has significantly increased both the overall total floorspace as well as the volume of Grade A space available. Occupiers have relocated from London’s traditional cores in search of a higher quality working environment without the need to compromise on build quality whilst landlords and investors have taken advantage of opportunities within the market to provide large amounts of cost effective new and refurbished space to meet this demand. The area also offers excellent transport links with London Bridge, Waterloo, Blackfriars, Southwark and Borough stations providing mainline and underground rail services.

The transformation of the business environment has gone hand-in-hand with considerable investment into the local cultural infrastructure, creating an enhanced “Cultural Quarter” including the UK’s tallest building and Europe’s largest public space, the Pier Quarter and the near complete upgrade of the Southbank Centre, bringing a £1bn investment into the area. The Southbank Centre is home to a diverse collection of world renowned venues including Royal Festival Hall, Royal Shakespeare Theatre and the National Theatre.

Most investment from overseas into Southbank in 2014 was from North American investors, responsible for 62% of purchases with Asian investors the only other real international buyers at 37%.

Southbank will continue to be an area to watch with big developments such as Shell Centre and Elizabeth House at Waterloo propelling the market to become a valid alternative to the West End, as well as driving increases in Southbank rental values.

Take-up in Southbank reached 700,000 sq ft in Q4, 2014, taking the annual total to 1.5 million sq ft, the highest volume since 2007. The strong occupier demand witnessed in the Southbank coupled with recent limited development completions has pushed availability below 1m sq ft resulting in a well below trend vacancy rate of 3.6%.

The Shard, London Southbank SE1

The Shard, London Southbank SE1

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The transformation of the business environment has gone hand-in-hand with considerable investment into the local cultural infrastructure, creating an enhanced “Cultural Quarter” including theatres, galleries, tourist attractions and trendy retail/restaurant offers such as Borough Market. This investment has also lead to considerable growth of hotels and residential within the area further adding to the built environment.
STRATFORD

When people discuss the potential of the Stratford office market they are often referring to one thing, the huge new mixed use development planned at The International Quarter (TIQ). The development will rival King’s Cross and Canary Wharf in its size and scope and is considered by many to be the next big thing in place and space development in London.

The International Quarter will be an inspiring new business environment, and a vibrant new community offering four million sq ft of flexible workspace, 330 new homes, 275,000 sq ft of hotel provision, and £2.000 sq ft dedicated to neighbourhood retail, with childcare and community facilities, all set within 700 acres of surrounding parklands.

Uniquely for a development of this scale, the key infrastructure and facilities are already in place, with over £12.5bn invested to date, including the opening of Stratford International station and Stratford International DLR station, and from 2019, Crossrail.

Prime rents are currently between £35-40 psf and at this rate will offer occupiers some of the best value high quality space within the London area. However, just as at King’s Cross there is potential for these rents to move upwards with incredible pace. King’s Cross saw prime rents move from £37.50 in 2009 to £70 in 2014: an incredible pace. King’s Cross saw prime rents move from £37.50 in 2009 to £70 in 2014: an incredible pace.

A new cultural quarter known as ‘Olympicopolis’ - which could eventually rival the Southbank - will be built at Stratford Waterfront next to The International Quarter. At its heart is expected to be a new V&A Museum, displaying modern design and major exhibitions, enabling more of the museum’s permanent collection to be displayed. It will be joined by a 600 seat Theatre operated by the Sadler’s Wells dance company, with a range of other UK and international organisations in discussions to relocate to the development.

The area also benefits from 20,000 homes being built, the Westfield Stratford City, which is the largest urban shopping centre in Europe, with 300 stores including flagship stores John Lewis, Waitrose, Marks & Spencer and Forever 21. The leisure offer at Westfield Stratford City includes the Vue Cinema with its all-digital 17-screens, a 14-lane All Star Lanes bowling alley, and 70 cafes and restaurants including the UK’s first fresh food market in a shopping centre. In addition, the area’s education sector is also leading with several universities and colleges based in the near vicinity.

Navigating the web of legislation for residential or mixed use properties can be a minefield. Here are some top tips:

- Buying a site: Know your tenants - this affects your ability to acquire the asset and achieve vacant possession. Beware of wolves in sheep’s clothing (assured shorthold tenants may actually be Rent Act tenants with greater statutory protection).
- Developing a new mixed use scheme: Early legal structuring can mitigate statutory issues arising such as tenants’ rights of first refusal and allows effective management of both residential and commercial elements.
- Selling a site: Understand and manage the statutory rights of tenants before you go to market. This will allow you to control the process and avoid unnecessary delay.

The cultural sector in Stratford is one of the most vibrant in the UK, with a diverse range of art, theatre and cultural activity taking place in the area. Stratford’s cultural venues attract over 400,000 visitors every year.
RETAIL MARKET

MAYFAIR
Retailer demand for the traditional luxury locations of Old and New Bond Street continues to outstrip supply, meaning significant premiums are still being paid to secure prime units. This unprecedented level of demand has seen Bond Street rents reach £1,350 per sq ft in Zone A - the highest level in Central London. This level of demand has also ensured that the prime jewelry pitch on Old Bond Street has extended beyond its traditional boundaries. As a result of strong retailer demand for the traditional luxury locations, the rental levels have also increased, with retailers such as Alexander Wang, Victoria Beckham, and Porsche Design. Rents are now in the region of £800 per sq ft in Zone A. This record rental level was set by Watches of Switzerland in November 2014. Previous record high rental tones were set by Turkish bakery Simit Sarayi and The Toy Store in mid-2014 within West One Shopping Centre. At the eastern end of the street, the letting to Kiko in October 2014 set a new record rent equating to £1000 per sq ft in Zone A. On James Street, the letting to Kiko in October 2014 set a record rent equating to £1000 per sq ft in Zone A. The Piazza has recently been rebranded as a luxury area and now includes retailers such as Dior Beauty, Burberry Beautybox and Chanel.

COVENT GARDEN
Covent Garden's popularity with retailers, shoppers and tourists has ensured that it has continued to attract international brands. Birkenstock and The Cambridge Satchel Co. have recently taken units. On James Street, the letting to Kiko in October 2014 set a new record rent equating to £1000 per sq ft in Zone A. The Piazza has recently been rebranded as a luxury area and now includes retailers such as Dior Beauty, Burberry Beautybox and Chanel.

OXFORD STREET
Prime rents for the street, in the area between Oxford Circus and Bond Street, now stand at £950 per sq ft Zone A. This record rental level was set by Watches of Switzerland in November 2014. Previous record high rental tones were set by Turkish bakery Simit Sarayi and The Toy Store in mid-2014 within West One Shopping Centre. At the eastern end of the street, the forthcoming arrival of Crossrail has massively increased the demand of domestic and international shoppers. These lettings, amongst others, are strengthening the appeal to international and domestic shoppers.

KNIGHTSBRIDGE
Home to Harrods and Harvey Nichols, Knightsbridge attracts significant numbers of international tourists. The prime retail pitch is Sloane Street, with a large number of global luxury brands. Recent arrivals to the prime northern end of the street include Bugatti and Porsche Design. Rents are now in the region of £900 per sq ft for the best space. Indeed, as of January 2015, there were no vacancies on the prime section of Sloane Street. The redevelopment of Lisscarth House & Granville House at 127/135 Sloane Street is due to be completed in early 2015. A high level of demand is expected for the 50,000 sq ft of new retail space.

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ZONE A & ‘ITZA’ EXPLAINED....
UK retail rents are often expressed as a ‘Zone A’ psf / psm. This relates to the established UK method of valuation. ‘Zoning’, which adopts the theory that the front of a shop – the part seen by passers by – is worth more than the rear of a shop. Therefore, a shop with a width of 30ft and depth of 20ft is worth more than a shop with a width of 20ft and depth of 30ft. Both shops in this example comprise the same overall floor area – 600 sq ft – but by using the zoning method of valuation we arrive at the conclusion that the shop with the wider frontage is worth more. The first 20ft (or 30ft in a few prime Central London streets) is known as Zone A, the next 20ft is Zone B and is worth half of Zone A, the next 20ft is Zone C and worth half again, and so on.

A highly simplified example can be seen below. A rectangular shop unit with a width of 30ft and a depth of 120ft would be analysed as follows:

<table>
<thead>
<tr>
<th>Zone</th>
<th>Dimensions</th>
<th>Actual Area</th>
<th>ITZA*</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>20ft x 30ft</td>
<td>600 sq ft</td>
<td>600 sq ft</td>
</tr>
<tr>
<td>B</td>
<td>20ft x 30ft</td>
<td>600 sq ft</td>
<td>300 sq ft</td>
</tr>
<tr>
<td>C</td>
<td>20ft x 30ft</td>
<td>600 sq ft</td>
<td>150 sq ft</td>
</tr>
<tr>
<td>D</td>
<td>20ft x 30ft</td>
<td>600 sq ft</td>
<td>75 sq ft</td>
</tr>
<tr>
<td>Remainder</td>
<td>40ft x 30ft</td>
<td>1200 sq ft</td>
<td>300 sq ft</td>
</tr>
</tbody>
</table>

*Floor area expressed ‘In Terms of Zone A’ (‘ITZA’)

Technological advances are impacting the retail sector including:

- Turnover Rent: Online retailing is a grey area for calculating turnover rent. Consider click and collect; on-line orders returned in-store; or items ordered from in-store portals but delivered elsewhere. Clear lease wording and scrutiny of tenant accounts is crucial to ensure maximum rental income for investors.

- Data Analysis: Digital innovations allow landlords to drill into consumer data and discover how shoppers connect with bricks and mortar retailing. This can be invaluable in identifying consumer habits and devising asset management strategies. Beware, collection of personal data must comply with data protection laws.

- Multi-Channel Retailing: Newer retail offerings have increased digital integration, including via free wi-fi, apps and mobile websites. Tensions arise between landlords and tenants when it comes to funding, marketing and managing these initiatives.

- Beauty, Burberry Beautybox and Chanel.

- Watches of Switzerland opened the largest watch store in the UK, comprising 16,500 sq ft, having agreed a deal to relocate from New Bond Street. Other recent arrivals to the pitch include Kiehl’s, Vilebrequin, Hunter Boots and Karl Lagerfeld.

- These lettings, amongst others, are strengthening the tenant mix on the street and its appeal to international and domestic shoppers.

- Prime rents for the street, in the area between Oxford Circus and Bond Street, now stand at £950 per sq ft Zone A. This record rental level was set by Watches of Switzerland in November 2014. Previous record high rental tones were set by Turkish bakery Simit Sarayi and The Toy Store in mid-2014 within West One Shopping Centre. At the eastern end of the street, the forthcoming arrival of Crossrail has massively increased the demand of domestic and international shoppers. These lettings, amongst others, are strengthening the appeal to international and domestic shoppers.

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LONDON’S SUBMARKETS
STRONG DEMAND FOR HOTELS

London is among the most popular and best performing tourist destinations in Europe. The London hotel market witnessed impressive demand during 2014 with international and domestic visitor numbers reaching a record 29 million. The increased volume saw occupancy rates average 80% and RevPar growth of 2.9%. Planned streamlining and reform of the UK visa system could see a surge in visitors from China, with numbers potentially reaching 650,000 by 2020.

The anticipated increase has lifted confidence amongst Chinese hoteliers, resulting in a doubling of Chinese hotel brands primarily focusing on London within the next 2-3 years. The London market offers access to invest in best in class hotels, with over £1.3bn of hotel transactions recorded in both 2013 and 2014. The majority of investments are purchased by overseas buyers, with cash-rich investors from Asia and the Middle East and US based private equity firms leading the pack. With improved economic conditions and increasing consumer confidence the outlook remains positive.

Operators are increasingly insisting on hotel management agreements (HMAs) in place of traditional leases. Investors can be uncomfortable moving away from the certainty of leases with their classic triple net/FRI characteristics but with skilful negotiation, HMAs can work for both the operator and owner. Particular areas to look out for are:

**Fees:** No fixed rent but return based on the profitability of the hotel.

**Repair:** Responsibility remains with the owner with an operator even requiring working capital for maintenance or improvement of the property.

**Employees:** The operator may require the owner to employ staff despite the operator having day to day control. This can be an issue for investors and may even be outside the constitution of some investment funds.

The constrained development pipeline for purpose-built student accommodation is consistently cited as a key risk to investors in the sector. In London, competition for development land remains white hot for all kinds of development, pushing up land acquisition costs even before factoring in planning risk.

An extra risk to student accommodation developers is intense competition from prime residential developers, particularly in ultra-desirable boroughs such as Kensington & Chelsea and Westminster.

This has driven increasing interest in developers looking for schemes outside the popular eight central London Boroughs for example in Hammersmith & Fulham and Brent.

Community Infrastructure Levy is an increasing pressure on development costs, exacerbating the dilemma developers have in deciding whether to develop a student or residential scheme.

London’s position as a leading educational centre is gaining momentum. Three of the world’s top 20 ranked universities are in London and student numbers across all higher educational institutions in the capital are set to grow in spite of recent fee increases.

London is home to over 100,000 international students from over 200 different nations – that’s more international students studying in London than in any other city in the world – primarily from Malaysia, Hong Kong and the US. A shortage of purpose build student accommodation in the capital points to an asset class which will continue as a sought after investment opportunity.

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INVESTORS’ QUESTIONS ANSWERED

From buying a property to owning it, a new market can be daunting. Andrew Cruickshank, BNP Paribas Real Estate senior director of international investment, answers some common questions

Q1: I’m thinking of buying in London. Am I too late to find good buying opportunities?
A: There are different types and quality of buildings within each asset class and submarket of the City, matching a variety of risk appetites. This diversity can be daunting for new investors, so consult an adviser who can work with you to formulate a strategy.

Q2: Now I’m here, how do I access the market?
A: London is one of the most accessible markets globally for overseas investors, market information is plentiful and there is a good selection of advisers to help you. A purchaser will usually have an adviser such as BNP Paribas Real Estate to introduce on and off market transactions and provide support throughout the purchase process.

Q3: How do I go about deciding the best asset class and location to invest in?
A: The prime market has recovered from the downturn and there is strong competition for core assets. But with good rental growth prospects for offices and selected retail, strong investment performance over the short to medium term is expected. Riskier assets with higher initial yields provide interesting opportunities.

Q4: Core areas seem to be trading at very low yields. Are there safe investments outside of these areas?
A: The price of core assets is a reflection of security and prospects for strong rental and capital growth. But there are secure and long-term income deals on buildings outside the traditional core areas that offer marginally higher returns.

Q5: What about if I want to invest a small amount of capital?
A: BNP Paribas Real Estate regularly advises overseas investors on transactions between £2m and £5m. The West End and its surrounding areas offer numerous opportunities compared to the City, where lot sizes are larger.

Q6: I’d like to make a long-term investment in London - is the market suitable?
A: One of the attractions of London is the long occupational leases available. Today it is common for landlords to secure 10 to 20 year leases on new office buildings and these represent ideal secure investments.

Q7: Now I’ve bought a building, how do I ensure it is properly looked after?
A: Steve Harber from BNP Paribas Real Estate’s property management team answers: “For single let investments, the onus is on the tenant for the majority of costs and repairing obligations. For multi-tenanted properties, a property manager should be appointed. Advisers such as BNP Paribas Real Estate can also help with rent reviews, lease renewals, refurbishment and leasing as part of a full ownership lifecycle process.”

Q8: How will income and capital gains tax impact my returns?
A: Efficient tax planning is essential to protect an investment. UK tax laws are relatively friendly towards overseas investors.

Q9: How do I crystallise increases in rental growth?
A: Rents are adjusted to market value every five years. Uplifts in rental value during the lease are possible, although there is a risk a review won’t coincide with the best point of a rental cycle. Some leases will specify a minimum or maximum uplift or a rise in line with a cost of living index.

I have a portfolio of investments already, but I’d like to invest in London real estate for the first time. Can you help?

Mignonne Cheng, chairman of BNP Paribas Wealth Management for Asia Pacific, responds:

“Helping clients gain access to commercial properties in London has been a unique proposition of BNP Paribas Wealth Management which distinguishes us from other wealth manager players in the market. Thanks to the strong market position and scale of operation of BNP Paribas Real Estate in the UK, we are able to show our clients interesting propositions, ranging from GBP tens of millions to hundreds of millions. Some of these propositions may even be off-market, exclusive, trophy assets which are shown prior to public auctions.

With a strong real estate platform in Hong Kong, BNP Paribas Real Estate is further intensifying its delivery of services to clients in Asia. Now our clients are serviced, in the same timezone, by professionals with first hand access to the activities taking place in Europe.”
CAPITALISING ON A DYNAMIC MARKET

When we contributed to this guide in 2013, we had just collected the views of over 600 global investors for our annual thought leadership research. 73% thought that the attractiveness of UK real estate would increase over the next two years with London being a hotspot. This has certainly proved to be true with the flow of capital exceeding all of our expectations.

We have also seen the growth of the alternative sector including residential, hotels and student accommodation. Our 2014 research into growing opportunities in UK real estate* canvassed the views of real estate players with portfolios in excess of £150bn. Respondents expected alternative assets to increase in popularity competing with the core areas of office, retail and industrial. These alternative sectors can throw up their own legal challenges. Some of our tips for managing these can be found on the relevant pages of this Guide.

Structuring continues to be a key factor in making real estate investment tax efficient (see our case study on page 33). Investors are also taking advantage of corporate structures on higher value transactions. Our steps on pages 31 will help you navigate through what can be a complicated area.

John Slade concluded his introduction by highlighting that investors should be ready to move quickly to take advantage of the fast paced London market. The liquidity of the London market has always been attractive and in part stems from our legal environment. A couple of years ago I led a working party of industry experts which published the Investment Property Forum’s Readiness for Sale Guide.** It’s a useful guide to getting the legal issues right up front, something I urge investors on the buy or sell side to do if they are to take full advantage of the dynamic opportunities available to them in London.

*Please see the inside back cover of this guide for details of how to obtain a copy
**Download a copy from Nabarro.com

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**INVESTOR TOOLKIT**

Ciaran Carvalho
Head of Real Estate
Nabarro
c.carvalho@nabarro.com
**Issues with Property versus Corporate Acquisition**

<table>
<thead>
<tr>
<th>Property</th>
<th>Issue</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>May require consent (i.e. landlord consent).</td>
<td>Consent</td>
<td>Property automatically transfers as ownership remains the same (N.B. change of control provisions).</td>
</tr>
<tr>
<td>Agreed price for property with apportionments.</td>
<td>Price</td>
<td>Agreed price for property with adjustments for SPV liabilities.</td>
</tr>
<tr>
<td>Split exchange and completion is usual and a deposit paid on exchange.</td>
<td>Exchange and completion</td>
<td>Simultaneous exchange and completion often used.</td>
</tr>
<tr>
<td>Buyer insures from exchange.</td>
<td>Insurance</td>
<td>SPV has own insurance which moves on completion, save where part of a group.</td>
</tr>
<tr>
<td>Generally relate to land issues.</td>
<td>Indemnities</td>
<td>SPV’s liabilities remain, tax indemnity (especially for corporate SPVs) common and may also apply to specific issues.</td>
</tr>
<tr>
<td>Not usual. Buyer relies on enquiries (claims for misrepresentation).</td>
<td>Warranties</td>
<td>SPV’s liabilities remain therefore warranties given (subject to limitations and disclosures).</td>
</tr>
<tr>
<td>Discharged at completion.</td>
<td>Mortgage</td>
<td>Mortgage will not be discharged (unless terms of mortgage or lender require it).</td>
</tr>
<tr>
<td>Rents paid in advance apportioned from completion date to next quarter day.</td>
<td>Appointments of income and outgoings</td>
<td>Buyer acquires the SPV and adjustment needs to be made to the purchase price to reflect all apportioned income and liabilities of the SPV.</td>
</tr>
<tr>
<td>Usually in the form of Commercial Property Standard Enquiries (CPSEs). Requisitions on title and Land Registry checks made before completion.</td>
<td>Preliminary enquiries</td>
<td>Due diligence enquiries and responses prepared. Warranties and disclosure letter typically required (and may be supplemented by preliminary enquiries).</td>
</tr>
<tr>
<td>Contract normally includes standard commercial property conditions.</td>
<td>Standard conditions</td>
<td>Contract does not normally include any standard conditions and will be negotiated between the parties.</td>
</tr>
<tr>
<td>Normally set out in the case of investment property with buyer having control.</td>
<td>Management between exchange of contract and completion</td>
<td>SPV more of a “moving target” given it has continuing business, and the level of control of the buyer is subject to negotiation.</td>
</tr>
<tr>
<td>Stamp Duty Land Tax at 4% of property price.</td>
<td>Transfer taxes</td>
<td>Stamp Duty at 0.5% of share price (for UK company). Generally no Stamp Duty if company offshore.</td>
</tr>
</tbody>
</table>

Nabarro tax partner, Kirsten Prichard Jones, presents a case study illustrating some key features of the UK tax regime as they apply to an investment in UK real estate by a non-resident as well as looking at some of the potential tax savings.

S Plc is a Singaporean based institutional investor looking to acquire London Building, a trophy office property in central London. The purchase price is £100m, and this will be funded 50% by bank finance.

S Plc establishes J Co, a Jersey company, to acquire London Building. S Plc funds J Co with a mixture of equity and shareholder loan.

J Co purchases London Building for £100m. Stamp Duty Land Tax (“SDLT”) is payable at a rate of 4% leading to a £4m tax charge. Note that had London Building been held within an appropriate corporate “wrapper”, S Plc could have acquired the holding vehicle and no SDLT would have been due. Assets in attractive corporate wrappers can, therefore, achieve higher sale prices.

No Value Added Tax (“VAT”) should be payable on the purchase, as London Building should transfer as a going concern, by virtue of being tenanted. VAT should not be payable on a future disposal of London Building, whether it is structured as the sale of the shares in J Co or an asset sale.

**Tax Case Study**

Kirsten Prichard Jones
Tax Partner
Nabarro
k.prichardjones@nabarro.com
INVESTMENT HOLDING PERIOD
UK income tax is payable on the net rental income generated from London Building. Tax deductions are available in respect of interest payments on bank debt and appropriate shareholder loans, capital allowances (tax relief for depreciation) and certain management expenses. The net effect is that J Co should be subject to a very low effective rate of UK tax.

Interest on J Co’s shareholder loan will be deductible to the extent that the amounts payable represent arms length terms under transfer pricing principles. In addition, the terms of J Co’s shareholder loan will need to be carefully documented to avoid UK withholding tax.

Tenants and managing agents can be required to withhold tax from payments of rent to offshore investors such as J Co. J Co can avoid registering with HM Revenue & Customs (“HMRC”) as a non-resident landlord and applying for permission to receive rent without any withholding. This is a straightforward process and HMRC should allow J Co to receive rent without withholding provided J Co keeps up with its compliance obligations.

J Co is not subject to tax in Jersey on the rental income from London Building. Payments of dividends and interest are not subject to withholding tax. S Plc picked Jersey for these features, however, similar results can also be achieved with other jurisdictions.

J Co should be able to recover all VAT costs suffered on acquiring and managing London Building. This is done by J Co “opting to tax” London Building and charging VAT on tenants’ rent.

FUTURE DISPOSAL
In future, S Plc can exit its investment by way of a sale of either J Co or London Building. A purchaser is likely to favour a purchase of J Co to avoid a 4% SDLT charge.

No UK direct tax charges should arise on a disposal of London Building or J Co, provided J Co has been properly managed and controlled in Jersey and has held London Building as an investment (as opposed to trading stock).

UNDERSTANDING HEADS OF TERMS

1. Premises

2. Landlord
   J Co Limited

3. Tenant
   New Tenant Limited

4. Term
   Ten years with tenant option to break at year five. Historically, City office leases were at least 15-year terms, but shorter leases (8–12 years) are now common with tenant options to break.

5. 1954 Act protection
   The lease will be excluded from the provisions of The Landlord and Tenant Act 1954. Under the 1954 Act a tenant who carries on a business has a right to remain when the lease expires and request a new lease on predominantly the same terms for up to 15 years. The landlord can oppose this on certain grounds, but compensation may be payable to the tenant. Alternatively, parties may agree from the outset that the lease will be excluded from the 1954 Act.

6. Rent
   £575,000 p.a. (based on £57.50 psf) exclusive of VAT and all other outgoings – rent payable quarterly in advance on usual quarter days.

7. Rent Commencement Date
   Nine months from the date of the lease. Rent-free periods may be given for an initial fit-out period or to incentivise the tenant to move into a particular building.

8. Rent reviews
   The rent is subject to an upward only rent review at the expiry of the fifth year of the term. The rent will typically be the open market rent with five yearly review cycles. It will usually be reviewed (upwards only) to the open market rent payable at that date, although fixed rent increases and index-linked rents are becoming common.

9. Assignment and subletting
   Assignment and underletting permitted with landlord’s consent not to be unreasonably withheld or delayed and subject to specified conditions. The outgoing tenant usually enters into an authorised guarantee agreement (guaranteeing the incoming tenant’s performance of obligations under the lease). Ideally, underletting will be excluded from the 1954 Act, ensuring any undertenant (guaranteeing the incoming tenant’s performance of obligations under the lease) has no right to a new lease at expiry of the underlease. A landlord will not usually allow more than two tenancies at any one time.
   Sharing is usually permitted with group companies, provided no landlord and tenant relationship is created.

10. Repair
    Tenant responsible for keeping premises in good repair. Landlord will maintain structure and common parts of building subject to the tenant paying a fair and proper proportion of the landlord’s costs of maintenance. For a typical office lease of part of a building, the premises will exclude all external walls and structure. The landlord will be responsible for maintaining the structure, exterior and common parts, with the tenants paying a proportion of these costs through the service charge. A tenant may insist on a service charge cap but this may lead to a shortfall which the landlord would have to cover.
    At the end of the term the tenant is expected to hand the premises back in full repair.

11. Insurance
    Landlord insures building. For institutional leases the landlord usually insures the building and recovers a fair proportion of this cost from the tenant. Insurance will also cover loss of rent for a specified period (usually three years).
    If the building is damaged by an insured risk, the landlord will be responsible for reinstating the building and the rent suspended. If it cannot be reinstated within three years there will usually be a right for either party to terminate the lease.
The debt market in London is continuing to improve. There has been an increase in the level of new lending over the last two years and this is forecasted to continue. Margins on prime properties continued to fall during 2014 and are set to stay at these levels during 2015. The three year / five year / seven year swap rates are at historical low levels and will remain at these levels for most of 2015, driven mainly by falling UK gilt yields and Quantitative Easing. As a result of the all-in cost of debt being below the current London prime office yield, this improved debt market has been seen across the UK with new lending at £19.6bn for the first six months of 2014 which represents nearly two-thirds of the £29.9bn lent during the entire 2013. Lending institutions have been more willing to lend on London properties than anywhere else in the UK. This is evident as financial institutions have been offering continued lower margins and higher loan to value (LTV’s) on London properties during 2014, and this is set to remain in place for 2015. In addition there has been a relaxation of the loan capital repayment and more loans are being issued on an ‘interest only’ basis. It is important to note that this position is even stronger on high quality London assets with a stable and diversified income profile.

LTV’s on prime London office assets have been increasing over the last 12 months and senior loans are in certain instances reaching the 60% -65% levels. There has also been downward pressure in margins and certain prime London assets that would have secured a margin of 180bps – 200bps, 12 months ago, are now securing margins in the 130bps – 150bps levels. Although margins and LTV’s are increasing, borrowers need to be aware that banks are still undertaking significant due diligence on both the asset and the borrower. The borrower needs to show a proven ability to deliver the business plan and an in-depth knowledge of the asset.

The development lending market is improving but there is still a general reluctance to fund development until there is a high level of pre-let secured and the borrower has a proven development track record. Although the debt markets are improving, it should be noted that the increase in the activity in the London commercial market has been driven more by equity looking for wealth preservation / ability to make a capital gain, rather than investors looking to take advantage of the historical low debt levels.

As in 2012 and 2013, there is an increase in the number of new lenders in the UK and in particular London markets. Previously UK banks and building societies represented the largest lender in the London market.

Now the market has a greater number of international lending institutions with the German and US banks taking a significant market share of new lending. These lenders have been joined by the insurance and commercial real estate debt funds who have taken a more prominent role in the London debt market. The CMBS market has continued to show little activity. Although there has been a significant number of large loans been issued and investor demand for CMBS product, the level of CMBS is low. This is more due to these new lenders and the insurance funds retaining a large portion of these loans for their own balance sheet or syndicating the loans directly.

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Paul Henwood, Senior Director of City Investment explains how development joint ventures work in the London market. A joint venture agreement with an experienced market participant will help a new entrant to understand the initial investment process, the deal economics and any potential risks involved. In a market where the competition for assets is extremely strong the expertise, proven track record and deeper understanding of market dynamics that an experienced partner can bring will ensure that any bids are more competitive.

For established participants, a joint venture agreement can provide access to much sought after equity. With the reduction in bank lending following the global financial crisis, investors have had to look beyond their traditional sources of capital to enable them to take advantage of the investment opportunities available.

Established owners may choose to sell a percentage of their existing assets or bring in a partner on a new opportunity, allowing them to either reduce their level of risk associated to a particular asset or invest in an opportunity they would not normally be able to access without additional equity.

A good recent example of an investment deal completed by an overseas investor together with a UK-based JV partner is the acquisition of Fosse Park in Leicester, the UK’s largest retail park, where a Chinese institutional investor partnered with The Crown Estate to purchase it for £350m. BNP Paribas Real Estate’s investment team acted for the JV.

For established owners, in partnering up with the right London-based developer or development manager, investors can tap into the local knowledge and the technical expertise necessary to manage the design, construction and marketing of their development.

BNP Paribas Real Estate has been involved in property development for 40 years and is a major player in the French and European markets with over 103,000 sq m of commercial floor space delivered in France in 2013 and over 3,400 residential units delivered in France in 2014. Across Europe, we have over 300,000 sq m commercial schemes currently under construction. Our business volume for property development was over €856m in 2013. In London, our 33,000 sq m office development at King’s Cross is now 100% let to Google and will be delivered imminently.

As your development partner BNP Paribas Real Estate Property Development can manage the financial, administrative, design, technical, marketing and legal aspects of the development process. We project manage each development in-house meaning we keep control of every aspect of the process, our in-depth technical knowledge ensures that every building is treated like a prototype. Our size and experience means that we have the negotiating power with contractors to agree the best deals for our partners and our experienced in-house commercial teams mean that we can also provide detailed marketing strategy and agency advice.

The London development market is currently booming and continues to be an increasingly attractive prospect for investors. However, a development project is a relatively long-term commitment and one with a number of challenges and risks that must be navigated; it is therefore paramount to choose a development partner that you can trust.

A number of investors, therefore, choose to ask their development partner not only to be a service provider but also to take a financial stake in the project. In this type of partnership BNP Paribas Real Estate Property Development is unique. A partner with the financial surety coming from our position as a wholly-owned subsidiary of the largest bank in the Eurozone coupled with the local knowledge and expertise to deliver the project on the ground.

BNPPRE are now focusing on expanding our development business into the London market and we are actively acquiring development opportunities. The key areas of our business are as follows:

- Direct acquisition of development opportunities
- Joint venture with institutional and global corporate entities seeking to invest in the London market. We can put equity alongside and act as a service provider and development manager to deliver the projects.
- Where institution and large corporate entities wish to retain control, we will act as a development manager.
KEY TRANSPORT CHANGES

CROSSRAIL AND CROSSRAIL 2

With major transport changes fuelling regeneration and further hotspots, we take a look at the key changes to come.

The £16bn project linking Maidenhead in the west and Sherifield to the east, via central London is now well underway. The tunnelling work has passed through Bond Street and Tottenham Court Road and major construction is taking place to build the stations at Moorgate, Paddington and Canary Wharf.

Work is on time and on budget with the first trains due to run in 2018.

Already the effects of Crossrail are beginning to be felt in the investment markets. In February 2013, British Land purchased the Ealing Broadway Shopping Centre for £142.5m. Once Crossrail completes, Ealing will be just 13 minutes from Heathrow, 19 minutes from Liverpool Street and 26 minutes from Canary Wharf.

In early 2013, Transport for London released a consultation paper examining potential route options and the business case for Crossrail 2. This will run from Wimbledon in the south west to Tottenham and Shenfield to the east, via central London.

High Speed 2 is a proposed high speed rail link between, in the first instance, London and Birmingham and then a second phase connecting to Manchester and Leeds. By 2026 the £38bn scheme will reduce travel times between London and Birmingham by over 30 minutes and add vast new capacity to the rail network freeing up existing infrastructure for more commuter trains. The Government estimates that for every £1 invested £2 of economic growth will be brought to the economy. Moreover the scheme is estimated to support more than 40,000 jobs.

The London terminal for HS2 will be at Euston station and an interchange will be constructed in the West at Old Oak Common, linking to Heathrow airport. Coupled with the potential link with Crossrail 2, Euston has the potential to be a key transport hub in the future, which will impact on property requirements in the area.

LONDON HOT SPOTS

London continues to be seen as the leading European city for most employment sectors and it’s a city alive with regeneration schemes and transport projects. Here we highlight the top emerging trends.

Hammersmith lies to the west of Kensington, London, along the north bank of the River Thames, serving as the main gateway into London from the west. The area is a key office location. Multinational companies, including airlines and media-based firms in particular choose Hammersmith in order to take advantage of both its proximity to Heathrow Airport and central London, as well as the beneficial effects of agglomeration economies. The area has excellent public transport links, including the Piccadilly Line which provides rapid access to Heathrow Airport, as well as an affluent residential population, high quality office accommodation and a strong retail scene with a range of shops, cafes, restaurants and on shopping centres.

Several schemes in Hammersmith will be delivered over the next few years. Brockton and Landaid are now onsite refurbishing One Queen Caroline Street totalling 81,750 sq ft which will be delivered back to the market by mid-2015. Kier purchased a site at 174 Hammersmith Road from Hammerson and are developing a 60,000 sq ft building completing in Q2 2015. Phase 2 of Hammersmith Grove is onsite and will provide an additional 167,000 sq ft to complete at the start of 2016 meaning we still think the future is bright in Hammersmith.

Croydon’s number one draw for occupiers is price and it is home to a diverse range of occupiers. Public sector, financial, manufacturing and civil engineering occupiers are all present in the town, whilst recently there has been an explosion of technology start-ups drawn to the area by the comparatively cheap office space on offer.

Grade A Office space is currently around £200-£220 per sq ft; though the office elements of Stanhope’s Ruskin Square scheme, which will start construction in Spring 2015, are being marketed at £30 per sq ft – this is still far below Central London levels.

Other draws include an ongoing upgrade to East Croydon station and the £1bn Hammerson and Westfield led regeneration scheme which will transform Croydon’s town centre into 1.5m sq ft of state-of-the-art retail, leisure and restaurants, together with new public realm, new car parking and up to 600 new residential units, creating 5,000 new jobs in the process.
The regeneration of Nine Elms on the Southbank will transform the area into an ultra-modern, exciting destination in central London offering 36,000 new homes, 25,000 new jobs, new schools, parks and a culture and arts centre.

Developers such as St James Group, St George and Ballymore have constructions underway with more in the pipeline. The new US Embassy will open in 2017, New Covent Garden Market will be revitalised, and Riverlight and Embassy Gardens are two residential developments currently under construction with planning permission approved on 15 more buildings. Planning framework supports the emerging dynamic cluster of tall buildings at Vauxhall at St. George’s Wharf - Vauxhall Tower sitting at the centre of this cluster.

Over £1bn is being spent on new infrastructure including two new tube stations and up to 3km of the Thames riverside is being opened up to the public creating an attractive and vibrant environment.

London has 49 different universities, the highest concentration in the world. With the expansion of the Universities - both private, new and traditional, into core areas and new London markets, this represents an opportunity for investors who can look to target the sector potentially through sale and leasebacks or Joint Ventures.

Some examples include: The University of East London now has two Stratford campuses, Central St Martins leading Art College is now at King’s Cross and the University of the Arts was one of the first tenants signed up to the Argent Scheme at King’s Cross.

Furthermore, the growth of these institutions will help fuel the future research, technology and employment that already contributes to London’s leading international position.

Victoria has traditionally been popular with Government and public sector occupiers due to its proximity to Westminster and The Houses of Parliament. In recent years this has evolved as high quality regeneration projects have attracted tenants from a wide range of sectors including finance & banking, business services, TMT and more recently, fashion occupants including Jimmy Choo, Armani and Tom Ford.

When comparing the various submarkets, Victoria makes up the largest proportion of the wider West End market and, at circa 18 million sq ft, accounts for approximately 28-30% of the total office stock. Victoria is one of the only sub-markets in Central London with a significant development pipeline for 2015 and 2016. With increasing demand for large floorplates, much coveted by international corporate occupiers, the market is well positioned to take advantage of the heightened occupier demand and low overall vacancy witnessed across London markets. A multitude of older buildings are in the process of being demolished and replaced with brand new, high quality buildings for both commercial and residential uses.

We estimate that over the next three years just over 2m sq ft will be added to Victoria’s office stock. The long term average development and refurbishment completion for Victoria is c.1 million sq ft per year.

Apart from the new high quality space provided by landlords and developers, Victoria benefits from fantastic transport links. Victoria station provides access to both the London underground network and the wider national rail network. The station is currently undergoing a hugely significant upgrade programme, costing in excess of £700 million, further enhancing Victoria’s status as one of London’s primary transport hubs.

With the creation of the Old Oak and Park Royal Development Corporation, the path is almost clear for Old Oak Common to transform from a windswept industrial landscape to a major regeneration hub. By 2026, the area will become a ‘superhub’ for Crossrail and HS2 capable of serving 250,000 passengers a day – like another Waterloo station.

This regeneration will no doubt include huge housebuilding opportunities as well as commercial ones, such as the potential new QPR football stadium, which will help kickstart Old Oak Common into what Mayor Boris Johnson predicts will be ‘a new thriving part of the capital’.

Over £1bn is being spent on new infrastructure including two new tube stations and up to 3km of the Thames riverside is being opened up to the public creating an attractive and vibrant environment.
Alternative asset classes include: accommodation (market, social, student and elderly), social infrastructure (healthcare, datacentres, education, transport, energy and waste management), storage and Government property. Generally, most classify alternative assets as those that aren’t residential, industrial, retail, leisure or offices.

As investors diversify, their tastes also diversify, and with more and more private investors from all over the world focusing their attention on the transparent and stable London and wider UK markets, we expect these alternative assets to gather pace. Particularly because alternative in property doesn’t mean that investors won’t understand them – everyone understands the business behind a doctor’s surgery or a care home, and many people will have used these for themselves or their families at some point.

Over the last decade, sustainability has become a mainstream consideration and key driver in property investment decision-making. There is increasingly compelling evidence available supporting a value shift as a result of energy efficiency and wider sustainability factors, leading to improved profitability of investments and their long-term value, reduced void costs, longer leases and brand reputation. The best occupiers are now demanding sustainable buildings because they can result in reduced operational costs, an enhanced quality to the work environment and a straightforward link to corporate strategy and reputation, particularly those headquartered in London.

The UK as a whole outperformed the rest of Europe as an investment market in 2014 with €71bn invested, against €66bn invested in Germany and France combined. 2014 was the year that investor appetites returned to the regions where overseas and UK investors alike started realising that real value can be found once you step outside of London.

The rationale for investing in the regional markets has become more and more attractive throughout the last 12 months as the yield gap between prime West End London offices and prime regional offices now stands at 175 basis points. Furthermore, the regional office markets in particular are showing signs of imminent undersupply, with only a handful of speculative office developments underway outside of London, with the majority located in Glasgow and the South East at present. Tenant demand in many of these CBD locations remains heavily Grade A biased, and the supply-side is seemingly incapable of reacting to this in cities such as Leeds, Manchester and Birmingham. This will result in prime rental growth in some of these strong regional cities throughout 2015, and we are already seeing upward pressure on prime rents in Manchester, Glasgow, Edinburgh and the South East.

Going forwards, we anticipate total returns for UK offices outside of London to reach north of 11% annualised to 2018, with yield compression a key driver. In addition, regional shopping centres and distribution hubs provide opportunities for investors to diversify their portfolios and, depending on the individual assets, may look very attractive over the next 12-24 months to international investors seeking long-term income streams.
London has overtaken other global cities such as Paris, Milan and New York and is now viewed as the top fashion city in the world. The continuing strength and popularity of the West End’s traditional shopping locations such as Oxford Street, Regent Street and Bond Street has meant that new retail locations in the West End are being established. These include the creation of luxury shopping in Mount Street where Grosvenor has transformed the tenant mix. Additionally, Albermarle and Dover Street have seen retailers seeking units that are in close proximity to Bond Street’s luxury location. Recent luxury tenants to arrive in the West End include Belstaff, Alexander Wang, Asprey, Balmain and Erdem. The Crown Estate is investing significantly into St James’s, where lifestyle brand Barbour International is the latest retailer to secure a flagship store at The Crown’s recently completed £100 million St James’s Gateway redevelopment between Piccadilly and Jermyn Street. Other retailers to take space include Sunspell, Tiger, La Martina and Osprey.

Over the past year, the pace of change has accelerated in the UK real estate sector. The economy is blossoming and, in response, the market is opening up to opportunities beyond the security of ‘prime’ and ‘core’.

To understand these opportunities, Nabarro and FTI Consulting conducted an in-depth survey along with interviews of key market players controlling property worth more than £150bn.

To read a full copy of our research report ‘Growing Opportunities: A New Outlook for UK Real Estate’ please go to www.nabarro.com or please email info@nabarro.com to request a copy.
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