

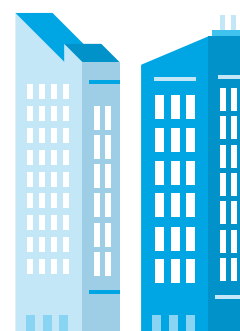
London calling: Investing in commercial real estate

London's thriving real estate market is offering private equity and sovereign wealth funds new and diverse opportunities



Capital attraction for global investors

The London commercial real estate market is currently seen as the primary “global city” for overseas investors, says **James Dodsworth**, partner at White & Case



The London commercial real estate market has become a global destination of choice for foreign investors, with £19.9 billion invested in 2013 and non-UK buyers accounting for 72 percent of transactions, according to Cushman & Wakefield. The investment in the usually quiet first quarter of 2014 alone topped £4.3 billion.

Some 35 nations have been identified by Deloitte’s real estate team as entering the market, with strong interest from Canada and Norway. But interest from China, South Korea and Southeast Asia

is particularly bullish, with national savings institutions, such as pension funds, allowed to invest outside their own markets for the first time in recent years.

Real estate private equity houses, as well as sovereign wealth funds, are also snapping up large chunks of London commercial real estate, attracted by the diversification that the assets afford, the protection they offer against inflation and the dual benefits of equity-type performance potential married with a bond-type risk profile (due to the steady income it offers through rental payments and capital growth).

For example, two of the UK’s biggest-ever commercial property deals in 2013 included the £1.7 billion acquisition of a 50 percent stake in the Broadgate complex by GIC, the Singapore sovereign wealth fund from Blackstone, the private equity group, and the acquisition of the More London development by Kuwaiti firm St Martins Property Group, also for £1.7 billion.

And while many “global cities” in the United States (New York, for example) show high levels of activity, the US market is being

driven by domestic investment. In London, inbound investment from overseas is much more substantial and expected to increase further this year.

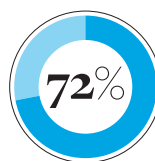
“The UK offers a relatively benevolent tax environment compared with other European jurisdictions and the United States, which tend to compete directly with London for investment funds from overseas,” explains Prabhu Narasimhan, one of White & Case’s real estate tax lawyers. The UK corporation tax is due to reduce to just 20 percent as of 2015 and, with no withholding tax on dividends and the possibility of further relief for interest on capital allowances and real estate financing, this has helped provide a major boost to the UK property market. There are also none of the currency regulations that blight some other markets.

However, the legal framework underpinning real estate holdings in London, and the UK in general, is arguably just as important for providing a safe and transparent platform for investment. The relative lack of restrictions imposed upon overseas investors



£19.9bn

invested in London by foreign investors in 2013



of transactions in 2013 were by non-UK buyers



35

nations invested in London real estate in 2013



We are going to continue to see some large and interesting transactions for some time to come

holding commercial real estate assets, which permits both direct and indirect ownership without penalty or administrative burden, is important. There is no need to involve a local joint venture partner (as happens in some other jurisdictions) and investments can be held either directly or indirectly through the ownership of shares in corporate property holding vehicles, which can themselves be incorporated in any number of overseas jurisdictions if required.

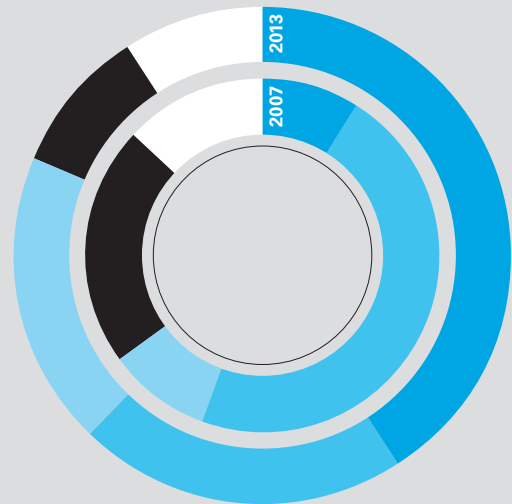
There is also a central land registry for the registration of all transfers of land titles in England and Wales. This means that the likelihood of unknown third-party claimants disputing ownership of title can be effectively managed for purchasers. The commercial certainty created by the longevity and stability of English law is also often cited as of great value, particularly where investments involve third-party lease or management contracts that may help to underpin the value of the investment. This legal certainty also supports a vibrant real estate financing market, where valuable and stable asset value can be put to use as security to raise debt financing.

"London has a very open marketplace, is more transparent in terms of pricing than probably any other marketplace in the world and also has a predictable leasing structure," says George Roberts, leader of the occupier representation team at Cushman & Wakefield.

And while some investors will be simply looking for long-term wealth preservation and diversification outside their home industries and markets, other participants, like real estate private equity funds, are searching for good returns within a reasonable amount of time, extending to just a few years. The attraction is perhaps in part the direct ability to "work" assets and build value, whether through shrewd asset management, the use of the planning regime or a dedicated focus on a particular real estate asset class. The ability to "see, touch and feel" the assets also has a powerful draw for some participants, particularly

Investors into commercial real estate in London by geography

	2007	2013
Far Eastern	9.1%	41%
Europe	46.6%	21.3%
Middle Eastern	9.3%	19.1%
US	22.1%	9.7%
Other	12.9%	8.9%



Source: Property Data 2014

those looking for long-term investment, wealth preservation and diversification.

James Dodsworth, partner and head of White & Case's EMEA real estate group, says: "It's a very exciting time to be involved with real estate. The increasing availability of financing, both from traditional sources and alternative providers, coupled with the large amount of capital that private equity houses have been able to raise for investment purposes, means we are going to continue to see some large and interesting transactions for some time to come."

"There is an increasing element of sophistication to investment in the sector, particularly regarding those

specialist subsectors generating long-term income streams supported by strong financial covenants, like the leisure and hotels market, and the technical real estate sector, which includes capital-intensive assets, such as data centres."

Will Matthews, senior research manager of the real estate team at Deloitte, explains: "Everything we're doing at the moment suggests that London is set to remain one of, if not the, leading centre, for a huge variety of different industries."

Many global multinationals are taking new office space or new leases for high rents, which is driving up the underlying freehold investment value of the buildings in which they are located.

Cushman & Wakefield's Roberts adds: "Growth is sustainable. London's attraction as a global financial centre and a gateway to Europe gives us the confidence that wealth funds will continue to be here come 2020." ■

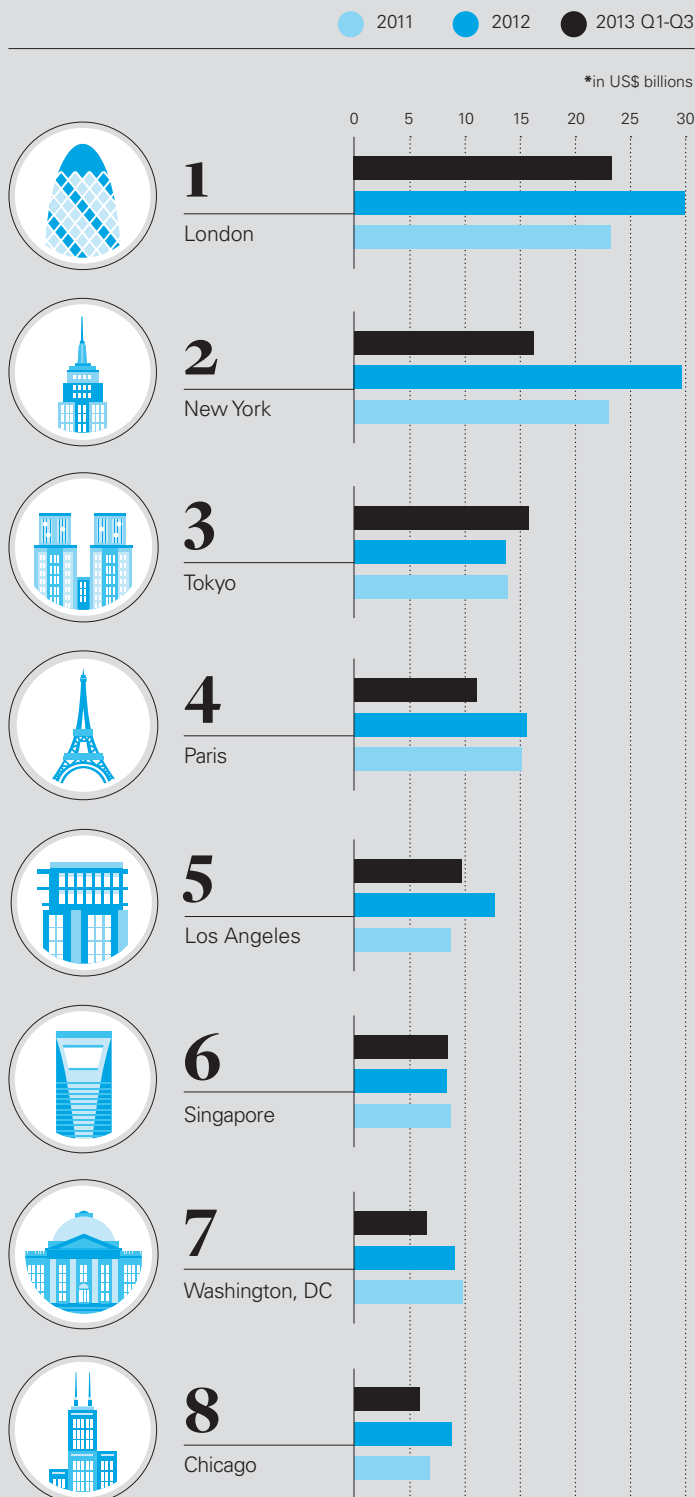


The transparency of English law and the related legal system provides substantial confidence for international investors looking at real estate holdings in the UK

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Spotlight on London real estate

Top cities for commercial real estate investment



Source: JLL 2013

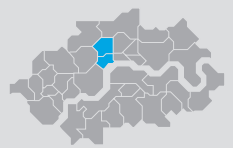
International vs. UK investment into commercial

West End



£1.1bn
£73m

Mid-Town



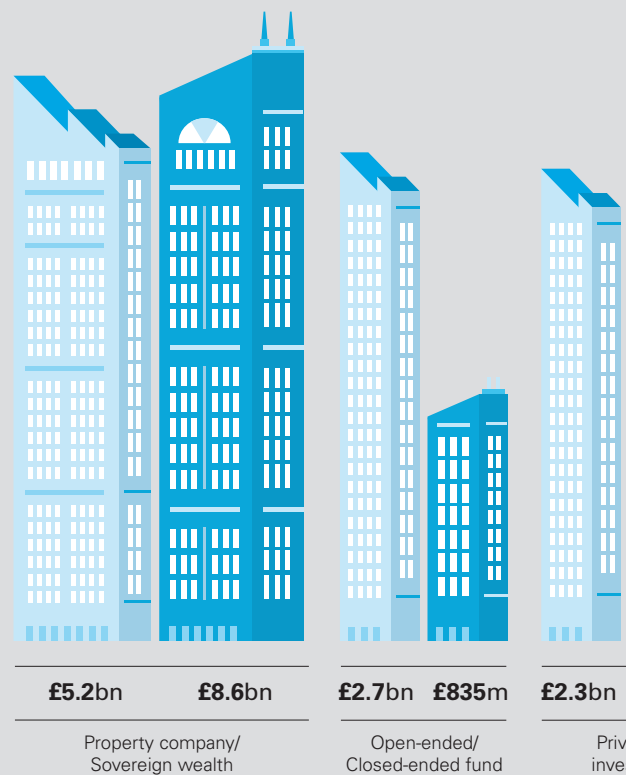
£448m
£111m

Central

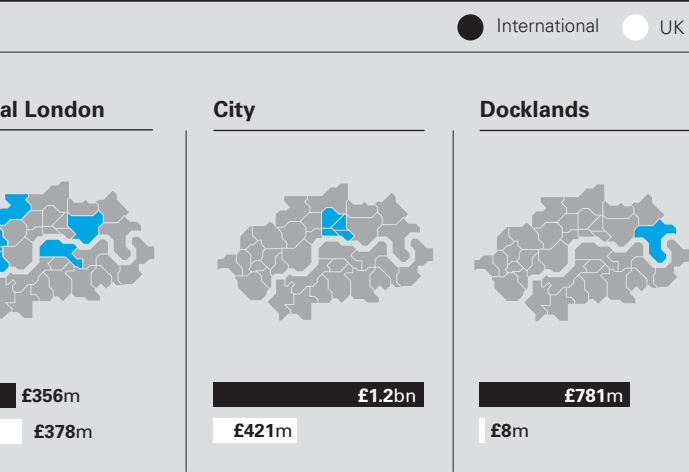


£1.1bn
£73m

Real estate investment by purchaser type in Central



Commercial real estate in London (H1 2014)



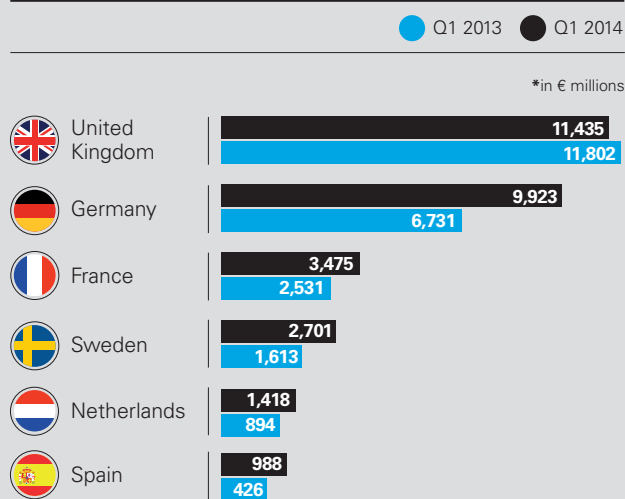
Source: Property Data 2014

Central London 2007 vs. 2013



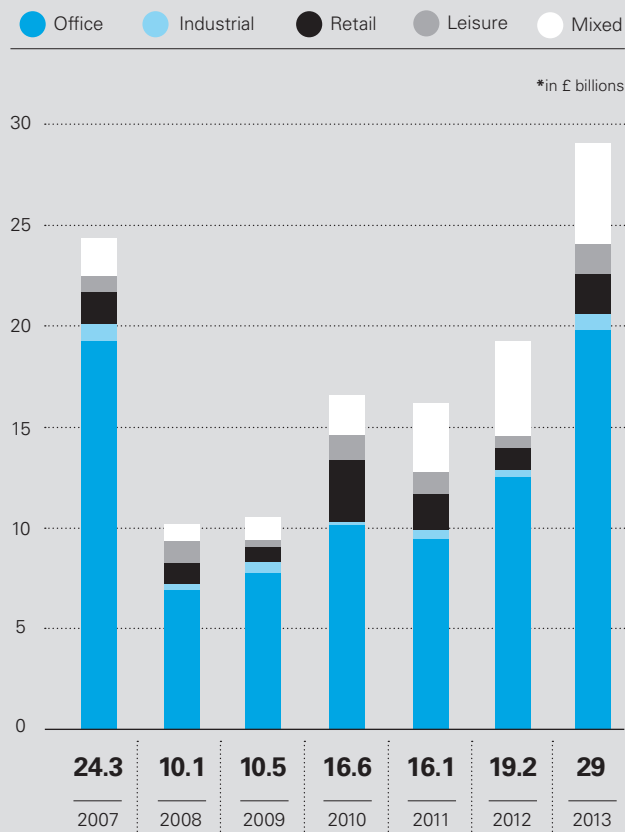
Source: Knight Frank Research 2014

Top European countries for commercial real estate investment



Source: CBRE Research, Property Data 2014

London real estate investment by asset type



Source: Property Data 2014

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