Funding the Future: Investment trends in five major European cities

FORWARD

FOREWORD

The global economic outlook continues to present clear challenges to even successful cities as they strive to achieve long-term sustainable growth. All have felt the impact of the downturn, and the real estate sector is no exception, with banks' tighter lending criteria meaning developers are finding it increasingly difficult to access capital and investors. This is making the ability of cities to leverage their funding ever more vital.

On behalf of the OECD Local Economic and Employment Development Programme[1], I was delighted to be approached by five of Europe's leading cities who remain relentlessly positivist in their outlook: Amsterdam, Barcelona, Hamburg, Lyon and Manchester. My work with these cities has shown that what distinguishes them from most others is their ability to understand what will generate growth over the medium-term, and what can they do today to help that along. These are cities that refuse to be submerged in the difficult tasks of the immediate, and insist on gathering the evidence about what will make these places among Europe's most successful cities in the years to come.

They are also acting on that evidence, putting in place a variety of policy, regulatory and operational vehicles that increase the chances of these cities seeing greater growth. Each has a maturity that enables them to be realistic about their distinctiveness in this globally competitive environment, and so to develop the particular comparative advantages each of the five cities have. This feeds confidence and investment, themselves two of the key ingredients for sustainable growth.

This report is a part of that, and seeks to answer key questions about what generates investment. Typically, whilst the analysis sits on an academic foundation, the evidence is drawn mainly from practitioners, both through an extensive survey that a wealth of information about investor views, and from a series of detailed consultations across the continent. These are pragmatic cities that want not to simply tell investors what they want to hear, but to evidence and understand what they need to focus on to build lasting partnerships with the best fit of investors, from which flows value, return and long-lasting reward for both the cities and their partners.

There can of course be no guarantees that these cities will prosper more than others in the years to come, but it is the consistent application of this approach that suggests they have a better chance than most of their peer cities. It is also the approach that is increasingly making them drivers of national policies.

Despite the gloom therefore there are reasons to be optimistic, and this work highlights why these cities are more likely than most to capitalise upon them.

Greg Clark
Chair of the OECD LEED Forum on Development Agencies and Investment Strategies, Local Economic and Employment Development Programme, Organisation for Economic Co-operation and Development

[1] New Economy and Barcelona Activa are partners in the OECD LEED Programme.

EXECUTIVE SUMMARY

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This study looks at what is currently proving successful in encouraging investment in European cities' real estate sectors, with a particular focus on the cities of Amsterdam, Barcelona, Hamburg, Lyon and Manchester. It focuses on five issues in particular: where investors are based; what investments are being made in; the factors influencing the decision to invest in cities; what cities can do to increase such investment; and what the current investment outlook is. The main findings of the research are summarised below.

Where are the investors based?

The research emphasises that investment operates very much on a global scale. Investment based in the five cities tracked back across the world, and significantly London, Frankfurt, Munich, and Paris, as well as spreading across a large number of other cities, including Moscow, Beijing, Milan and Rotterdam.

What are investments made in?

Unsurprisingly, office space was the most common investment, with retail also popular with investors. Residential property, mixed-used and hotels have continued to be invested in broadly in the five cities, although to a lesser extent than offices and retail.

What is the investment outlook?

Economic uncertainty continues to affect Europe, and the climate for property investment is expected to remain challenging in 2012. In this circumstance, focus on key sectors to support economic growth emerged strongly, with life sciences and biotechnology, alongside creative, digital & media commonly identified. This would have long-term implications for the real estate market given these sectors require variations on the property currently provided, such as labs, live-work, and studio space, and typically offer weaker covenants than traditional office occupiers. There is a clear challenge in these and indeed other cities in the race to get investment to deliver that unconventional property offer.

What can a city do to influence investment decisions in a city?

The strength of the local economy emerged strongly as the most important factor that investors identify in terms of influencing their decision to invest in a city. The importance of having a skilled workforce is particularly important here in driving future economic growth, especially in target sectors such as life sciences and digital/media.

Sustained work to positively influence those investor perceptions therefore emerges from the study as a smart use of resource, although clearly it is not just perceptions but the real underlying strength of the local economy that is the determinant, particularly relative to the national economy.

The strength of the local property market is the second most important factor, and an important finding is that a city does not need to be the largest market in its respective country: each of the five cities in this study has the necessary critical mass needed to create and grow a sustainable market

As to what else local governance can do, investors seem to seek a sensible and stable administration, which understands the drivers of growth, and does what it can to enhance them. Innovative and novel tools are viewed positively, as is a city's ability to shape broader national frameworks.

Investment in major infrastructure projects came out as a strong tool investors want to see used. If cities themselves invest, or bring in investment, that strongly increases their attractiveness as a location. The level of connectivity was highlighted as being especially important. This relates not just to road, rail and air links, but also to digital infrastructure, increasingly critical to support economic growth in a city.

Image is not everything, but it is important. Enhancement of a city's reputation also emerged strongly as an important factor considered as likely to affect decisions on where and when to invest in a city in the future.

INTRODUCTION

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Increasing investment and the returns on investment in this period of economic crises requires city leaders and private sector investors to use all the tools at their disposal to approach collaborative projects in ever more innovative ways. To get a separate and sturdy view of this, the cities of Amsterdam, Barcelona, Hamburg, Lyon and Manchester have commissioned this special piece of research to look at the key policies and operational elements that are currently proving successful in encouraging investment in European cities, and what evidence and investors suggest future trends may look like.

This headline report summarises the main findings of the study, with emphasis placed on investment trends in the real estate sector in the five cities. It mainly analyses trends connected to investors actually buying real estate and to investors and developers providing and accessing the capital to construct new buildings.

The report focuses on understanding and analysing:

- Where are investors based?
- What are investments being made in?
- What factors influence the decision to invest in cities like these?
- What can a city actually do to increase such investment?
- What is the investment outlook?

The study drew on the literature that exists on this topic and a variety of publicly-available information that could be mapped and reviewed. It also identified additional elements that would be needed and these were commissioned and their conclusions analysed and utilised. Three particular elements were brought to bear:

- A full baseline review of the economies of the five cities, which has been published alongside this report. This includes expert commentary on the respective property markets from Cushman & Wakefield's European Research Group;
- Detailed consultations with a broad selection of investors, developers, property companies, lending institutions and local policy makers in the five cities, also testing out some of the initial findings of the study, and focused on understanding future drivers of investment; and
- A large European-weighted survey of investors, developers and property companies with interests in cities such as these to gauge views on recent and future investment trends.

These elements and subsequent analysis and review are the basis of this report and provide a well-evidenced study that raises important conclusions for the five cities and indeed others. Amsterdam, Barcelona, Hamburg, Lyon and Manchester all now know that much more about the forces behind investment in their particular cases, and have an excellent platform and knowledge base to build on what they have and identify the particular elements investors think are their strongest basis for doing that.

WHERE ARE THE INVESTORS BASED?

Other Cities
Denver, USA
Mississauga, Canada
Montevideo, Uruguay
Seoul, South Korea
Toronto, Canada

The map opposite shows the main locations of the several hundred respondents to a targeted survey. The majority were based in Europe, although responses were also sought and received from across the globe. Apart from the five cities, a considerable number came from London, Frankfurt, Munich and Paris, highlighting the interconnectedness of these cities with the five in terms of primary markets.

Respondents were asked about the proportion of their investments that they made in each of the five cities over the last three years. Unsurprisingly a large number invested heavily in the city they were based in.

In terms of other cities people are investing in, the most common response was London, with 13.7% of survey respondents investing there over the previous three years. Paris (6.8%), Berlin (6.5%), Frankfurt (5.6%) and Munich (5%) were also major investment locations.

Investment was spread across a large number of different cities, with respondents mentioning locations as diverse as Moscow, Beijing, Milan and Rotterdam.

The consultation process explored in further detail where investments in the five cities were coming from. In Hamburg for example, foreign investors accounted for 32% of property purchased in 2011, falling to 28% in terms of property sold. Spain, Austria and the UK were the top three countries in terms of foreign investment into Hamburg from a property perspective[2].

In Manchester, it was noted that more traditional investors, such as funds and equity investors, have been coming from a variety of locations, including Israel, Germany, Asia, South Africa and Scandinavia. In addition, UK funds backed by US venture capital have been increasingly investing in Manchester.

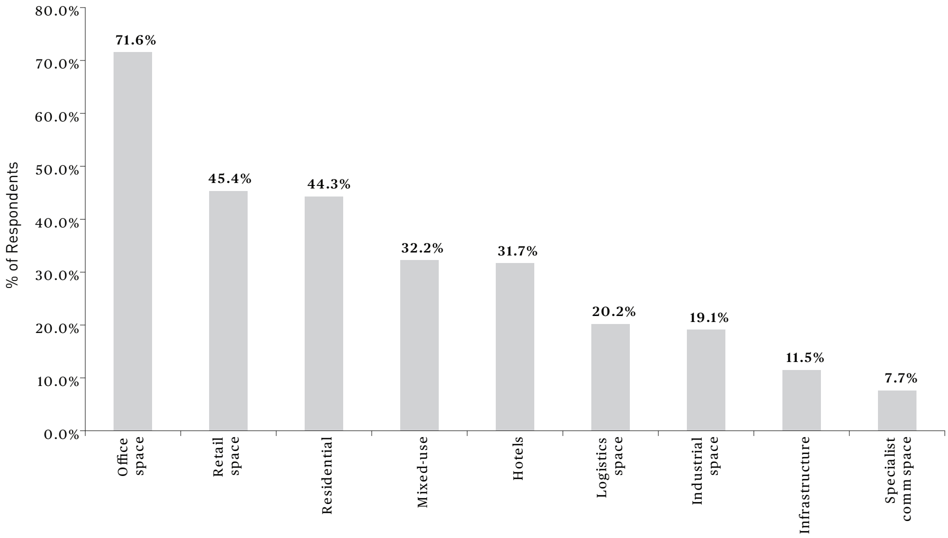
In Amsterdam, for housing, offices and cultural projects, investors were more commonly Dutch. Investment from outside the Netherlands has been seen in other types of development such as data centres and hotels.

In Barcelona, investment tends be European based, although the city is now seeing money coming in from countries such as Brazil and Mexico. Private national buyers continue to purchase prime assets, while institutional investors who understand the market fundamentals and are able to do equity deals or have approved credit lines in place have remained active in the market. Looking specifically at the office market in Barcelona as an example, of the two largest office projects under development, one is financed by a national developer and the other by US capital.

In Lyon, new developments tend to be carried out by French developers/investors. For specialist sectors such as life sciences and clean technology, investors may come from outside France - from the US, Japan and Germany, for example. As the city looks to build new office accommodation to grow its business services sector, countries such as Germany, Spain and the Netherlands are being looked to as a source of investment.

[2] Information provided by Jones Lang LaSalle.

WHAT HAVE INVESTMENTS BEEN MADE IN?



The chart above shows the kinds of property that investors have been spending money on over the last three years. Office space was the most common investment, with nearly three quarters of survey respondents having invested in this type of property in the last three years.

Retail space was also popular with respondents, with 45.4% investing in it over the period. In addition, 44.3% of respondents have invested in residential property, 32.2% have invested in mixed use property and 31.7% in hotels.

Logistics space was less popular, with 20.2% investing in this type of property. Other types of investment included industrial space (19.1%), infrastructure (11.5%) and specialist commercial space (7.7%).

In terms of the five cities and the consultation findings, in Amsterdam over the last few years hotels, residential and business centres have been popular with investors. Offices at the best locations have done well, although the economic downturn has still had a major impact on activity in the sector. Logistics remains a strong sector, largely due to the Airport which is a European centre for logistics. Amsterdam is very strong for headquarters, marketing and sales companies and service companies.

In Lyon, the property market has been characterised by stability and the fact that it is able to offer competitive rents makes it an attractive location. The Part Dieu business district has continued to be popular for office space, while Lyon's strong industrial sector and its geographical location means that industrial space has continued to be developed.

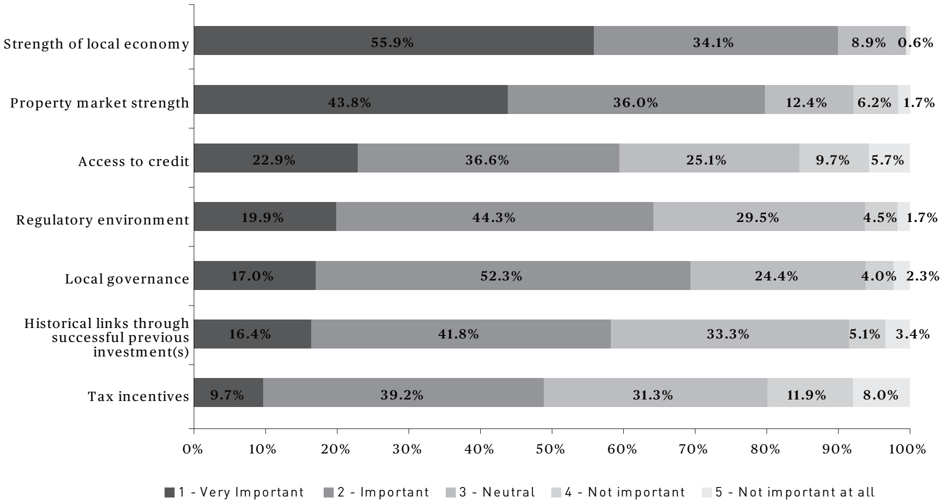
In Hamburg, offices in the Central Business District have been the most popular types of real estate for investors, driven largely by the higher rents that can be achieved. The retail sector has also seen a number of major investments in the last three years, which have been funded by a number of different purchaser types including pension funds, open-ended and closed-ended funds. Looking at investment activity overall, in 2011 asset/fund managers accounted for the highest proportion of real estate investments at 20% (around €400 million)[3].

In Barcelona, one of the key investments in the last ten years has been the development of 22@Barcelona - amounting to overall investment of €12 billion. This is a long-term project and is due to be complete post-2020. It is an innovation district designed to promote knowledge-based activities and more than 3 million sq. m of floorspace has allocated to office and commerce in order to provide the infrastructure required to develop the area's knowledge economy.

In Manchester, investors are looking at safe and secure real estate as a result of the economic downturn. The flight has been into prime space, particularly city centre offices which offer security. Industrial prime space has not seen as much downturn in demand, while the best retail has done well. New sectors have emerged in Manchester, such as student accommodation, hotels and affordable housing. The student residential sector has done well in Manchester because students are more willing to spend money on high-quality accommodation.

[3] Information provided by Jones Lang LaSalle.

WHAT INFLUENCES THE DECISION TO INVEST IN A CITY?



Survey respondents were asked about the factors which they consider when deciding whether to invest in a city. This section flags a number of key points that emerged from analysis of the results.

Strength of local economy

The strength of the local economy was the most important factor, with 90% of respondents viewing this factor as either very important or important. The consultations confirmed this, with local economic strength key when opting to invest in an area, as well the links a city has on a global basis.

Underpinning the strength of the local economy are skills - consultees in each city highlighted the importance of having a skilled workforce as being one of the key factors in driving future economic growth, especially in target sectors such as life sciences and digital/media.

While the five cities are not all the largest cities in their respective countries (Amsterdam being the exception), each has the critical mass needed to create a sustainable investment market. Over and above increasing that, maintaining perceptions of the strength of the local economy within a national context is clearly something it would pay cities dividends to work harder at.

For example, the Lyon urban region has a population of around 2.6 million people. Lyon has an average GDP per capita of approximately €35,700, well above the EU average.

The Greater Amsterdam Metropolitan Area has a population of 1.4 million and is a major European financial centre. It is also home to Europe's fifth largest equities exchange and second largest derivatives exchange. It also provides access to Europe, the Middle East, and Africa and beyond. Moreover, the region acts as an attractive portal to one the largest single markets in the world, accessing the EU's population of almost 500 million.

Manchester is the largest functional economic area in the UK outside London. Its population of 2.6 million creates sizeable markets for retail and financial and professional services, all of which are attractive to investors.

Barcelona is the centre of a large, dynamic and diverse economic area, based on the 4.8 million people of its greater metropolitan area. Nearly 2.3 million jobs are located in the surrounding metropolitan area and Barcelona has an annual GDP of over €64 billion. It is also a key access point to markets in North Africa, the Mediterranean region and Latin America.

4.3 million people live and work in the Hamburg Metropolitan Region, one of Europe's most important transport arteries. Hamburg is the economic centre of North Germany and has an average GDP per capita of €47,000, well above the EU average of €24,000.

Property Market Strength

The second most important factor identified was the strength of the property market, which was viewed as either very important or important by nearly 80% of respondents.

Again, the consultations confirmed the importance of this. For example, one of the most attractive components of Amsterdam's offer is that it has more than two million sq. m of office and industrial space, ranging from flexible offices to refurbished factories, state-of-the-art warehouses and high-end locations such as Amsterdam Zuidas, the main financial and business district. This area is a 'hub' of services and trading activities, with companies in sectors such as finance, accounting, law, ICT and marketing.

In Barcelona, the wider metropolitan area is developing seven million sq. m of floor space for high value added economic activities. New economic activity is concentrated in three main areas - 22@Barcelona, an innovation district; Parc de l'Alba, an area specialising in science and technology; and the Barcelona Innovation Zone, which is key for the industrial and logistics sectors.

In terms of recent investment trends, in France Lyon is second only to Paris for offices, while in the UK Manchester is one of the most important office markets outside London.

Hamburg has similarly become a stable market for investors, and is seen by the investment community to provide a secure base in which to invest. This underpins the success Hamburg has achieved in attracting approximately €2 billion of investment in its real estate sector in both 2010 and 2011, and this situation is expected to remain the same for 2012.

Access to Credit

Access to credit was rated as very important or important by 59.5%, placing it only as the fifth most important factor. This was a somewhat surprising finding, given the fact that the investment market is so heavily reliant on access to credit. However, the responses seemed to reflect the fact that investors are becoming increasingly selective about where to invest because of the economic climate, which places more emphasis on factors such as the strength of a city's economy and the property market.

Local Governance

Also surprising was that local governance emerged from the survey as the third most important factor. While only seen as very important by 17% of respondents, it was seen as important by 52.3%, indicating that it had a key position in decision making, although also through the consultations this can be characterised as investors seeking a sensible baseline, consistency and an ability to act.

Strong civic leadership is held to be an important aspect, with each city aiming to be as transparent as possible to new investors. All five cities are seen as having strong civic leadership and using this as a basis for working closely with the private sector to understand and support the main commercial and economic drivers.

Tax Incentives

Tax incentives were identified by a relatively low sample, and so emerged as the least important of the identified factors, with only 9.7% of respondents rating this issue as very important. In contrast to the survey however, the consultations highlighted that the presence of incentives is a significant help to support growth in an area. For example, in the UK tax relief schemes are available to small medium-sized enterprises (SMEs) and to larger companies who are engaged in R&D activities.

France has developed a similar initiative - called the crédit impôt recherche, it gives tax rebates to companies engaged in R&D. The initiative covers 40% of R&D expenses in the first year, 35% in the second year and 30% in subsequent years, up to €100 million. This is seen to have been a significant factor helping Lyon attract investors from the US and Japan.

Financial incentives have also enabled Amsterdam to grow from an economic perspective, in particular the corporate tax rate in the Netherlands, which is below the EU average: 20% on the first €200,000 of profits and then 25%. For expatriates, whose specific expertise is scarce in the current Dutch labour market, 30% of the employee's salary is subject to a tax-free reimbursement, a highly-innovatory intervention that seems to have had an important signalling effect.

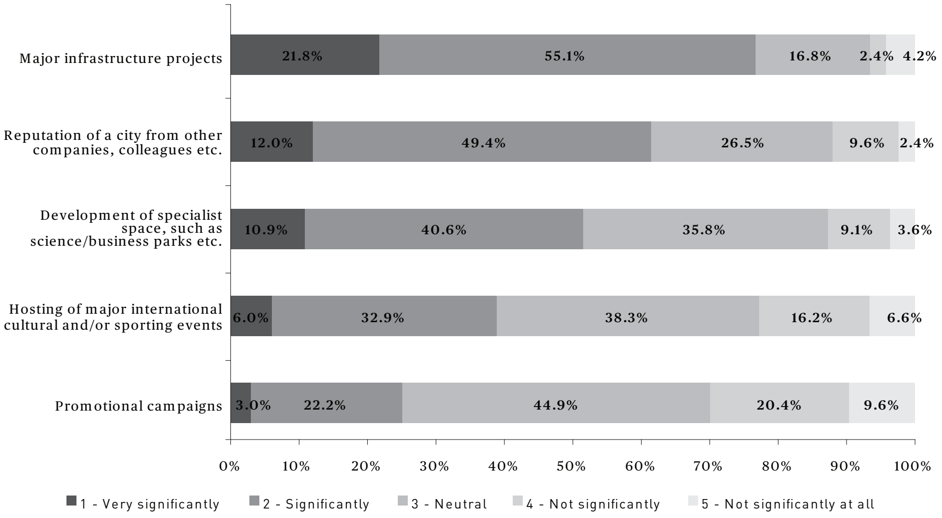
The tax initiatives described in the UK, France and the Netherlands are not solely related to the real estate sector, and are more broadly relevant to the wider agenda of stimulating economic development in the cities, which helps create a competitive business environment and so feed perceptions of a strong economy - found to be the most important factor.

At a more regional level, in Barcelona incentives are tailored to the investment according to the different incentives available. Currently, the main aid programs which promote investment in Barcelona and Catalonia provide grants and funding for investment projects which focus on areas such as R&D and energy efficient/renewable energies.

In Manchester, a new initiative will be created through the development of a new Enterprise Zone at Manchester Airport. The project, called Airport City, will see the creation of a new global product to provide new space for companies in sectors such as advanced manufacturing. Significantly, it will offer business rate discounts to companies that can then be re-invested in the wider Greater Manchester economy.

Greater Manchester is also working with the UK Government on an innovative investment model that would use an extended tax incremental financing model, whereby investments made locally would be matched by Government.

WHAT ELSE CAN A CITY DO TO INCREASE INVESTMENT?



The chart above shows the factors that the survey identified as likely to affect respondents' decisions to invest in cities in the future. Investment in major infrastructure and growing a city's reputation emerged as the two most important issues. Promotional campaigns were least likely to affect the decision to invest in a city - these findings suggest that investors focus more on physical improvements to a city rather than pure marketing initiatives.

Major Infrastructure Projects

Major infrastructure was the most important factor identified, with 21.8% of respondents ranking it as very significant and 55.1% as significant.

The importance of infrastructure was also a key finding from the consultation programme. In particular, the level of connectivity was highlighted as being especially important. This relates not just to road, rail and air links, but also to digital infrastructure. This was reflected positively in perceptions of the five cities' efforts to invest in their infrastructure. In Manchester for example, the extension of the Metrolink tram system was widely seen as the largest infrastructure project, at a cost of around £500 million, while Manchester Airport is continuing to grow passenger numbers (currently at around 18 million per year) and is looking to develop new routes to countries such as China.

In Barcelona, the Airport has seen significant investment in recent years to increase the number of passengers (up to 70 million per year in the long-term), while the port has also been expanded to handle more cargo. In addition, another key aim of investing in both the airport and port was to improve multi-modal connections in the city. Moreover, within a 7km radius, Barcelona now has a fully connected airport, port and rail network. Further investment will see a fully connected high speed rail link between Barcelona and the South of France by 2014, as part of wider developments costing in excess of €2 billion around the Sagrera High Speed Train Central Station.

Consultees in Hamburg discussed how investors look at the infrastructure of the city when making a decision about whether to invest there. If the city invests, so the view goes, investors will follow suit and vice versa. It was also widely known that Hamburg has invested heavily in infrastructure, and in particular:

- The deepening of the River Elbe, which is due for completion in 2014, helping support growth in the logistics/transport sector; and
- Extensions to the subway system as part of the HafenCity scheme, including direct links to Hamburg Airport.

In Amsterdam, Schiphol Airport is seen as a major strength for the area, with more than 50 million passengers per year and ranked number three as a cargo airport in Europe. There is also a very strong ICT infrastructure (particularly the Internet Exchange, AMS-IX), which has been in place since the 1990s, was also widely referenced. Moreover, 1 out of 6 jobs in Amsterdam today are in the ICT sector. Further developments will see additional improvements to Amsterdam's infrastructure, in particular:

- A new North-South subway under construction and opening in 2017, connecting downtown with the Zuidas financial and business district; and

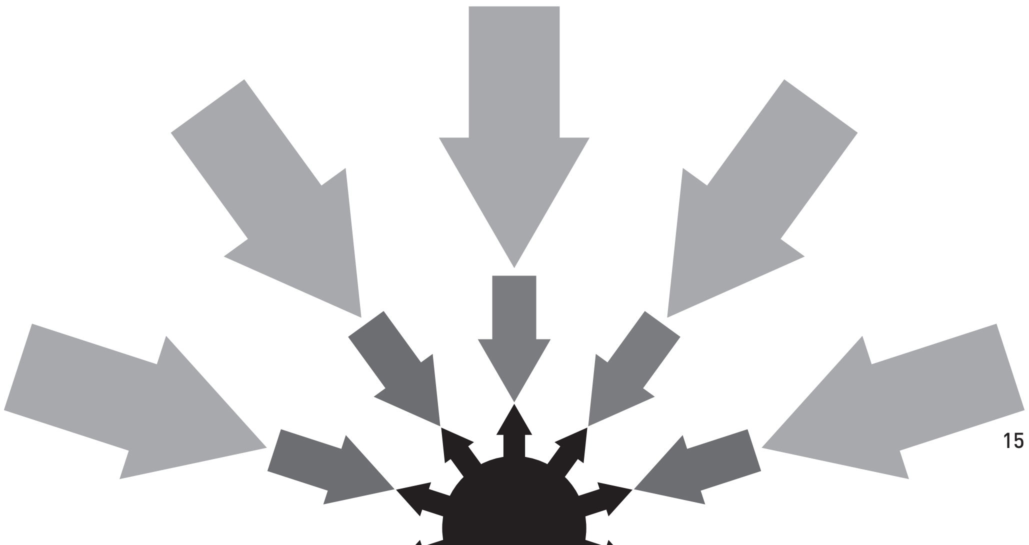
- Central government is financing a new tunnel to 'heal' the urban space in the Zuidas district of expected €1 billion. The Amsterdam Area will contribute around €0.5 billion.

Lyon also benefits from good infrastructure and given its location at the intersection of East-West and North-South European transport routes it has three TGV (high speed train) stations. For example, since the end of 2011 there has been a daily Frankfurt-Lyon TVG service. Future developments will see journey times between Lyon and Turin via TGV cut from 3½ hours in 2011 to 1¾ hours by 2020, while a TGV link will provide access between Lyon and Barcelona in less than 4 hours by 2015.

City Reputation

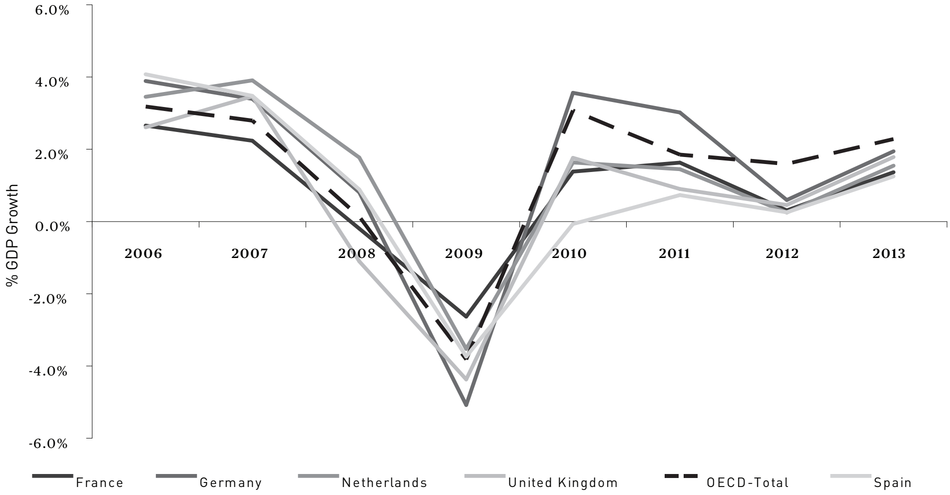
City reputation was also viewed as important, with 12% of those surveyed calling it very significant in decision making and 49.5% ranking it as significant. As one consultee noted in Hamburg, people have to want to live and work in the city. A city must therefore be very attractive to both people and investors. In Barcelona for example, the city has been named as the World Mobile Capital for 2012-2018, helping it to promote itself as a key destination for people and investors in the ICT sector.

Another theme that emerged strongly backed the earlier findings on the local economy, as investors today are more likely than ever to be looking for an area with all the components in place for a sustained a platform for growth.



WHAT IS THE INVESTMENT OUTLOOK?

GDP Change - Actual and Forecast



To a large degree, future trends in these real estate investment markets are clearly determined by what lies ahead in terms of the wider European economy. The chart below shows gross domestic product (GDP) growth data, which has been produced by the Organisation for Economic Co-operation and Development (OECD).

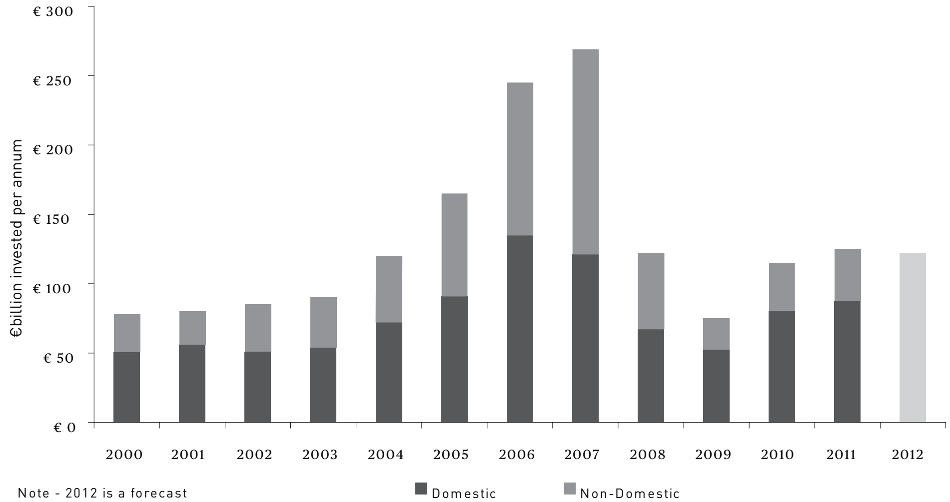
The dataset includes GDP forecasts for 2011-13. It can be seen from the data that the five countries experience a broadly similar trend, with a significant level of retraction during the downturn, followed by a more gradual recovery. Unsurprisingly, the forecasts suggest that 2012 will see a reduction in growth across the OECD. Clearly, this is a rapidly shifting picture, and the risks are generally on the downside.

By 2013 the average OECD growth rate is forecast to be 2.3%, slightly above that of the larger Western European economies, such as Germany (1.9%) and the UK (1.8%). Lower 2013 growth rates are forecast in the Netherlands (1.5%), France (1.4%) and Spain (1.3%).

Again, the risks to these are relatively strong on the downside. In the current period of economic uncertainty, accurate forecasting has become increasingly difficult and opinions vary considerably between forecasters. The International Monetary Fund forecasts are slightly more pessimistic, although they indicate a broadly similar trend across European countries. All assume a certain stability in the euro area and bond markets, and how different scenarios may affect different countries is not factored in.

FUTURE INVESTMENT TRENDS IN THE EUROPEAN REAL ESTATE SECTOR

Investment in European Real Estate



As the economic uncertainty continues, the climate for property investment in Europe will remain challenging in 2012.

However, the data continues to suggest a better picture than many have forecast. According to Cushman & Wakefield, commercial property investment volumes rose by 17.7% in the final quarter of 2011, taking volumes for the year to €126.2 billion, 7.8% more than 2010.

Foreign investors were the main driver of this, increasing activity by 16.2% over the year. Investors in general have remained risk averse and continued to show a strong interest in core markets, with the UK, Germany and France by far the most in demand, taking 61.4% of all investment for the year. Indeed, while the strongest growth in activity in 2011 was in the emerging (or "growth") markets, buyers grew more cautious as the Eurozone debt crisis picked up later in the year, and this is likely to continue in 2012.

In terms of future investment trends in each of the five cities, the following points have been highlighted by Cushman & Wakefield.

- In Amsterdam, office and retail activity will be fairly modest over the next three years. Dutch industrial and logistics activity will be focused on Rotterdam and Amsterdam. Expectations are that activity will be lower in all markets in all segments in 2012 and into 2013, with the market beginning to pick up in the second half of 2013. Class/type-A locations (including Zuidas and Schiphol) will remain attractive for investors, not only for offices, but also for logistics, housing and retail.
- In Barcelona, leasing and investment activity should slowly increase in line with improvements in the wider economy, but it will be very gradual. Office development activity will be very subdued for the next 2-3 years, in line with 2011. A progressive increase should be seen thereafter as existing vacant space becomes leased, although it will be some time before the ten year average of 180,000 sq. m of new space per year is reached.
- Hamburg's property market is expected to perform in line with the trends of the past three to five years, albeit with more foreign investors showing interest in Hamburg's office market.
- Lyon is a very stable market and the level of activity should remain similar. New developments tend to be carried out by French developers and investors. The most active foreign buyers currently are from Germany.
- In Manchester, a number of changes are set to impact on the city and its property sector. There is potential pent up demand from significant office lease-ends over the next five years. In the industrial and warehousing sector, the level of demand will be similar to the past three to five years, but the product demanded will change, as it will be design and build, as all good quality existing stock has now been taken.

INVESTORS' VIEWS AND OUTLOOK

Respondents to the survey were asked about their investment expectations over the next three years. The findings show that just over one third intend to invest roughly the same amount in the coming years as they currently are, indicating their belief both in a relatively flat property market in the future and also relatively stable if subdued economic conditions. A similar proportion of respondents expect to increase their investments over the same period, presenting similar, upside, indications.

The survey also asked people about their future investment locations and how much they would be investing in the five cities. The results were varied, but showed there would be a considerable amount of investment in particular in Hamburg and Amsterdam.

Respondents were asked about the other cities that they were likely to invest in over the coming years. Again, London (10.4%), Berlin (10.4%), Munich (8.8%), Frankfurt (5.6%) and Paris (5.6%) were all highlighted. However, there were a large number of other locations mentioned, such as Shanghai, New York, Kuala Lumpur and Hanoi.

The survey asked if people expected any factors that influenced their decisions to invest to change over the next three years. While over 65% answered no to this question, there were a variety of responses from the minority who believed the inverse. Increasing growth in emerging markets in Asia and Latin America was cited as a significant change by several respondents, as was the continuing crisis around the Euro, which was seen as a volatile factor.

The consultations explored future investment trends in each of the five cities in further detail and views held on each of the five cities can be highlighted below.

A common theme to emerge for each city was the focus on key sectors to support their economic growth, with many of those perceived key sectors being the same, such as life sciences and biotechnology, and creative and digital media. If borne out, this should be expected to have long-term implications for those real estate markets, given that these sectors typically require rather different types of accommodation than are current provided by more standard office space. As one consultee put it, there is a race and a challenge to the investment market to deliver this more unconventional type of property offer.

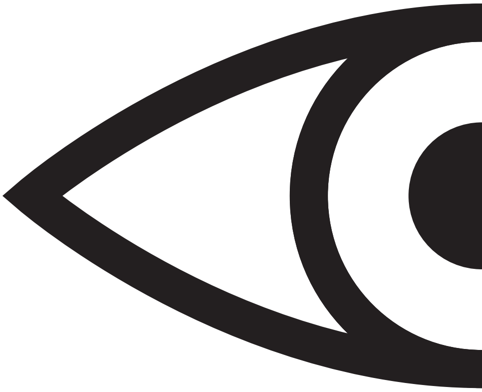
In Manchester, the view was that 2012 will continue to be challenging given the broader (and particularly the UK) economic situation, and more needs to be done to recognise and stimulate growth in the area's key sectors, such as life sciences and digital and media. Initiatives such as Airport City were seen as having real potential both to boost the economy and to help create and define a globally distinctive product in Manchester.

In Amsterdam, the broad strategy was seen to be to build on strong recent performance. In particular, efforts are focused on growing advertising, new media and gaming, as well as ICT, and in particular the cloud, social media and data centres.

Lyon looks to the Part Dieu district development, the second largest business district in France, with up to 600,000 sq. m of new space likely to be delivered in the next 10 years. The aim is to attract companies in the finance sectors and other office-related functions. Money to fund this is coming from private investors, with German, Spanish and Dutch investors in particular currently showing interest.

Focus in Hamburg continues to be on the development of Europe's largest inner-city development project, HafenCity, a European city on the waterfront. Private investment for the scheme is approximately €8 billion and public investment is around €2.4 billion, primarily financed out of sales of land in HafenCity of approximately € 1.5 billion. Around 40% of construction work for HafenCity is complete.

In Barcelona, investment levels are seen to have recovered somewhat in the last two years. There was €4 billion of investment in Catalonia last year, for example. The majority of investors are European, but other countries are also investing, including China. Barcelona seeks to attract investment especially from Brazil, Mexico and other South and Central American countries over the coming years.



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