Regeneration: Supporting Investment and Economic Growth

September 2016
The Department for International Trade
UKTI established RIO in 2013 and since then has enabled over £8bn of investment into the UK – sourced from foreign and domestic investors.

The RIO model supports job creation and economic growth by helping overseas investors identify funding opportunities in regeneration projects.

RIO focuses on cities and regions across the UK and high quality, large scale investable schemes which will benefit local communities and economies.

It also supports private and public sector bodies to present their projects to potential investment partners.

The RIO Team has recently been significantly expanded, to now include the support for investment into Infrastructure projects. This enlarged team will be called the new name of DfIT Capital Investment Team (CIT).
About the Capital Investment Team

The CIT team combines vast experience and a spread of expertise within the property sector to bring investors and projects together to ensure independent advice and the best outcome for all stakeholders.

We work closely with British Embassies within our priority markets to strategically manage relationships with investors.

RIO’s work extends to supporting infrastructure-led regeneration opportunities such as HS2 (High Speed Rail), Network Rail and Transport for London (TFL) portfolio as well as social housing estates regeneration which will help hit the policy objectives including creating one million new homes by 2020.
What the Capital Investment Team can offer investors

CIT works with stakeholders to deliver

• Partnerships
• Projects
• Places
• Policy
• Political Engagement
A CIT investor

Investors CIT work with include

- Pension Funds
- Sovereign Wealth Funds
- Asset Managers
- Investor developers
- Domestic investors seeking overseas capital

Working alongside strong commercial partners and advisors

CIT investor characteristics

- An ability to invest in excess of £100m in a single project
- Assets under management of more than £500m
- Track record of property development
- Long term investment horizons – minimum 3 – 5 years

Partners usually demonstrate all or most of the characteristics
UKTI investor support
What CIT can offer partners - investors

- Match investors to projects corresponding to their investment criteria
- Provide insight to regulatory regimes such as tax and planning
- Help overseas investors navigate routes to regional support in the UK
- Building relationships and legacy with project stakeholders to understand local priorities, facilitate commercial discussions and introductions
- Provide advice on unblocking key investment obstacles in the UK once capital has been deployed
- Connections to best-in-class private sector advice
Qualifying as a CIT project

CIT has identified a selection of projects seeking investment which meet the following criteria.

CIT encourages continued investment in London, and we support the government aim of rebalancing the UKs economy by sourcing projects across the UK.

**Project Scale**
- Gross Development Value: £100m + (lower threshold of £50m considered where substantial employment is created)
- Job creation

**Site Details**
- Land under ownership or control of Project Promoter
- Planning Applications underway

**Economic Business Case**
- Viable project plan showing growth, demand and/or supply change
- Demonstrable commercial returns on investment, supported by development appraisal and matching cash flows
- Support of local and central government
- Timings of investment within 3 - 12 months
Places - CIT’s network

DfIT has Professional advisers around the UK and in more than 100 countries.

CIT has 18 in London HQ including experts in planning, finance and development

As well as a network across 13 priority overseas markets
Policy

CIT is well connected to policy departments

The team reflect the views of industry to policy makers and key government influencers and in return provides clarity on policy implications on investor decisions

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<tr>
<th>HMT</th>
<th>DCLG</th>
<th>HCA</th>
<th>FCO</th>
<th>DFT</th>
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<tbody>
<tr>
<td>Achieving strong and sustainable growth</td>
<td>Planning powers</td>
<td>1 Million Homes</td>
<td>Global Promotion</td>
<td>HS2</td>
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<td>Devolving powers</td>
<td>Boosting local growth</td>
<td>Supporting Global and UK growth</td>
<td>Crossrail</td>
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CIT acts to achieve alignment of interests and helps investors find and invest into a range of UK wide regeneration opportunities.
Political engagement

The team engages globally to promote UK investment opportunities leveraging the support of senior members of Government and key industry events.

Launched by PM July 2015

Launched by Chancellor September 2015

Launched at MIPIM UK October 2015

Launched at MIPIM March 2016
The investment landscape

- Emergence of long term patient money seeking alignment with long-term cash flow and long term liabilities
- Liberalisation of investment regimes – e.g. Australia, Japan & Canada
- Greater acceptance of alternative assets as part of core investment strategies
- Increased acceptance of international collaboration by domestic investors
- Government support for investment that upgrades the UK’s infrastructure, & urban development to boost jobs, economic growth and competitiveness
Central London attracts a greater volume of overseas investment than any other city in the world. In 2015, overseas investment in London was 18% higher than second placed New York, and nearly three times higher than Paris in third place.

During the period 2013-2015, a record £37.1bn was invested by overseas buyers in the Central London office market.

Overseas investors will continue to be attracted to London’s strong fundamentals, driven by the unparalleled levels of liquidity and transparency, as well as the well-established ‘safe haven’ status of the city.
Digital technologies, health innovation, energy and advanced manufacturing have the potential to transform the North of England’s economy, adding £97 billion and 850,000 jobs by 2050. ¹

Midlands Engine

The Midlands has an economy of £222 billion each year and is home to over 11.5 million people. ¹

Core Cities

In the last decade, according to CBRE research over £46bn of investment went into real estate in the UK’s main cities

Total investment in commercial real estate (£m) 2006 - 2015 Q3

<table>
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<tr>
<th>City</th>
<th>Total Investment</th>
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<tr>
<td>Manchester</td>
<td>8,235</td>
</tr>
<tr>
<td>Birmingham</td>
<td>6,563</td>
</tr>
<tr>
<td>Glasgow</td>
<td>5,277</td>
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<tr>
<td>Edinburgh</td>
<td>4,888</td>
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<tr>
<td>Leeds</td>
<td>3,745</td>
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<tr>
<td>Bristol</td>
<td>3,567</td>
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<tr>
<td>Aberdeen</td>
<td>2,677</td>
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<tr>
<td>Sheffield</td>
<td>2,673</td>
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<tr>
<td>Liverpool</td>
<td>2,168</td>
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<tr>
<td>Newcastle</td>
<td>1,964</td>
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<tr>
<td>Cardiff</td>
<td>1,894</td>
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<tr>
<td>Nottingham</td>
<td>1,447</td>
</tr>
<tr>
<td>Southampton</td>
<td>1,301</td>
</tr>
<tr>
<td>TOTAL</td>
<td>46,399</td>
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Source: Property Data, CBRE. Comparable data for Belfast is not available.
Core Cities

The composition of overseas buyers in the regions is also more diverse than ever before

Overseas investment in commercial property investment: UK excl. London and the South East, by origin of buyer, £bn

Source: CBRE
Core Cities

Although yields across the UK have been falling, there is also a noticeable appetite to invest in the higher yielding property found outside London.

Distribution of yields in commercial property transactions outside London and South East England, 2012-2015

Source: Property Data, CBRE
The UK is the top global investment destination as it provides

- Rule of Law
- Ease of doing business
- A competitive tax environment
- World class banking & financial services
- Access to world class talent & skills
- An innovation hub
- Straightforward visas & migration system
- Efficient and simple property & planning processes
- The Ideal time and place
- Strong economy, soft power
What does this all mean for me?
UK CAPITAL MARKETS – MARKET OVERVIEW

- 2008/9 Basel III introduced CAPITAL constraints
- QE has not eased UK Clearing Banks views on non-recourse lending for development finance.
- Loan to Value constraints tightened to 50/50, means borrowers need 50% equity.
- No liquidity in the development market.
- Public Sector, one word, AUSTERITY! Reducing Capital Budgets all round.
- CONCLUSION....... WE NEED TO INNOVATE, IN ORDER TO CONTINUE TO DELIVER DEVELOPMENT.
UK CAPITAL MARKETS – A PERFECT STORM

• REDUCTION in available FUNDING, in PRIVATE Sector markets.
• REDUCTION in Public Sector funding.

• To continue to progress large scale schemes will need a closer alignment of PRIVATE and PUBLIC sector FUNDING sources.

• Develop a HOLISTIC approach to project delivery.

• Use as many tools in the toolbox to SUCCEED.
UK CAPITAL MARKETS – TOOLS IN THE TOOLBOX

• Utilise Public Sector Covenant into LEASE Wrap/Income Strip structures.
• Utilise Tax Incremental Finance (TIF).
• Utilise Public Sector land as quasi-equity.
• Defer Public Sector land receipt to assist debt stack.
• Select genuine partnerships for FUNDING, ....then select DELIVERY strategy.
• Develop a more sophisticated understanding of ‘Best Value’
• Forward funding structures.
CAPITAL INVESTMENT TEAM – PROJECT ESSENTIALS

• EY accredited process

• SCALE – over £100M GDV
• SECURED land position.
• EVIDENCED development appraisal, showing commercial returns.
• EVIDENCED market demand data, demonstrating that a DEMAND exists for the proposal.

• NEXT STEPS.......CONTACT THE DfIT Capital Investments Team
DfIT CAPITAL INVESTMENT TEAM

• Paul Marsh – Head of Development and Finance

• Email: paul.marsh@trade.gsi.gov.uk