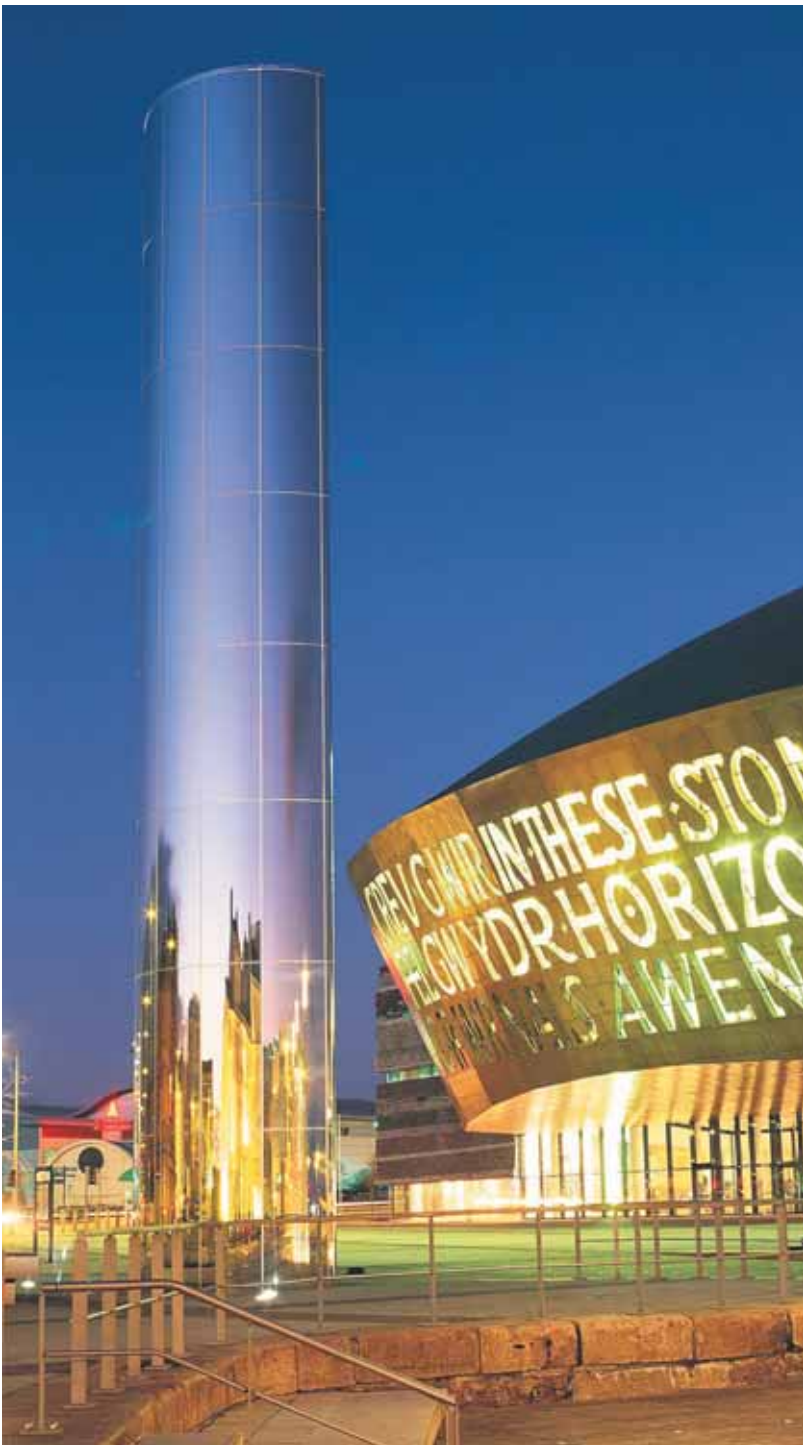


A guide to investing in Wales

Appendix 3 – Commercial property



Appendix 3 – Commercial property

Property search. To search for available commercial property options in Wales log onto: www.propertypilot.co.uk/57home.htm

1. Procurement options (leasehold or freehold)

For companies setting up, the key property decision is whether to rent premises (known as “leasehold”) or to buy premises (known as “freehold”). The majority of commercial property is held on a leasehold basis. Importantly, there are no restrictions on overseas companies either buying or renting property in the UK.

a) Leasehold

Companies can either rent premises that are already available or enter into what is known as a “pre-let” (an agreement with a developer to lease premises before construction is completed, enabling prospective tenants to specify the design, layout and fittings of the building).

Commercial leases typically run for 15 years with reviews every five years, although shorter terms are becoming more common. It may be possible to negotiate “break clauses” at set times throughout the lease (enabling the occupier to serve notice to vacate the premises).

The majority of leases on commercial premises are let on “full repairing and insuring terms”, which places the responsibility and costs for all upkeep, decoration and repairs onto the tenant.

In addition, most leases over three years in length will have a provision to increase the rent in line with the market conditions at pre-determined points throughout the lease. The standard clause allows for “upwards-only” rent reviews at five-yearly intervals (this means that, should the market rent rise, so does the rent payable).

Consideration	Rate
Purchase of a Building	
Not exceeding £150,000	0 per cent
Exceeding £150,000 but not exceeding £250,000	1 per cent
Exceeding £250,000 but not exceeding £500,000	3 per cent
Exceeding £500,000	4 per cent
The following rates apply to rents:	
Not exceeding £150,000	0 per cent
Any balance above £150,000	1 per cent

Businesses selecting the leasehold property options must also pay “stamp duty land tax”, which is calculated using the “net present value” of all rental payments due over the term of the lease as follows:

For more information (including an on-line stamp duty calculator), please see: <http://sdcalculator.inlandrevenue.gov.uk>

For information on legal issues for business tenants, please see:
www.communities.gov.uk/citiesandregions/propertyissues/businessstenanciesguidance

b) Freehold

Buying property in Wales is a straightforward process and, importantly, there are no restrictions on overseas companies.

In addition to the price of the property, purchasers must also pay stamp duty land tax based on both the size of the transaction and the location of the property (please see details included within leasehold section).

2. Property options

There are various property options available to businesses throughout Wales (including leased offices, serviced offices, industrial properties and land for development).

a) Leased office options

There is a wide range of leased office options, from standard office accommodation to leading-edge headquarters buildings.

The basic rent on a conventional office lease usually ranges from £118 per square metre per annum in Wrexham, to £140 in Swansea and £215 in Cardiff (source: DTZ Research 2008), depending on location and facilities. Annual rents are typically subject to upwards-only rent reviews at the end of each fifth year.

In addition to annual rental charges, service charges are also typically charged at around £40 per square metre per annum. The service charge is levied by the building owner or their agent, and includes the basic running costs of the building such as lift maintenance and cleaning.

b) Serviced office options

The key advantages of serviced offices are that all costs are combined into one monthly payment and leases can be as short as one month. Companies can usually move into a new serviced office within a week.

Serviced offices are available in all major towns and cities across Wales, and range in size from a single desk through to large offices. Costs are usually based on the number of workstations and can typically range from £200 per workstation per month depending on the location and the range of services included.

More information on both the cost and availability of serviced offices can be found at: www.instantoffices.co.uk or www.regus.co.uk.

The average rentals on new industrial and distribution units typically range from around £48 in Wrexham and Swansea to £65 in Cardiff (source: King Sturge 2007).

c) Land options – development sites

For businesses intending to build their own premises, Wales offers a wide variety of greenfield and brownfield sites, ranging from £100,000 per acre in Swansea to £225,000 in Cardiff (source: DTZ Research 2008).

3. Timescale for obtaining property

Although it is possible to occupy a new building within a few weeks, it is prudent to allow, on average, three to four months from initialising the property search to taking occupation of an existing property. This includes time for searching locations and identifying buildings or sites, negotiation of leasehold or freehold terms and the drafting of appropriate legal documentation.

4. Agent fees

A property agent can assist in both the property search and in negotiating the main terms of the lease or purchase.

Agents' fees for procuring a leasehold property are approximately 10 per cent of one year's rental costs. Agents' fees for purchasing freehold properties are typically around 1 per cent of the purchase price, although this is subject to confirmation of the full range of services required and individual negotiation.

For more information on property agents and surveyors, please see: www.ricsfirms.co.uk

5. Legal fees

Companies purchasing or leasing property should expect to pay legal fees (which incorporate conveyancing fees), costs for local authority searches and bank transfer fees. An experienced property solicitor is typically necessary to assist in the preparation of all required legal documentation. For contact details of property solicitors, including a searchable database, please see: www.lawsociety.org.uk.

6. Business rates

Business rates are a property tax that business occupiers pay towards the costs of local government services.

The specific level of business rates payable is based on a professional assessment of the annual rent of each individual property (as if it were available to let on the open market). The most recent rating list came into effect on 1 April 2005 and is based on the valuation date of 1 April 2003 (all properties are valued from the same date to ensure that they are assessed on a level basis). Details of business rates can be found at: www.voa.gov.uk

7. Obtaining planning permission in Wales

Planning regulations are administered by the local authority covering the area in which the particular building or site is located. Prior to making any commitments to amend an existing building, construct a new building or change the usage of a building, businesses must make contact with their local authority planning department (a full list of commercial property usage classes is included below).

The planning system is different to the planning systems operating in many other European Union countries. For example:

- The planning system is discretionary.
- Wales has a clear process that typically provides planning decisions more swiftly than in many other European Union countries.
- The appeals system within Wales also follows a clear process whereas in many European Union countries the appeals process must be undertaken through the courts.

The Statutory Consultation period is 21-28 days from the date the Local Planning Authority (LPA) writes to the relevant Local Authority Committees. The period for determination is a minimum of 8 weeks or 16 weeks if an Environmental Impact Assessment is required. The period runs from the date of Registration of the Application.

An outline planning application is valid for three years but the LPA has the power to extend this under special circumstances. A detailed planning application is valid for five years.

Commercial property usage classes

A1	Shops: Shops, post offices, travel agents, hairdressers, funeral directors, dry cleaners
A2	Financial and professional services: Banks, building societies, betting offices, and other financial and professional services
A3	Food and drink: Pubs, restaurants, cafes and hot food take-aways
B1	Business: Offices, research and development, light industry appropriate in a residential area
B2	General industrial
B8	Storage and distribution: Including open air storage
C1	Hotels: Hotels, boarding and guest houses where no significant element of care is provided
C2	Residential institutions: Residential care homes, hospitals, nursing homes, boarding schools, residential colleges and training centres
D1	Non-residential institutions: Surgeries, nurseries, day centres, schools, art galleries, museums, libraries, halls and churches
D2	Assembly and leisure: Cinemas, concert halls, bingo and dance halls, casinos, swimming baths, skating rinks, gymnasiums or sports arenas (except for motor sports, or where firearms are used)

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The LSH Weather Map

Market forecasts for the UK and Ireland
Office, Retail and Industrial sectors

July 2008

www.lsh.co.uk

How bright is your market outlook?

Office

Forecast

-  Rents rising strongly
-  Rents rising slowly
-  Rents stable/no change
-  Rents falling slowly
-  Rents falling severely



Where more than one centre is represented for each region, the symbol refers to average performance.

Market Overview

• LSH office locations

Region	Forecast end 2008	Current prime rents £ per sq ft	Forecast prime rents end 2008 £ per sq ft	% change
Birmingham	☁	£32.50	£32.50	0.0%
Bracknell	☁	£25.00	£26.00	4.0%
Bristol	☁	£27.50	£28.50	3.6%
Cambridge	☁	£23.00	£23.00	0.0%
Cardiff	☁	£20.00	£22.00	10.0%
Chelmsford	☁	£25.50	£25.50	0.0%
City of London	☁	£60.00	£57.50	-4.2%
Dublin*	☁	€58.20	€58.20	0.0%
Edinburgh	☁	£30.00	£30.00	0.0%
Fareham	☁	£19.75	£19.75	0.0%
Glasgow	☁	£27.50	£30.00	9.1%
Guildford	☁	£26.50	£28.50	7.5%
Hammersmith	☁	£36.00	£37.00	2.8%
Hemel Hempstead	☁	£20.00	£20.00	0.0%
Leeds	☁	£27.00	£27.00	0.0%
Leicester	☁	£16.75	£16.75	0.0%
Liverpool	☁	£20.00	£21.50	7.5%
Luton (Out of Town)	☁	£20.00	£20.00	0.0%

Region	Forecast end 2008	Current prime rents £ per sq ft	Forecast prime rents end 2008 £ per sq ft	% change
Maidenhead	☁	£32.50	£32.50	0.0%
Manchester	☁	£28.50	£28.50	0.0%
Milton Keynes	☁	£20.00	£20.00	0.0%
Newbury	☁	£18.00	£19.00	5.6%
Newcastle-upon Tyne	☁	£22.00	£23.00	4.5%
Newport (Out of Town)	☁	£15.00	£15.75	5.0%
Northampton (Out of Town)	☁	£17.00	£17.50	2.9%
Nottingham	☁	£17.50	£18.50	5.7%
Oxford (Out of Town)	☁	£23.00	£24.00	4.3%
Peterborough (Out of Town)	☁	£15.50	£15.50	0.0%
Reading	☁	£28.00	£30.00	7.1%
Sheffield	☁	£21.50	£21.50	0.0%
Slough	☁	£27.00	£27.00	0.0%
Southampton	☁	£21.00	£22.50	7.1%
St Albans	☁	£25.00	£25.00	0.0%
Swansea (Out of Town)	☁	£12.75	£14.50	13.8%
Watford	☁	£22.00	£22.00	0.0%
West End	☁	£110.00	£105.00	-4.5%

*This is based on the exchange rate of £1.00 to €1.26 as of 30 June 2008.

Prime headline rents for office buildings of 20,000 sq ft in the city centre unless stated otherwise.

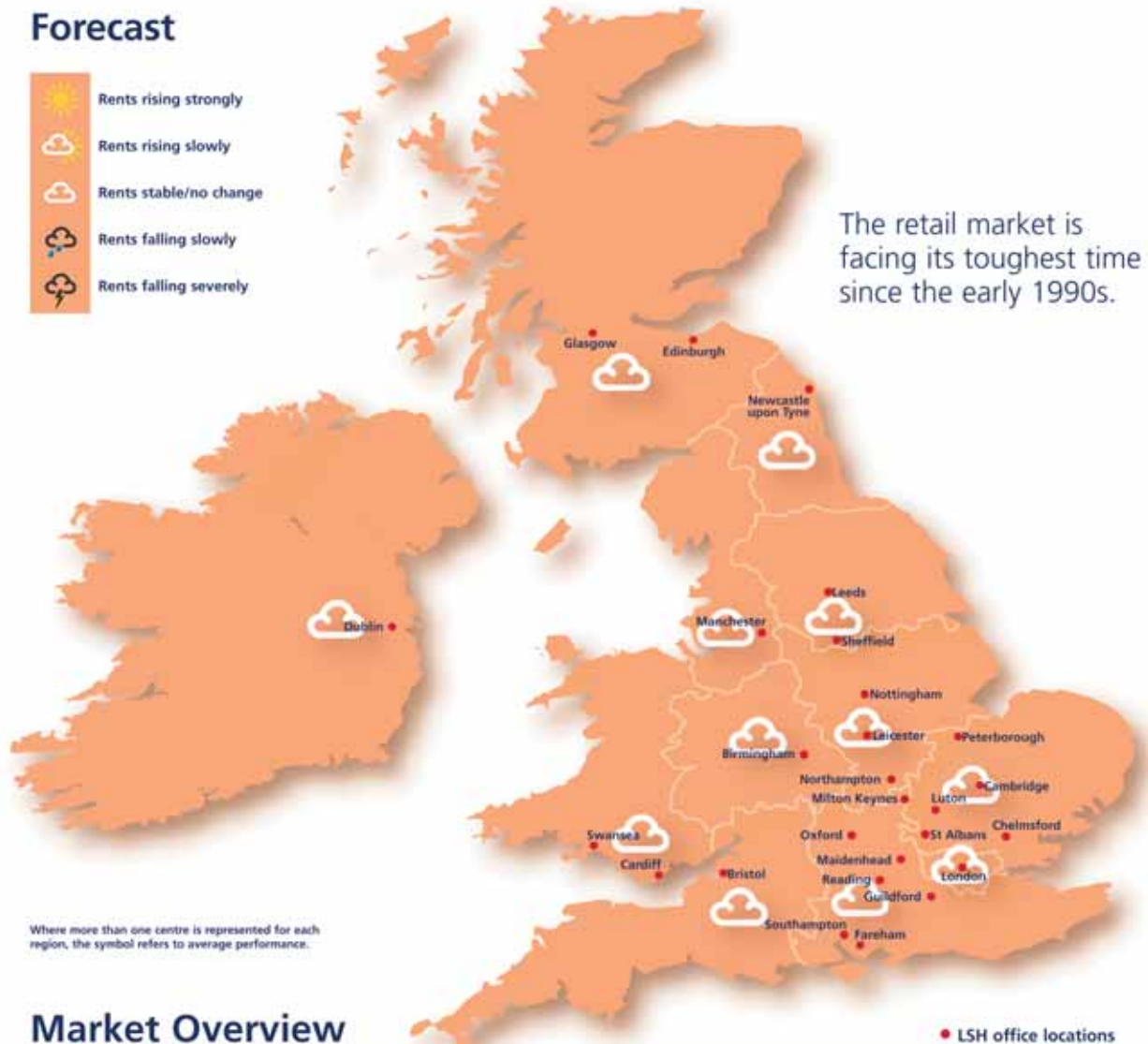
Lambert Smith Hampton Research

How bright is your market outlook?

Retail

Forecast

-  Rents rising strongly
-  Rents rising slowly
-  Rents stable/no change
-  Rents falling slowly
-  Rents falling severely



Where more than one centre is represented for each region, the symbol refers to average performance.

Market Overview

● LSH office locations

Region	Forecast end 2008	Current prime rents £ per sq ft	Forecast prime rents end 2008 £ per sq ft	% change
Birmingham	▲	£300.00	£300.00	0.0%
Bristol	▲	£250.00	£250.00	0.0%
Cambridge	▲	£280.00	£280.00	0.0%
Cardiff	▲	£285.00	£285.00	0.0%
Chelmsford	▲	£205.00	£205.00	0.0%
Dublin (Grafton Street)*	▲	€816.05	€816.05	0.0%
Edinburgh (Princes Street)	▲	£225.00	£225.00	0.0%
Fareham	▲	£125.00	£125.00	0.0%
Glasgow	▲	£255.00	£255.00	0.0%
Guildford	▲	£240.00	£240.00	0.0%
Hemel Hempstead	▲	£105.00	£105.00	0.0%
Leeds	▲	£310.00	£310.00	0.0%
Leicester	▲	£215.00	£215.00	0.0%
Liverpool	▲	£310.00	£310.00	0.0%
London (Oxford Street)	▲	£550.00	£550.00	0.0%
Luton	▲	£185.00	£185.00	0.0%

*This is based on the exchange rate of £1.00 to €1.26 as of 30 June 2008.

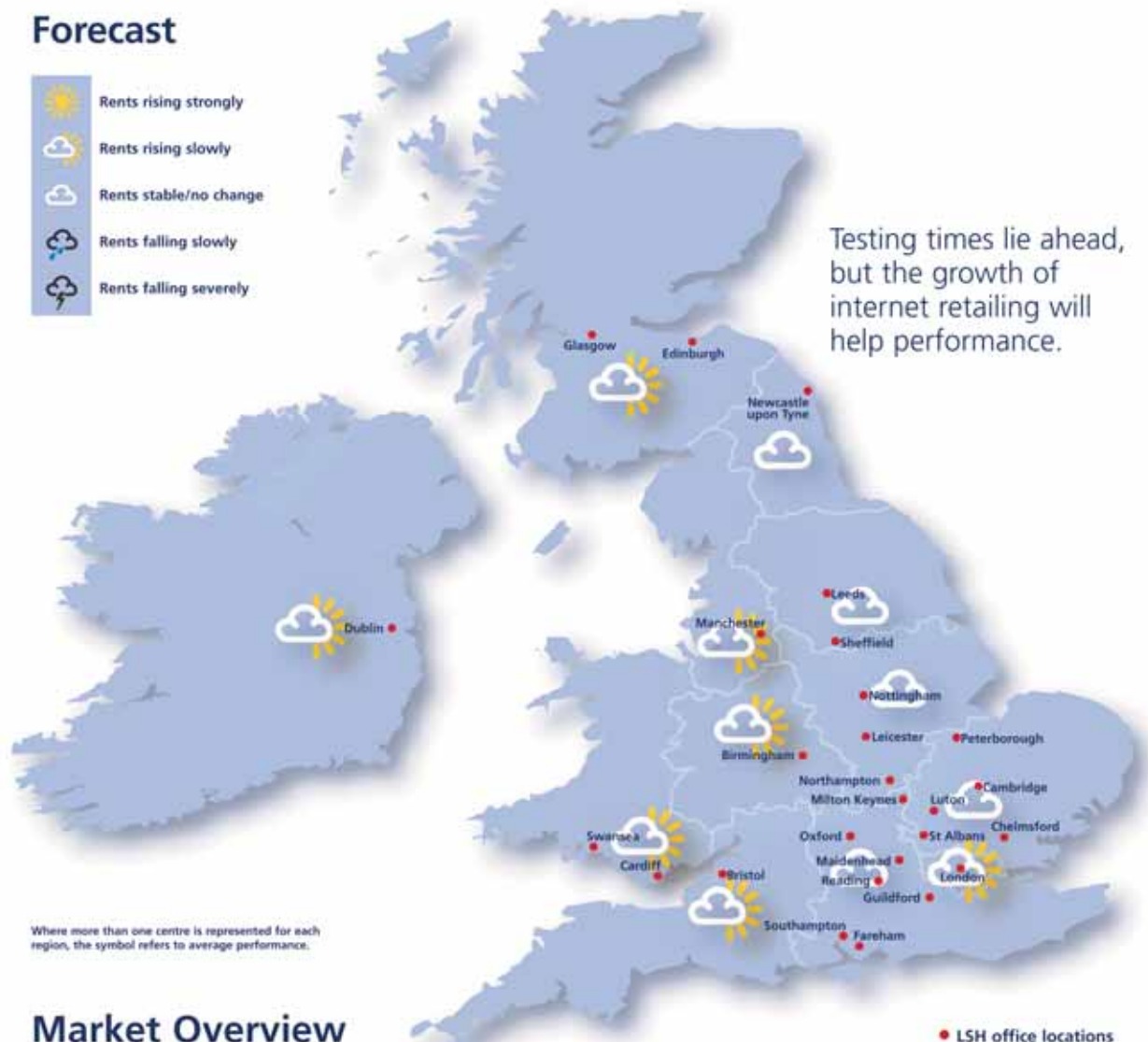
Region	Forecast end 2008	Current prime rents £ per sq ft	Forecast prime rents end 2008 £ per sq ft	% change
Maidenhead	▲	£95.00	£95.00	0.0%
Manchester	▲	£315.00	£315.00	0.0%
Milton Keynes	▲	£200.00	£200.00	0.0%
Newcastle upon Tyne	▲	£330.00	£330.00	0.0%
Newport	▲	£145.00	£145.00	0.0%
Northampton	▲	£140.00	£140.00	0.0%
Nottingham	▲	£255.00	£255.00	0.0%
Oxford	▲	£300.00	£300.00	0.0%
Peterborough	▲	£225.00	£225.00	0.0%
Reading	▲	£240.00	£240.00	0.0%
Sheffield	▲	£255.00	£255.00	0.0%
Slough	▲	£105.00	£105.00	0.0%
Southampton	▲	£330.00	£330.00	0.0%
St Albans	▲	£120.00	£120.00	0.0%
Swansea	▲	£150.00	£150.00	0.0%
Watford	▲	£315.00	£315.00	0.0%

Prime Zone A rents for city centre shop units.

How bright is your market outlook?

Industrial

Forecast



Where more than one centre is represented for each region, the symbol refers to average performance.

Market Overview

• LSH office locations

Region	Forecast end 2008	Current prime rents £ per sq ft	Forecast prime rents end 2008 £ per sq ft	% change
Birmingham		£5.95	£6.20	4.2%
Bristol		£6.75	£7.00	3.7%
Cambridge		£11.75	£11.75	0.0%
Cardiff		£6.00	£6.00	0.0%
Chelmsford		£7.50	£7.50	0.0%
Croydon		£8.75	£9.00	2.9%
Dublin*		€10.99	€11.24	2.4%
Edinburgh		£7.00	£7.25	3.6%
Enfield		£8.75	£9.00	2.9%
Fareham		£7.50	£7.50	0.0%
Glasgow		£6.00	£6.25	4.2%
Guildford		£10.00	£10.25	2.5%
Heathrow		£15.25	£15.25	0.0%
Hemel Hempstead		£8.50	£8.50	0.0%
Leeds		£5.75	£6.25	8.7%
Leicester		£5.50	£5.50	0.0%
Liverpool		£4.95	£5.10	3.0%
Luton		£7.50	£7.75	3.3%

Region	Forecast end 2008	Current prime rents £ per sq ft	Forecast prime rents end 2008 £ per sq ft	% change
Maidenhead		£10.50	£10.50	0.0%
Manchester		£6.00	£6.25	4.2%
Milton Keynes		£7.00	£7.00	0.0%
Newcastle-upon-Tyne		£6.00	£6.00	0.0%
Newport		£4.50	£4.50	0.0%
Northampton		£5.50	£5.75	4.5%
Nottingham		£5.50	£5.75	4.5%
Oxford		£9.25	£9.25	0.0%
Peterborough		£6.00	£6.00	0.0%
Reading		£9.50	£9.75	2.6%
Sheffield		£5.25	£5.25	0.0%
Slough		£11.00	£11.00	0.0%
Southampton		£7.50	£7.50	0.0%
St Albans		£8.75	£8.75	0.0%
Swansea		£4.25	£4.50	5.9%
Watford		£9.25	£9.25	0.0%
Wellingborough		£5.25	£5.50	4.8%

*This is based on the exchange rate of £1.00 to €1.26 as of 30 June 2008.

Lambert Smith Hampton Research

Prime headline rents for units of 10-20,000 sq ft.

Analysis

Office Market

Given the deterioration in the economic outlook and the impact of the credit crisis on business investment and expansion, we anticipate occupier-demand to slow down in 2008-9.

The general economic outlook and the fortunes of the Finance and Banking sector will play a crucial part in the outlook for the Central London market. We are predicting take-up of 9m sq ft for 2008 – 30% lower than in 2007. We expect take-up to remain at that level in 2009 before picking up marginally to around 11m sq ft in 2010-11. With 11m sq ft of speculative development to be completed in 2008 and 2009, the vacancy rate is expected to increase significantly. The majority of the space coming onto the market will be in the City of London.

In the rest of the UK, the market is relatively balanced at present with a vacancy rate of 9.4%. By all accounts 2007 was the peak in the market, with take-up in many centres the highest since the previous peak in 2000. Renewed developer-interest has led to a substantial increase in development activity. In the next two years 7.5m sq ft of speculative space is scheduled to come on the market nationwide. Bristol, Birmingham, Manchester, Leeds and Glasgow account for more than half of the space under construction. However, in all of these centres, supply of existing new space is very tight, with the vacancy rate of new space below 3%.

While we anticipate a rise in overall supply, we are not predicting a huge overhang of space.

The prospects for the market will depend on occupier-demand. Provided this holds well we can expect the space scheduled for delivery in the next 18 months to be absorbed from 2010. This is because the credit crunch and the removal of the empty rates relief will put the brakes on speculative construction starts in the coming months.

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Retail Market

The retail market is facing one of its toughest periods in over a decade as retailers struggle to cope with lower consumer-demand due to the credit crunch, higher inflation and a downturn in the housing market. All of this impacts on consumers' disposable income, confidence and spending.

In the housing market we have seen a fall in prices. Data for May 2008 shows the sharpest monthly decline since the early 1990s. Between January and May this year prices have fallen by 6.8%. Further falls are on the cards, with the market not expected to recover until after 2010.

Price cuts and heavy discounting have been the order of the day, as retailers compete to get customers through the door. Retail spending is forecast to be lower in the medium term, with Verdict predicting an increase of 14.4% in real terms over the period 2007-2012. This is lower than in the previous five years.

On the supply side, the market is likely to see an increase in space coming to the market, due partly to city centre shopping centre openings. There is currently 34m sq ft of space in the development pipeline, of which around 19m sq ft is scheduled to open by the end of 2009. Department stores and large clothing stores will be the main occupiers of the new town centre space.

Their success will depend on the extent to which consumer demand for clothing, footwear and specialist retailing holds. In London, the West End's dominance will be challenged with the development of White City. The 1.5m sq ft centre will focus heavily on luxury and designer brands. Intense competition and anticipated lower sales growth means that retailers will continue to find it difficult to turn a profit and the mid-market, in particular, is likely to suffer.

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Industrial Market

The UK economy appears to be balanced on a knife-edge, with both the Government and independent forecasters indicating a significant slowdown in growth in 2008. The latest retailer results provide dismal reading and point to a downturn in consumer spending brought about by the credit crunch, the softening in the housing market and general uncertainty surrounding the economy. All are beginning to impact on consumer confidence. With the credit crunch likely to remain an issue over the next 12 months at least, we are likely to see lower borrowing levels not only by consumers, but also by the corporate sector.

As we enter the third quarter of 2008, there is an air of uncertainty and caution within the industrial market. A number of factors are influencing the market at present, including economic uncertainty and the credit crunch.

The next 12 months will be challenging for the sector. However, the sector is well positioned in the face of testing times. The outlook for the industrial sector shows that the market is balanced and fundamentals remain good. There has been lower occupier-demand in 2008, but the market remains positive and the sector is likely to benefit from a positive outlook for distribution. Latest data shows continued growth in internet shopping, which will drive demand for warehousing space. Food

retailers are another key source in driving demand.

Rental growth is expected to be lower this year, but to remain positive. Overall, the market looks stable and there is a positive outlook for the occupier market in the medium term. The sector will be most affected by the removal of the empty rates relief and this will further curb speculative development in the medium term. Recovery is expected from 2010 as economic growth improves.

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The LSH Weather Map

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Details of other Lambert Smith Hampton research material can be viewed on our website at <http://www.lsh.co.uk>.
Due to space constraints within the report, it has not been possible to include both imperial and metric measurements.

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Property Solutions

www.lsh.co.uk

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