

Volume 2-2002

WORLD WINNING CITIES

**World Winning Cities  
in an Era of Change** 4

**Are Hotels a Predictor  
of City Success?** 16

**The Globalist** 20

**People, Power and Products:** 22  
PROPERTY IN THE 21<sup>ST</sup> CENTURY

**Winning for Whom?** 28



JONES LANG LASALLE'S RESEARCH  
MISSION IS TO CREATE CLEAR  
COMPETITIVE ADVANTAGE FOR  
CLIENTS THROUGH THE STRATEGIC  
USE OF ACCURATE DATA, MARKET  
INTELLIGENCE AND INNOVATIVE  
THINKING FROM AROUND THE WORLD.

VOLUME 2 – 2002

# Contents

4



## World Winning Cities in an Era of Change

Dubai, Las Vegas and Dublin have emerged as the world's top winning cities over the past decade. We take a look at why and in doing so probe the broader questions surrounding the model of world order that will prevail over the next generation of rising urban stars. The key findings of the World Winning Cities research program for Europe, Americas and Asia Pacific are then contrasted in the regional perspective pieces.

---

16

## Are Hotels a Predictor of City Success?

The hotel and tourism sector can be a leading indicator of city growth. But it can also be a response mechanism to already created demand. Analyzing leisure-driven winners may hold the key to charting the catalysts of a city's future success.



20



## The Globalist

Excerpts of recent Jones Lang LaSalle research from around the world.

---

22

## People, Power and Products: Property in the 21<sup>st</sup> Century

As populations explode, age and become smarter, real estate needs to respond. Added complexities of shifting natural resources and consumption patterns mean that creativity and careful planning are needed to survive and prosper in the future.



28



## Winning for Whom?

Real estate investors consider strong rental growth and rising values as winning criteria. Corporate occupiers are more concerned with labor markets, asset efficiency and lower costs. It appears deciding if a city is a winner or loser depends on where you stand.

## Contributors

### **JEREMY KELLY**

*Associate Director,  
European Research  
London*



Jeremy is an Associate Director within the European research team and is responsible for the research underpinning the World Winning Cities project. Jeremy joined Jones Lang LaSalle in 1985 and has extensive experience in commercial real estate market analysis having worked on a wide range of projects in Europe and Australia.

### **ROSEMARY FEENAN**

*Regional Director,  
Global Occupier Research  
London*



Rosemary is charged with developing the firm's occupier research capabilities around the world. Her particular interests include innovation, futures and scenario planning. Drawing on her 20 years experience in the industry, Rosemary leads a number of projects designed to map the future property-level impact of technology and consumerism.

### **JEFFREY HAVSY**

*Vice President, LaSalle  
Investment Management  
Chicago*



Jeff manages the day-to-day operations of the America's investment strategy and research group for LaSalle Investment Management. He also leads the national office, economic and capital markets coverage for the group. In addition, Jeff maintains market coverage for several key markets across the United States.

### **CATHERINE MARSHALL**

*Vice President, LaSalle  
Investment Management  
Vancouver*



Catherine leads LaSalle Investment Management's Canadian research program and is a member of the Americas Research Board. She is also responsible for research coverage of the Pacific Northwest United States. Catherine has a wide range of investment management and research experience in both direct real estate and securities.

### **TIMOTHY BELLMAN**

*Regional Director,  
Research  
Hong Kong*



Tim leads the 50-strong research team who monitor the real estate markets throughout Asia Pacific. In this capacity, he is responsible for the firm's local and regional research publications. Tim is the regional investment strategist for LaSalle Investment Management and a member of the Investment Committee for its Asia Recovery Fund.

### **MELINDA MCKAY**

*Senior Vice President,  
Jones Lang LaSalle Hotels  
Chicago*



Melinda is responsible for strategic investment research for Jones Lang LaSalle Hotels, along with the marketing and tactical execution of global research for Jones Lang LaSalle. She has a decade of experience in the hotel industry, conducting strategic advisory and research work in many of the Asia Pacific markets before relocating to the United States.

### **KATIE KOPEC**

*Regional Director,  
Strategic Consulting  
London*



Katie leads the Development and Asset Strategy team worldwide, focusing on the development of new property products in response to the changing needs of occupiers in a more competitive global marketplace. Katie has 20 years experience in all facets of real estate development acting across Europe.

### **RICHARD McBLAINE**

*Chief Executive Officer,  
Strategic Consulting  
Chicago*



Richard has over 25 years of experience in the real estate industry and leads the firm's Strategic Consulting group worldwide. He has assisted numerous clients in structuring and implementing creative real estate solutions, including industry-leading companies such as Capital One, IBM, EDS and The Walt Disney Company.

### **JACQUES GORDON**

*International Director,  
LaSalle Investment  
Management  
Chicago*



Jacques heads the investment strategy and research group for LaSalle Investment Management, which has \$22 billion in assets under fiduciary management. He serves on the Investment Committee and the Board of Directors. Jacques also co-chairs the Global Research Board of Jones Lang LaSalle.



A handwritten signature in black ink that reads "Chris Peacock". The signature is written in a cursive style with a horizontal line underneath the name.

Christopher Peacock  
President and Chief Executive Officer

### Dear Reader:

Cities are the hallmark of society. Their evolution and development touches every part of business and commerce and for most of us, are a crucial part of our daily lives. Cities also provide the canvas for the majority of real estate market activities. Understanding the factors that have, and will in the future, lead to their success or failure is a vital part of the property process.

But, the nature of city competitiveness is changing rapidly. Traditional growth cycles based on size, hierarchies and economic wealth are being increasingly challenged by technology and by new thinking on what will constitute the winning urban dynamic in the 21<sup>st</sup> century. Emerging definitions of success are being based not on size but on connectivity, not on hierarchies but on networks, and less on wealth and more on environment, quality of life, culture, city governance and marketing.

And, competition between cities has never been more intense. City marketing is becoming a precise science and branding campaigns, trade missions, major infrastructure projects and the securing of prestige sporting and cultural events, are now key ingredients of city strategies; strategies that depend ultimately on real estate to deliver their promise. The role of property as a contributor to, rather than as a consequence of competitive advantage is a vastly under researched area and one which we believe will become increasingly vital to any city intent on making its mark on the world stage.

We have therefore launched a major research programme "World Winning Cities," which aims to draw together the essence of contemporary city competitiveness, and to better understand the extent to which property can drive the new city order. We are focusing on the trends that will impact the business and economic landscape, in order to predict which cities will be the rising urban stars of the next decade, and equally importantly those cities that may lose in the battle for world city status.

This issue of *Property Futures* is dedicated to giving you the results of the first phase of our analysis, which identifies the city winners of the last decade on a global and regional basis. We also look at the role of hotels and leisure as a catalyst for growth, the changing definition of "winning" and at some of the major trends that our corporate clients believe will influence markets and cities in the future. Our regular feature, "The Globalist" profiles a small sample of the 200 plus publications produced by Jones Lang LaSalle's 180 dedicated research professionals across the globe.

The future of cities is the vital question for real estate markets around the world and I welcome your feedback on the emphasis and direction of our project. I encourage you to contact the Managing Editors Jacques Gordon ([jacques.gordon@am.joneslanglasalle.com](mailto:jacques.gordon@am.joneslanglasalle.com)) and Melinda McKay ([melinda.mckay@am.joneslanglasalle.com](mailto:melinda.mckay@am.joneslanglasalle.com)) or myself.

# World Winning Cities in an Era of Change

By Jeremy Kelly



Talent, tolerance and trade have long been held as the founding principles of any city's competitive positioning.

### Winning Cities—The Context of the Analysis

Cities are profoundly changing and as the era of the knowledge and cultural economies takes hold, the shape of success will become increasingly abstract. Developing new metrics and methodologies to capture and analyse the form and function of tomorrow's "winning city" is one of the most crucial challenges underpinning the future success of real estate occupation, investment and development strategies.

The objective of the World Winning Cities project is to develop an innovative methodological approach to deconstruct cities, to define and explore these emerging principles of city competition and how they impact real estate. In essence, the project focuses on answering four fundamental questions:

1. What does history teach us about recent winners?
2. Which indicators will be the best predictors of future success?
3. Where are the next generation of rising urban stars?
4. What will or could be real estate's contribution to a city's sustainable competitive advantage?

This article contrasts the phase one results from the World Winning Cities project—which analysed factors determining winning cities between 1991 and 2001—with broader questions surrounding the model of world order that will prevail over the next generation of urban rising stars. Phase two will be completed in early 2003 and consist of a model designed to explain the relationship between city growth and property performance. Phases three and four will be conducted by mid-2003, with a focus on predicting the rising urban stars and analysing the consequences for real estate markets of these changing city fortunes.

### Lessons from History

Although the past is not necessarily the best predictor of the future, it provides a baseline position from which to describe the nature of likely future change. The phase one historic analysis aimed to identify specific cities that underwent the greatest *relative* positive change over the past decade. While familiar existing world cities such as London, New York and Tokyo would be precluded by this focus (due to the inertia of size and maturity), the goal was to uncover geographies where the level of activity might be creating the next generation of world cities.

The analysis was based on a measurement of five variables. The chosen variables, while real estate related, loosely align to the conventional wisdom of talent, tolerance and trade. Office construction, absorption and rental change indicators have been analysed as a proxy for trade; employment change reflects talent; and, population growth—to a certain extent—illustrates tolerance to increased diversity upon which city growth is based.

### The Winners—Rising Urban Stars

The strongest city performers have emerged from amongst the world's smaller metropolitan areas with less than two million people, typically referred to as second and third tier cities. Three cities stand out:

**Dubai—The Jewel of the Gulf States** Dubai holds the top position worldwide for both population and employment growth, at 5.8 percent per annum (p.a.) and 8.3 percent p.a. respectively. This rapidly expanding Emirate city-state over the past decade has become the leading economic and trading hub for the Gulf States. Much of its success resulted from a drive to create a favourable environment for business, and from providing the physical infrastructure to match. Dubai has been actively promoted on the international arena, and the city has been successful in

## The Method

Historic data was analysed to build a picture of city performance over the past ten years. The goal was to identify those cities that have created the right circumstances to stimulate strong city economic growth and strong real estate activity and performance.

### Variables

#### City Growth Performance:

- Population Change (% p.a.)
- Employment Change (% p.a.)

#### Real Estate Activity:

- Office Net Absorption Rate (as % stock p.a.)
- Office Construction Rate (as % stock p.a.)

#### Real Estate Performance:

- Prime Office Rental Change (real, % p.a.)

The core analysis covers 100 major metropolitan areas worldwide with a further 375 areas covered on a peripheral level. These cities were selected on the basis of size, function and corporate activity, ensuring that the number of cities in each continental region was broadly in line with the region's economic weight. The core sample includes 40 cities in the Americas, 37 in the EMEA (Europe, Middle East and Africa) region and 23 in Asia Pacific. Annual data was analysed for the ten-year period, 1991–2001, for five key measures of city growth and real estate activity.

attracting foreign companies. It has grown rapidly as a tourist destination (stimulated by its world renowned airline) and is developing a high-tech image as an Internet hub city. However, the real estate market is still immature, and the building boom of recent years has translated into an oversupply of office space.

**Dublin—the Celtic Tiger** Dublin has emerged as arguably the most successful city economy and real estate market of the last decade. Dublin is the only city to score consistently high on all five performance measures. The city's growth owes much to the establishment of a favourable business environment. While external subsidy has been a factor, the economy's success has been forged from private investment. Dublin has captured a significant proportion of Ireland's foreign direct investment (FDI), attracted by a favourable tax regime, low regulation, labour market flexibility and access to a well-educated labour force. Dublin is now Europe's largest centre for the software industry with five of the world's top-ten software companies choosing it as their European head-quarter location.

**Las Vegas—The "Oasis" of Leisure** Las Vegas has been North America's fastest growing metropolitan area, towering above the other North American cities on all growth variables. The city's population has swelled by 70,000 people per year over the last decade, with the current population standing at 1.7 million. This tremendous growth stems from a rapidly expanding leisure sector primarily centred on gaming and conventions. Moreover, as the "City of Lights" has grown, its economy has diversified in tandem, with low taxes and low regulation successfully nurturing new business, thereby attracting new companies and labour.

**A Compelling Cocktail of Similarities** These cities have created a compelling cocktail of attractions that have stimulated strong economic growth, with all three sharing a number of common features:

- **Size**—metropolitan area populations are in a tight range with Las Vegas at 1.7 million, Dublin at 1.1 million and Dubai at 0.9 million.
- **Business environment**—attractive conditions which include light regulation and favourable tax regimes for business, have led to high levels of inward investment.

- People—strong in-migration and a successful record of attracting skilled and educated labour.
- Leisure—both Las Vegas and Dubai are underpinned by leisure activities, while Dublin has emerged as an important European short-stay tourist destination.
- Branding—all three cities have a high profile on the international “stage,” acquired though via different means: Dubai’s came from aggressive city government promotion; Dublin’s from active promotion by a national agency; while Las Vegas’ was derived completely from the private gaming sector.

Other cities also making the top ten positions on both population and employment growth are Mumbai (Bombay) in India, Guangzhou in China, and the U.S. cities of Phoenix, Atlanta and Raleigh. However, a divergent set of cities emerges in the office rental growth ranking.

Even in the late twentieth century, the mainstays of talent, tolerance and trade persisted as major benchmarks of the winning city. But for the 21<sup>st</sup> century it is necessary to dig deeply into the constituent parts of each of these attributes and investigate the relative importance of each to the future success of real estate strategies. The drivers of success in the future will not always be the same as those from the past.

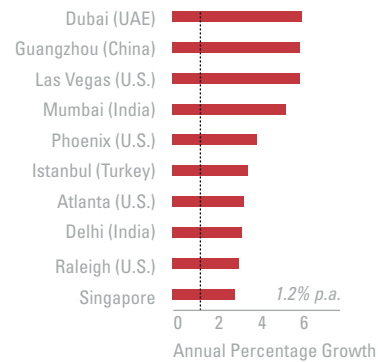
**Does Growth Equal Strong Property Performance?** There is clearly a base set of indicators that suggest an entry level for success as a city. Overall economic success however, is no guarantee of strong property performance. While our analysis shows a positive relationship between population and employment change in most cities, feeding through to office net absorption and construction rates, the link with property performance is tenuous.

Although there is evidence of a positive relationship between city economic growth and real estate performance in Western Europe and Australasia, in North America this relationship is more difficult to prove. By contrast, in Asia there is a negative correlation. Guangzhou, for example, had one of the strongest population and employment growth rates worldwide, but has shown one of the

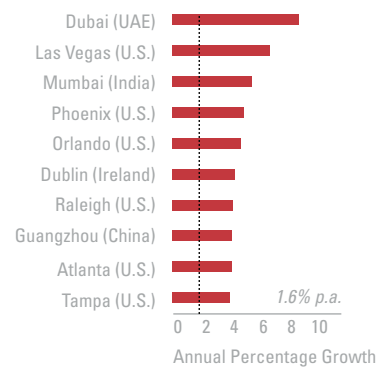
### World Top 10 Cities Population and Employment Change

1991–2001

#### Population



#### Employment

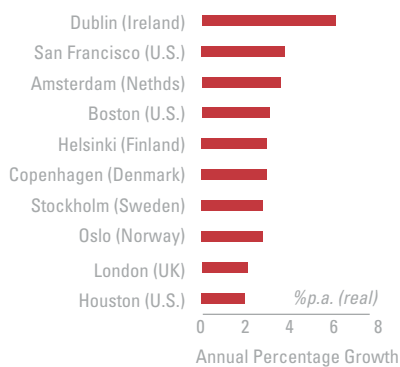


... Average All 100 Cities

Source: National Statistical Offices.

### World Top 10 Cities Prime Office Rental Change

1991–2001



Source: Jones Lang LaSalle.

## City Employment vs. Office Rents

1991–2001



Sources: Jones Lang LaSalle and National Statistical Offices.

sharpest contractions in rents over the same period. While factors of oversupply may be a simple explanation on one level, unless the relationship between property and the city dynamic is understood at a deeper level, it is easy to miss the opportunities and threats that will undoubtedly result as urbanisation continues to grip the world. Phase two of the World Winning Cities project is concerned with building a working model to clarify these interactions.

### A View of the Changing World Order

Individual cities will be working hard to create and market their stories. But the backdrop of the world order is also undergoing change. Urban development models and their application across countries and regions will have a marked influence on the identity of the rising urban stars. A number of competing theories on future drivers of city form will be factored into phase three projections.

**Aggregation Economists—Value Lies in Centrality** They believe that critical mass and grounded capital in real estate and infrastructure will enhance the value of centrality. Existing successful cities will grow and prosper and younger aspirants will court investment in property as the turbo booster to their economies. The roll call of the truly global cities has few surprises as the inertia of size and critical mass has helped maintain their positions. Yet these high-order cities have under-performed the

worldwide average on all variables (excluding volume growth) over the past decade, including real estate activity and performance. This is illustrated in the chart on the following page.

### Digital Economists—Cities Will Prevail but Which Ones?

The Digital Economists conversely believe that communications technology will dilute significantly the need for such centralised physical proximity. Commercial activity will disperse and decentralise, and the desire to achieve cultural success for city centres will change the nature of their occupier and investment profile. Such technology clusters are evident already in most countries. But the Digital Economists' argument may evolve to a different view: that cities will need to be wired extensively rather than ultimately dispersed.

**Evolution Leapfrog Theorists—Who Needs Physical Infrastructure?** Technology will allow transitional and even developing city economies to override the normal timeframes of infrastructure development to create a new breed of competitive city. Where major IT multinationals place their manufacturing and R&D facilities often can provide the catalyst for technology-led growth, as witnessed in Dublin, San Jose (Costa Rica) and Nizhni Novgorod (Russia). Cities with a strong innovation base (Tel Aviv, Moscow, Beijing and numerous Indian cities) have the potential to achieve economic lift-off if these intellectual attributes are matched with the appropriate infrastructure and business environment.

### Post Capitalist Economists—Local Markets, Local Control

This view argues that the western model of globalisation and growth is not sustainable and that commerce will revert to local growth with local control, therefore fragmenting property markets. Many developing countries, most recently in Latin America, are starting to question the free-market model of economic development. At the same time a number of Northern European cities have actively promoted, and are trying hard to deliver, the advantages of social and environmental sustainability.



**Is Traditional Economics Enough for Future City Success?**

The analysis and results so far have been economically based. Economic prosperity has been the logical mainstay in a city’s armoury for attracting investors and occupiers. However, those with an eye toward property futures should be questioning the traditional one-dimensional assumptions about success. A new class of city may emerge encouraged by a different set of drivers where wealth and economics are a consequence rather than a pure objective of growth.

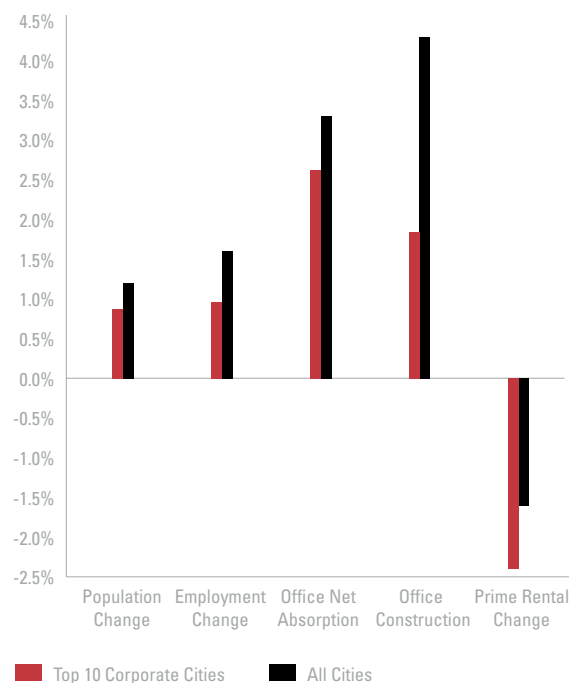
It is likely that the different theories of urban development will not be mutually exclusive, and understanding the new evolutionary models for different cities is crucial to optimising location and investment decisions.

**Where Next?**

The following section looks at the regional winning cities and at the context in which such cities are achieving their goals of creating competitive advantage. The analysis currently underway is examining city clusters, elasticity of property performance within cities and the relationship between variables in order to determine the basket of variables that are most influential to defining the successful cities of the future.

**City Performance**

*1991–2001 % Growth p.a.*



Top 10 Corporate Cities: Chicago, Frankfurt, Hong Kong, London, Los Angeles, Milan, New York, Paris, Singapore and Tokyo.

Sources: Jones Lang LaSalle, National Statistical Offices and University of Loughborough (GaWc database).

## REGIONAL PERSPECTIVES ON WORLD WINNING CITIES

Europe: By Rosemary Feenan

Americas: By Jeffrey Havy and Catherine Marshall

Asia Pacific: By Timothy Bellman

### The European Perspective on World Winning Cities

Europe's landscape is rich with traces of diverse philosophies, politics and personalities. These factors have had a tremendous influence on the region's socio-cultural and economic growth, and have ultimately yielded vastly diverse urban landscapes. Although heritage is clearly a differentiator in many European cities, the fiercest competition for attention over the past decade has been waged on the grounds of providing attractive commercial backdrops. Here we examine how this battle has been played out over the last decade, and at the forces that are already shaping tomorrow's European cities.

**Cities Demonstrate a "Winning Formula"** Although cities across Europe have experienced relatively weak population and employment growth, a handful has topped the world's office rental growth league table and provided good returns for investors. Cities in Northern Europe embracing the Nordic countries, the British Isles and the Netherlands have been the region's strongest performers.

The winning formula in Europe appears to have been a combination of a favourable business-operating environment and technological acumen. Underpinned by light regulation, a favourable tax regime and flexible labour markets, cities such as Dublin, London and Amsterdam have performed particularly well on a number of measures. As an example, the multivariate "cobweb" chart indicates Dublin's comprehensive coverage of the key indicators of success.

Strong growth in the Nordic capitals (Stockholm, Copenhagen, Oslo and Helsinki) has been driven by technology. In recent years, the Nordic region has emerged as a major force in advanced telecommunications and IT, capitalising on a highly educated workforce and several world-class technology companies.

A number of high-order cities in Southern Europe, including Madrid, Barcelona, Lisbon and Athens, have also experienced healthy economic growth. These cities have, and are likely to continue, to reap the benefits of greater economic stability and high levels of inward investment brought about by EU membership, and more latterly, its single currency.

**European Union Changes City Success Dynamics** Looking ahead, the continued expansion of the European Union in 2004 to include ten new member countries<sup>1</sup> is expected to be one of the key influences on Europe's urban economic geography. Cities such as Warsaw, Budapest and Prague have already brought forth high levels of foreign direct investment, with companies attracted by rapidly expanding consumer markets, and relatively low-cost, well-educated workforces.

The economic attractions of these cities in Central Europe will be substantially improved by EU membership, and there is a high probability that a number of winning cities will emerge from Central Europe over the next decade. However, EU membership also may accentuate regional imbalances, with the high-order business centres (e.g. Warsaw, Budapest and Prague), and relatively technology-rich cities (e.g. Ljubljana in Slovenia and Tallinn in Estonia) receiving a greater proportion of private inward investment. In turn, other cities in Central Europe will inevitably lose out due to a failure to adapt to the more service based European economy.

But how long will the low-cost benefits of cities in Central Europe last? EU enlargement is likely to create a new "Eastern Frontier," resulting in a shift in low-cost activities further eastward toward the CIS (such as Minsk, Kiev and Moscow), the Balkans (e.g. Bucharest, Belgrade) and Turkey (Istanbul).

<sup>1</sup> Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.



For Western European cities, increasing competition from new EU members is likely to create an even greater imperative to focus on high-value activities and the necessity to innovate. Despite the technology shakeout of the early 2000's, technological success will continue to be a key competitive advantage for European cities. In this respect, the Nordic cities have a head start.

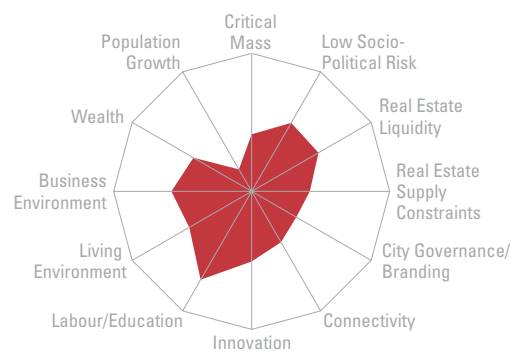
The Nordic cities also are amongst the best placed to offer the advantages of social and environmental sustainability. While environmental factors currently score low for companies relocating their facilities, urban sustainability will gain greater respect in companies' location decision-making over the next decade. Many European cities have, in fact, a better chance of urban sustainability than anywhere else in the developed world.

**Vying for Their Own Identity** Deepening European political and economic integration will also continue to be a key driver of change. This integration will encourage greater regional specialisation and enhance the role of city-regions. Many regional cities (such as Edinburgh and Barcelona) are reclaiming their autonomy from their national governments. And, as Europe's city-regions compete more for footloose businesses and for EU funds, aggressive "place marketing" and profiling will play an even greater role in European city economic strategies.

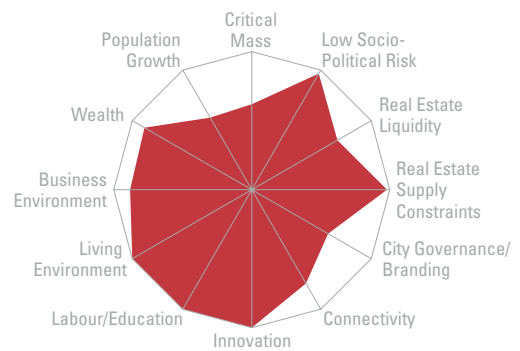
Finally, Europe's cities will also be aiming for cultural success. Currently the competition to host the 2012 Olympics and to win the accolade of the European City of Culture is exercising the minds of the city strategists. Serious bidders are likely to make substantial efforts to improve their cultural and entertainment offers.

### City "Cobwebs"

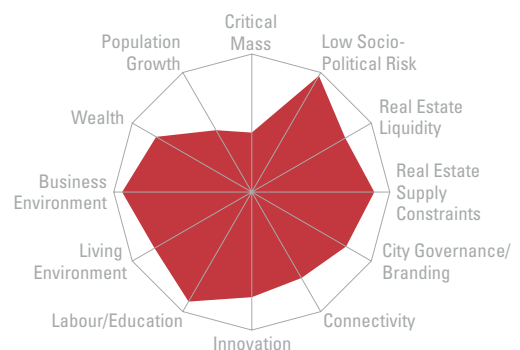
Warsaw, Poland



Stockholm, Sweden



Dublin, Ireland



Note: The multivariate City "Cobweb" charts represent working models, which are being continually enhanced as new data becomes available.

Source: Jones Lang LaSalle.

Where European cities share a common global objective is in attracting a skilled labour force. This challenge is forcing quality of life issues to the top of the agenda both for cities and the companies within them. Centres of urban “cool,” which already display social vibrancy and “soul,” such as London, Paris, Berlin, Amsterdam, Madrid, Barcelona, Dublin and Rome, are aware acutely of the need to improve as the urban rising stars begin to bite at their heels.

### **The Americas Perspective on World Winning Cities**

In North America, a pair of high growth cities has grabbed the spotlight: Las Vegas in the United States and Calgary<sup>1</sup> in Canada. Both are excellent examples of winning cities because they rank highest in the growth measures identified by phase one of the World Winning Cities project, especially in the “free market” model class. They are also indicative of the geographic trend in North American growth, which has been focused in the southern United States (including fast-growing Atlanta and Phoenix) and the western third of the continent (including Denver, Seattle and Vancouver).

**North American Winning Cities** Las Vegas is the overall North American leader in population and employment growth, while Calgary leads Canada in those categories. Calgary is also the North American leader in rental rate growth over the last ten years.

Las Vegas successfully has used entertainment tourism to build its stature as the number one choice for conventions and gaming in the United States.<sup>2</sup> In turn, these twin engines of growth have resulted in strong in-migration of young, skilled workers—5,800 people per month have flocked to the metropolitan area over the last decade, which now houses 1.7 million residents. Significant capital investment over the last decade by the operators of casinos and convention hotels has created jobs and further established Las Vegas’ unique “brand.” These strengths are clearly evident in the multivariate “cobweb”

chart. Moreover, originally dependent on “rubber-tire” tourism from California, Las Vegas now has numerous and affordable direct air connections with the rest of the continent and has diversified its visitor base so that now 13 percent are sourced from international markets.

Calgary has significant oil wealth, a laissez-faire regulatory environment and low taxes. This has attracted non-energy businesses, giving Calgary the second-highest concentration of head offices in Canada. Proximity to world-class skiing in the Rocky Mountains has helped Calgary attract young, skilled migrants as well as develop a thriving tourist industry. The city further solidified its winter leisure “brand” when it hosted the Winter Olympics in 1988.

**Determinants of Sustainable Success** However, neither city completely exemplifies all the winning city criteria, nor do they have the attributes necessary for sustainable growth. Both lack the critical mass to achieve diversified economies, and both struggle to provide the required infrastructure to meet the demands of rapid growth. In addition, Calgary’s accessibility is limited given its location in an isolated part of North America. Las Vegas also faces ongoing sustainability issues as it lacks local water resources and requires high levels of energy to remain habitable (air conditioning) and accessible (travel costs). Nevertheless, both cities will continue to benefit from a trend that baby boomers have adopted more than any previous generation—spending short-stay vacation time at fly-to resort destinations.

Going forward, infrastructure may be increasingly important to sustainable growth. The fastest-growing North American cities must manage congestion and other growth challenges better than their larger, established brethren, or their attractiveness will be impeded. For mature communities, it is critical to renew deteriorating infrastructure in order to preserve growth potential. Newer cities like Las Vegas and Calgary were built at a time when possessing a state-of-the-art airport was more

<sup>1</sup> Calgary was not included in the core analysis of 100 cities which explains why it is not referenced earlier in this article.

<sup>2</sup> Over 35 million visitors in 2001 according to the Las Vegas Convention and Visitors Bureau.

crucial than mass transit. But the cost of providing and maintaining infrastructure in sprawling, low-density cities is also expensive relative to denser cities, so the future may not be as kind as the present to some of these boom towns.

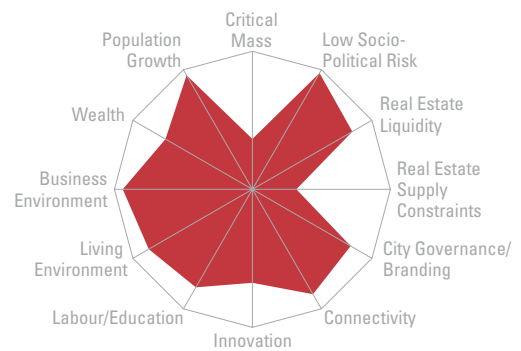
Population and workforce issues will also be important. To keep on “winning,” North American cities will need significant in-migration, either through domestic or international sources. Without an influx of younger workers to serve visitors and retirees, tourism-based economies like Las Vegas and Phoenix will likely see their economies stagnate as the local workforce ages and no longer keeps pace with the demand for services. In this respect, a city’s openness toward immigrants from different cultural backgrounds will be important in determining future winners.

**Latin America—Home to the Rising Urban Stars?** In Latin America, the problems often are reversed. Rapid urbanization is still occurring on the outskirts of these metropolitan areas as workers move to the cities from the countryside in search of jobs that may not be there to meet them. The local municipalities do what they can to absorb the massive human influx, but the shantytowns of Bogotá, Caracas, Mexico City and São Paulo illustrate the issues that arise when agrarian-based economies leapfrog directly into a service-based urban economy.

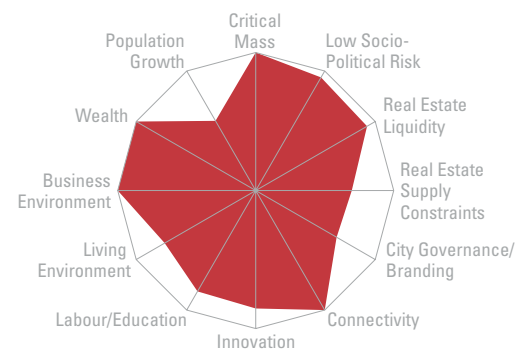
Nevertheless, several Central and Latin American cities are poised to become “rising urban stars” with a well-educated, low-cost workforce or a strong leisure appeal. Montevideo (Uruguay), San Jose (Costa Rica), and Santiago (Chile) are examples of future rising stars poised for the next decade. Similar to the winning cities in North America, infrastructure, taxation and regulation will be key drivers to the success of these cities. In order to reach their potential, these rising stars also must demonstrate to investors and occupiers that they are politically stable with governments capable of meeting the demands of rapidly swelling populations.

**City “Cobwebs”**

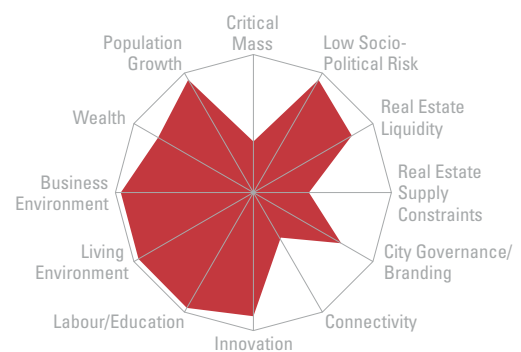
Las Vegas, United States



New York, United States



Calgary, Canada



Note: The multivariate City “Cobweb” charts represent working models, which are being continually enhanced as new data becomes available.

Source: Jones Lang LaSalle.

**The Asia Pacific Perspective on World Winning Cities**

Asia Pacific is fertile ground for the World Winning Cities project. It is a region of superlatives: the most people, the most cities and the tallest buildings. It is also a region of contrasts: developed and developing economies, continental-sized economies and city-states, mature and emerging real estate markets.

**Obsessed with Competition** More than any other region, global and local clients are expected to follow closely the Asia Pacific results of the World Winning Cities project. There are two main reasons. Firstly with competition between cities never fiercer, Asia Pacific has perhaps the most extreme manifestation of traditional rivalries between linked pairs of cities. The competition between Melbourne and Sydney or Hong Kong and Singapore are obvious examples. In Asia Pacific, people are acutely sensitive to any sign of rising or falling geopolitical or economic importance in the various rankings of national competitiveness and importance.

Secondly, the focus of international companies on the cities of Asia as production bases and potential markets has never been stronger. The opportunities in China and India dominate the international landscape, and have supplanted the Asian Tiger economies, which attracted most attention prior to the Asian Crisis. A key regional focus of World Winning Cities is to unpack the relative merits of the 90 cities in China and 40 cities in India that already have populations of more than one million.

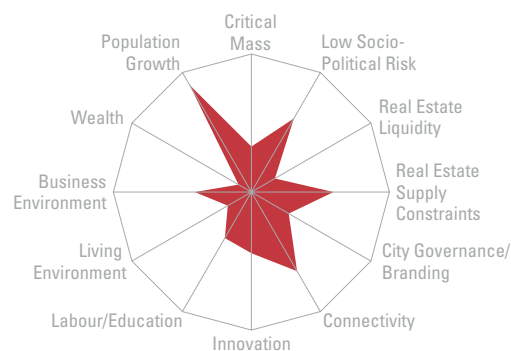
**Physically Fit—The Economy Outpaced Demography in the 1990s** Over the last decade, the cities of Asia Pacific demonstrated the strongest population growth of any region at 1.6 percent p.a. The bigger achievement however, and the one that helped raise the living standards of millions of people over the period, was that employment growth at 1.9 percent p.a., outpaced population growth by a ratio of 1.2:1.

**City “Cobwebs”**

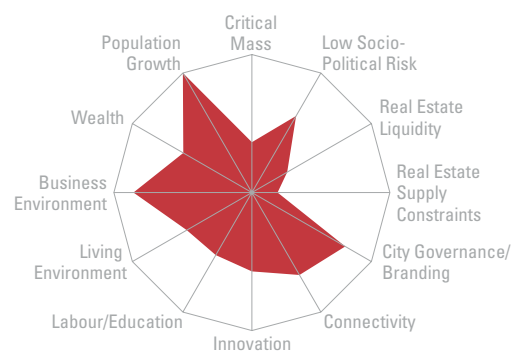
Guangzhou, China



Mumbai, India



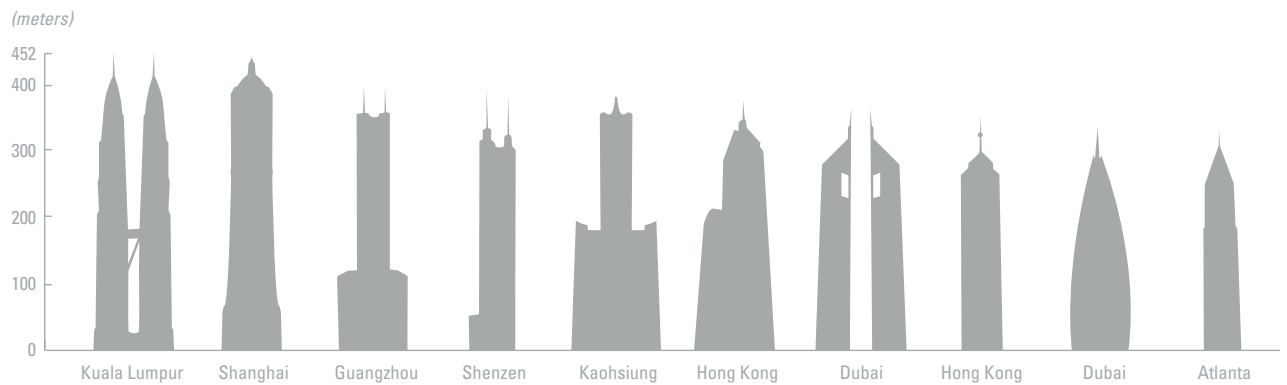
Dubai, UAE



Note: The multivariate City “Cobweb” charts represent working models, which are being continually enhanced as new data becomes available.

Source: Jones Lang LaSalle.

## Tallest Skyscrapers Completed Since 1990



Source: Jones Lang LaSalle.

To an extent, the rapid population and employment growth of the developing cities in Asia can be attributed to their earlier stage in the industrialization and urbanization process. The fast growth is also partly a result of more relaxed attitudes to in-migration and immigration.

**Reaching for the Sky—An Asian Obsession** The above-average population and employment growth has led to high levels of construction and absorption. But this has not usually translated into a strong real estate market over the last decade (as measured by rental growth).

In Asia Pacific's advanced economies, demand and supply was highest in the "Asian Tigers"—Seoul, Hong Kong, Singapore and Taipei. But the strongest rental growth was in the more mature real estate markets of Australia and New Zealand, notably Sydney, Auckland and Melbourne. These were the only cities in Asia Pacific to show real rental growth over the whole of the last decade.

Some of the strongest rates of net absorption and construction worldwide were recorded in China (Beijing, Shanghai and Guangzhou) over the last decade, as it became increasingly open to trade and investment. High levels of absorption and construction were recorded also in Bangalore, which became established as a global technology cluster during the decade. However, post Asian

Crisis, Bangkok, Manila and Kuala Lumpur all recorded net absorption rates less than 2.5 percent p.a. and all experienced declining real rents.

One reason is the relative ease of the development process by world standards, which has enabled developers to build quickly. Another relates to the scale and nature of construction itself. This has become manifest in the changing modern skylines of Asian cities. Nine of the ten tallest skyscrapers that have been built over the past decade are in Asia. Despite the poor real rental growth of the last ten years, many more tall buildings are already under construction or planned.

The diverse stakeholders in property will view the vast opportunities throughout Asia Pacific in different ways. But the evidence of the last decade demonstrates that a city's economic performance is no guarantee of a strong financial performance for real estate investors.

# Are Hotels a Predictor of City Success?

By Melinda McKay



There is much evidence to suggest that hotels are a leading indicator of future property and economic performance.

It is generally accepted that the daily “rent” of hotels serves as an immediate reflection of economic prosperity. But what about hotels’ ability to act as a barometer for the future sustained growth of a city? Can the leisure sector (and its property partner, hotels) be responsible for a city being propelled onto the international stage, thereby attracting inflows of human and commercial capital? Or is it simply a servant of the broader dynamics of population and general industry commerce?

Put another way—do hotels *create* demand or do they *respond* to already created demand?

The reality is a combination of the two. Leisure is a common theme, characteristic of the success of Las Vegas, Dubai, and to a lesser extent, Dublin. Las Vegas provides the most poignant example of how leisure acts as a leading indicator. Over the past ten years, the city has found that newer, bigger and glitzier hotels have created new demand, bringing visitors to see the latest and greatest hotel.

Typically, leisure will act also as a leading indicator in emerging markets and when governments attempt to stimulate city growth via “master planning” or “city renaissance” type initiatives. Convention centers are a classic example of the latter. Often a city will sponsor the development of a convention center as a central component in its growth program. Key catalysts of success for such a strategy include the adequacy of hotel infrastructure and access (particularly air lift).

Evidence of the leading indicator phenomenon can be found all over the world.

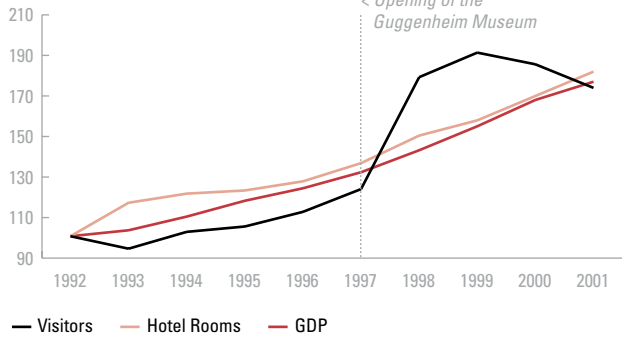
### **The “Venue” as a Catalyst for Growth—the Masterpiece and the Mouse**

Bilbao, Spain’s fifth largest metropolitan area and the capital of Vizcaya, was faced with considerable urban decay following the collapse of its traditional industrial base. The city turned to the service sector for salvation, but recognized the need for an image or flagship that could be an identifiable symbol abroad (much like the Eiffel Tower to Paris and the Empire State Building to New York). The unique and architecturally significant Guggenheim Museum served as that symbol. Since its opening in October 1997, and aided by the much improved infrastructure, the city has undergone a remarkable cultural re-birth. As the chart overleaf indicates, Vizcaya’s visitation in the four years after the opening was three times faster than that achieved in the four years prior to opening. In tandem, Vizcaya’s GDP growth accelerated at a 38 percent faster pace over the same period.

In a similar way, Walt Disney World (opened in 1971) transformed Orlando from a tertiary (at best) agricultural-based town into a thriving world-class city. It now features seven large-scale theme parks, houses more than 110,000 hotel rooms and attracts annually more than 40 million visitors and \$3.5 billion in convention dollars. The table overleaf indicates in statistical terms the phenomenal impact on Orlando’s urban and economic fabric. Using this “leisure lever” the city has since diversified, with its high quality of life, transportation infrastructure and overall labor force contributing to the city emerging as a center for banking, technology and other commercial activity. The city now has 750 manufacturing plants and 18 million square feet of office space. This development and expansion has brought economic growth and wealth creation to the area.

## Tracing the Growth of Bilbao

Growth Index (1992=100)



GDP for 2000 and 2001 official advance data

Source: Eustat (information for Vizcaya).



### Creating a Destination—the Power of Single Buildings

Dubai has also demonstrated the power of coupling leisure with real estate. The Burj Al Arab hotel (pictured on page 16) has been immensely powerful in making a bold statement and branding the city. Numerous other hotels subsequently have opened as the government embarks on a careful plan to expand and diversify the economy. On a smaller, but just as powerful scale, Four Seasons created a destination by opening a hotel in Nevis, West Indies. Previously unknown, it achieved incredible visibility for the island, which is now among the hottest destinations in the Caribbean.

### Visibility through Media Attention—“Tall and Tanned and Young and Lovely...”

While much of Latin America is considered “developing,” Rio de Janeiro is one of the oldest examples of leisure acting as a stimulator for city growth. Rio’s beachfront hotels in world-famous Ipanema have attracted both tourists and media attention in the form of movies (the city was a popular backdrop in many James Bond adventures) and music (immortalized in the Frank Sinatra hit of the 1960s, “The Girl from Ipanema”). Despite losing the crown as the country’s capital in 1960, Rio maintained strong regional growth, with tourism continuing to propel the city into the international spotlight. Infrastructure has grown in support, with a leading airport handling over one million international visitors a year and the city home to Latin America’s largest convention center.

Success has spilled over to other sectors, with office absorption and rental growth measuring an annual average of 10 percent and 15 percent over the last five years, respectively. High barriers to entry, which included a 15-year moratorium on hotel building (lifted in 1999), have ensured economic viability. As a result, the industry is weathering the current downturn with hotel occupancy higher than many other Latin American destinations.

### Developing Cities Typify the “Leader” Effect

The World Winning Cities research has indicated numerous other such examples, particularly in developing nations. Most of Mexico’s thriving cities are leisure-based, while tourism has been the “horse” on which many Eastern European (Prague, Budapest and Istanbul) and Asian (Bangkok, Macau and Bali) cities have ridden to broader economic growth. Yet the drivers of “success” in places like Las Vegas prove that leisure can lead in mature economies, although this is usually the exception rather than the rule.

### Established Cities Demonstrate the “Servant” Effect

Lagging indicator circumstances are usually typical in established cities, where hotel development is a response to already established demand, rather than a precursor to it. Hotels act as base infrastructure in the development of a city, just like airports, retail and office buildings. As a result, while hotels might not lead a city’s growth, they often act in tandem.



As an illustration, the chart to the right demonstrates Shanghai's pattern of growth. Acceleration of regional GDP growth was followed by a phase of strong office supply increase, and subsequently a concentrated period of hotel development. Yet given that Shanghai has only 0.006 hotel rooms per (city) capita there is scope for further growth. This rate lags behind neighboring tourism-led cities such as Bangkok, which has on average 0.010 hotel rooms per (city) capita.

**Mapping the Future Leisure Catalysts**

As the World Winning Cities project delves further into the characteristics of success and failure, understanding why and how leisure acts as a catalyst of growth will assume increasing importance. Would we really have predicted ten years ago the power of leisure and the lasting "Guggenheim effect" in the repositioning of a little known city like Bilbao. Yet cities must be careful about relying on the "build it and they will come" theory. Key investment and growth principals, such as transparency, labor market flexibility and favorable tax regimes still remain critical to sustainable success.

Where will leisure next act as a leading indicator? Where does uncharted territory exist for hotel companies? How might this translate into a catalyst for growth? What will be the new rules for success? Mapping the location and timing of this growth and translating how investors can capitalize on these insights into the future will be the next phase in this evolutionary project.

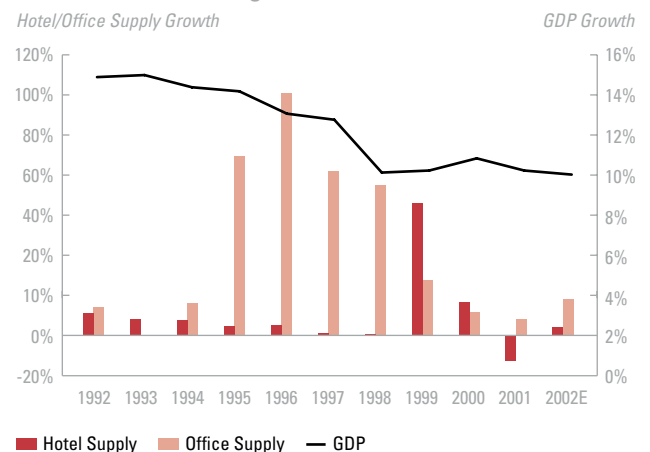
**The Post Disney World Boom in Orlando**

	GDP		Population		Employment	
	Orlando	U.S.	Orlando	U.S.	Orlando	U.S.
1970-1980	14.0%	10.4%	4.4%	1.1%	7.1%	2.5%
1980-1990	12.3%	7.6%	4.3%	0.9%	7.8%	1.9%
1990-2001	7.8%	5.7%	3.2%	1.3%	4.1%	1.9%

\*Lake County added to Orlando MSA in 1998

Sources: Bureau of Labor Statistics, Claritas, U.S. Census Bureau and Economy.com.

**Hotels Respond to the Growing Commercial Environment in Shanghai**



Sources: Jones Lang LaSalle and Shanghai Municipal Government.

# The Globalist

*Excerpts of recent Jones Lang LaSalle*

*research from around the world*

## **BUSINESS PROCESS OUTSOURCING SERVICES FAVOR PHILIPPINES**

The Philippines has emerged as an ideal location for Contact Center services.

Currently home to 28 call centers servicing major global firms based in the United States, Europe, Australia and Singapore, its attractiveness is prompting existing players to further expand operations. Key appeals include a highly educated populace, skilled labor force, competitive operating costs, and reliable infrastructure. With the Philippine government taking active steps to address threats that hinder entry of further investments, the outlook for the Contact Center industry remains bright, with projected industry revenues to grow from \$173 million in 2002 to \$42 billion by 2010.

*Erwin Balita (Manila), "Contact Centers in the Philippines—  
A Strategic Perspective," Jones Lang LaSalle  
research paper, September 2002*

## **CLUSTERS OF GROWTH IN THE UNITED STATES, DESPITE ECONOMIC SLOWDOWN**

The southern and western regions of the United States remain at the apex of the REGI rankings, with Atlanta, Houston and Las Vegas claiming top place. These cities continue to lead the country in overall employment growth, maintain strong demographic trends and are experiencing improving industrial conditions.

Elsewhere, midwestern economies have benefited from a surge in manufacturing. The northeast corridor appears to be holding up well despite financial services sector troubles, although technology-driven markets still continue to experience volatility. Despite clusters of successfully recovering economies throughout the country, the overall growth of the United States is now much lower than other countries around the world.

*Bill Maher (Baltimore), "Real Estate Growth Index (REGI),"  
October 2002*

## **SUCCESSFUL GLOBAL INVESTMENT STRATEGY FORMULATED AT THE CITY LEVEL**

During 2002 there has been a significant increase in investment mandates around the world.

This raises the importance of strategy formulation due to the greater choice and diversity of opportunities and in some cases the lack of market transparency. The best approach is to start from a careful understanding of each mandate's investment objectives. The investor can then make bets against a multinational (as opposed to a global) benchmark. Importantly, strategies formulated at the "three region" level tend to miss the diversification benefits available since regions conceal more than they reveal about market behavior. The variance in performance in Asia Pacific markets for example, is much greater than the variance between regions. For this reason, going global successfully means retaining a local perspective.

*Gerald Blundell (London), "Investment Strategy Annual 2003," December 2002*

## RELATIVE INVESTMENT RISKS ACROSS ASIA PACIFIC ARE SHIFTING

The Asia Pacific is characterised by a wide range of market transparency. Real estate markets in Australia, New Zealand and Singapore are as open as those anywhere in the world. Hong Kong is close behind. Japan, Korea, Malaysia and Thailand have all become more transparent in recent years. The trend is clearest in Japan with the introduction of J-REITs, increasingly widespread adoption of sale and leaseback and securitisation structures. The desire for greater transparency in China, India, Indonesia, the Philippines, Taiwan, and to a lesser extent, Vietnam is gaining favour. However, the reality is more a murky-to-opaque picture.

*Tim Bellman (Hong Kong), "Asia Pacific Property Investment Guide 2002/03," June 2002*

## INVESTMENT APPEAL OF SERVICED APARTMENTS CAN OUTSTRIP HOTELS

The serviced apartment product has evolved dramatically from its U.S. origins in the early 1980s, growing in popularity around the world. A key reason for this proliferation is the flexibility (and added profits) in most countries for an investor/developer to strata sub-divide and sell down units to individual investors or residential owner occupiers (if zoning/approvals allow). This provides investors with more diverse exit options than traditional hotel owners. Add to this the higher occupancy levels, lower development costs and lower operating costs compared to traditional hotels, and the investment appeal becomes even more apparent.

*Melinda McKay (Chicago), "Hotel Topics," September 2002*

## DEBT-DRIVEN INVESTORS SET THE PACE IN EUROPE

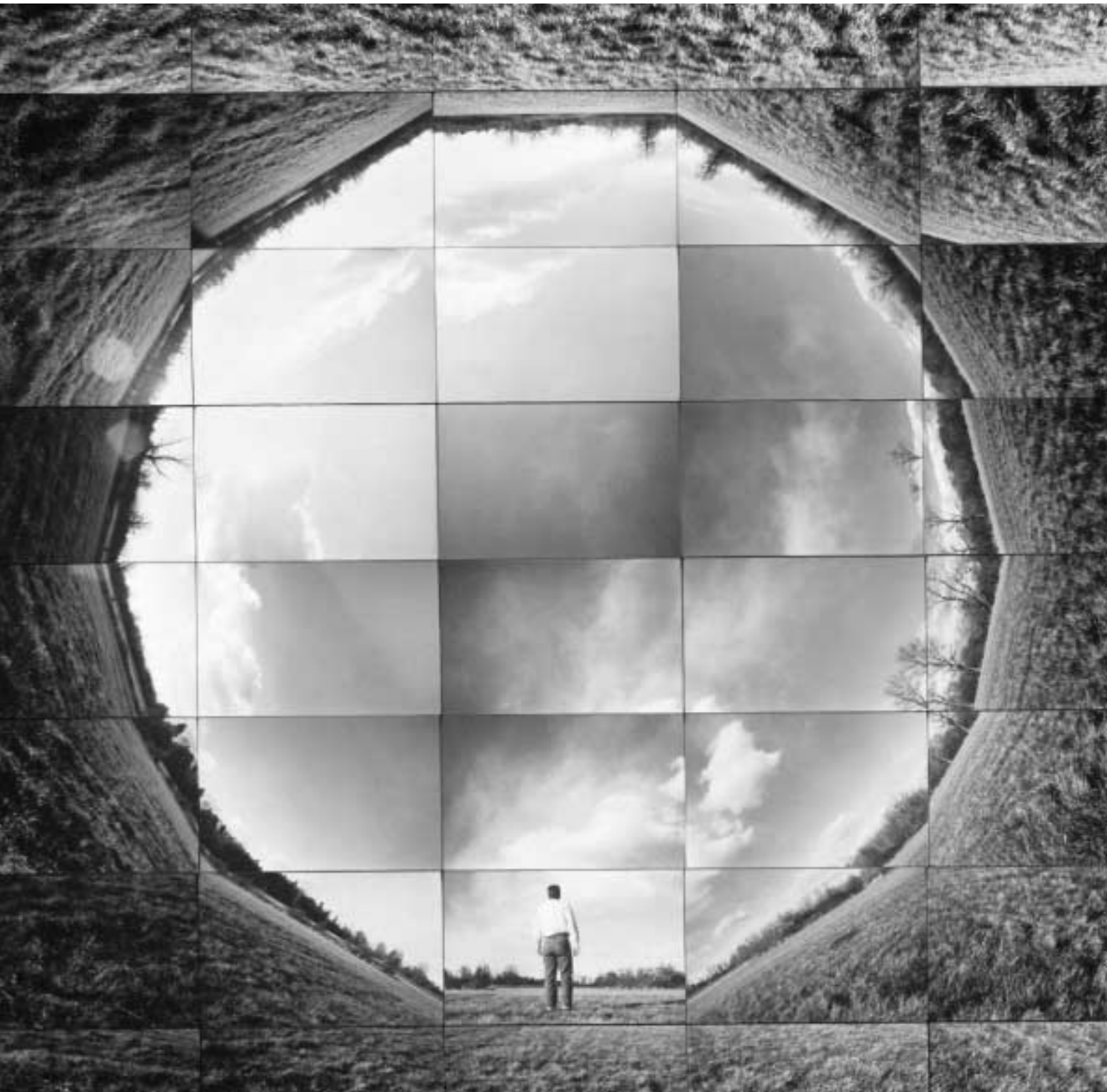
Although Europe's leasing markets are subdued, investor demand for commercial real estate remains high. Cross-border investment values in first half 2002 were five percent higher than in 2001, yet leasing take-up was 26 percent lower. Debt-driven investors, encouraged by low interest rates, continue to dominate, accounting for almost half of all cross-border investment in first half 2002. Bank lending to real estate is high across Europe, and while caution is increasing, debt-driven investors are changing the European landscape. Meanwhile, the private indirect market will grow from its one-quarter share as institutions increasingly choose to invest indirectly.

*Tim Francis and Nick Leming (London), an integrated series of capital market papers released in 2002 including "Cross Border Real Estate Investment—More Capital Targeting Europe," "European Ownership Structures," "Basel II and Bank Lending," "Debt Changing the Landscape" and "Private Indirect Vehicles—Institutional Interest Rising?"*

# People, Power and Products:

## *Property in the 21<sup>st</sup> Century*

By Katie Kopec and Richard McBlaine



How might future population growth in India or China affect occupiers? How could water shortages impact the long-range manufacturing plans of global companies? What will be the impact of changes in regional GDP growth on real estate?

To address these questions, it is important to consider population trends, the rise of the “mega-city,” the future of natural resources and changing patterns in consumption, GDP and exports.

All of these factors will provoke a different response around the globe, with cultural differences and human nature impinging on the voracious appetite of the global corporate desperately seeking to stay one step ahead.

Will the huge potential expansion in new economies and urban environments find favor with tomorrow’s knowledge workers and will the cities themselves have the capacity to cope?

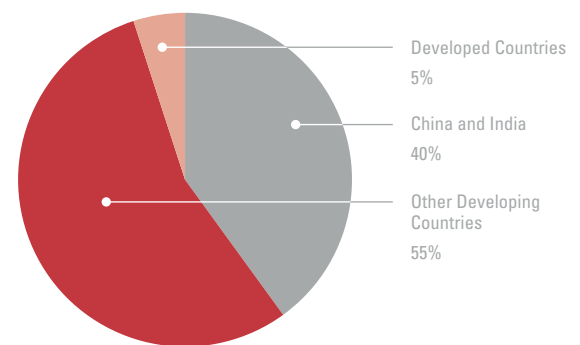
### Global Population Trends

Between 2002 and 2015, the world’s population will increase from 6.1 billion to 7.2 billion. Developing countries will absorb 95 percent of the growth, with two nations, India and China, accounting for 40 percent of the total increase. India’s population will grow by 250 million people, while China will contribute an additional 100 million people to the global landscape.

By 2030 the population of Asian cities will be more than twice the total population of all the cities of the western world.

In developed countries, population growth will be virtually flat during the same period, with some countries experiencing declining numbers. Japan’s population is anticipated to decrease from 126 million to 124 million. Growth in Western Europe will be flat, while the population of the United States will grow by about one percent, due largely to immigration.

World Population Growth: 2002 to 2015



Sources: National Intelligence Council, “Global Trends 2015: A Dialogue About the Future with Non-Government Experts.”

Overall, the global population’s growth rate has, and will continue to slow, from 1.7 percent per annum (p.a.) to 1 percent p.a. by 2015. But even though growth rates are slowing, the addition of 1.2 billion people between 2002 and 2015 will impact dramatically the global landscape. The urbanization of Asia constitutes a massive social transformation that will have implications beyond its regional borders.

**Aging Populations Create Worldwide Challenges** While developing countries will experience the highest population growth—and despite the addition of new working age people that such growth will create—these countries will still have to address issues associated with their aging populations. As an example, China will experience a dramatic increase in its elderly population (over age 60) from 134 million today to almost 270 million by 2015. In developed countries with flat or decreasing population growth, aging populations present an even greater challenge. To illustrate, consider “support ratios”—the number of productive workers (age 15 to 64) versus the number of people over age 65—which characterize a

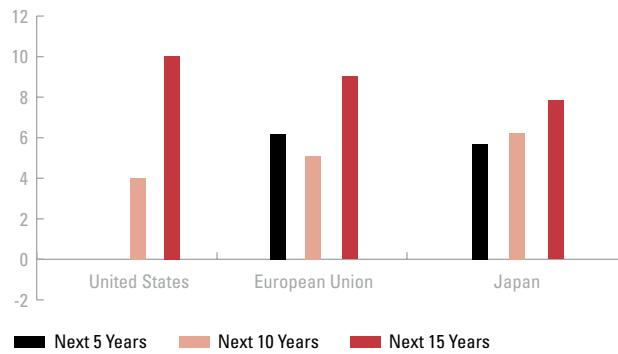
society's ability to support its aging population. In the United States today, the support ratio is 5:1 (i.e., five working-age people for each elderly person), a ratio considered acceptable by most experts. By 2015 the U.S. support ratio will have shifted to 4:1. The greatest changes will occur in Europe and Asia. In Western Europe and Japan, the ratio will shift from 4:1 to 2:1.

**The Implications** Flat or decreasing growth rates combined with aging populations may lead to economic problems, labor shortages and other challenges in developed countries. Population trends will lead also to global cross-border migration and rapid growth in certain business sectors.

Many countries rely on migrants to deal with labor shortages. Overall, it is estimated that foreign-born residents comprise 10 percent or more of the population in at least 50 countries. Migration will play a critical role in maintaining healthy support ratios in developed countries. While the United States is familiar with migration (currently at 11 percent of its population), an uncertain economy and the security implications of September 11 are constricting immigration. The prospect of admitting and actually encouraging migrants in Japan and Europe may be even more challenging, as these societies historically have been less open to migration.

## Migrants Needed to Keep Support Ratios Flat

(millions)



Sources: The United Nations Population Division.

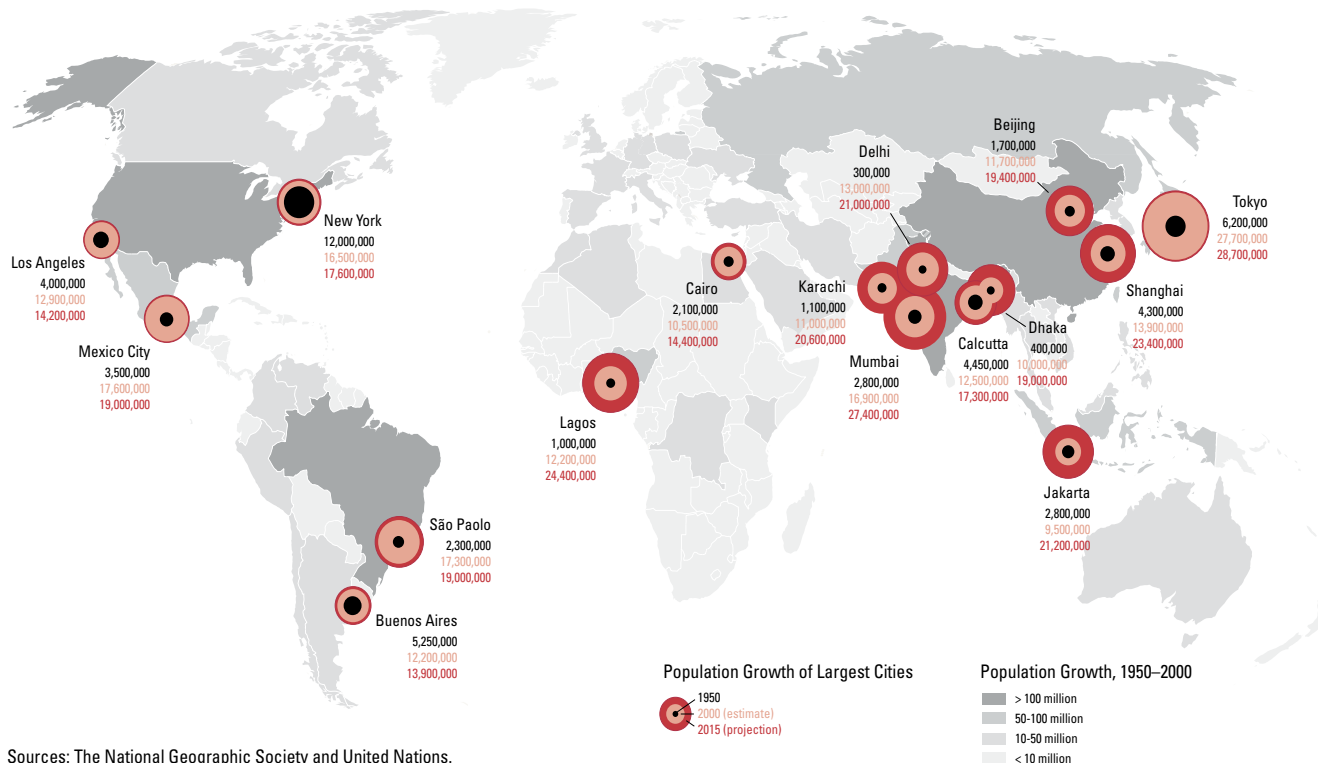
**Competition for Human Capital** Governments will have to market aggressively the competitive strengths of their cities and compete by offering new property products and environments key in retaining leading edge companies.

In this environment, national governments will need to demonstrate creativity to encourage the migration of knowledge workers into their countries. More than ever before, employers will need to focus on attracting and retaining employees (including accommodating working parents) and increasingly embrace diversity. The work/life balance issue will be key as an aging workforce has different motivations and values more related to quality of life than surety and quantity of income.

Aging populations can be expected to fuel the expansion of various industries, in particular healthcare and pharmaceuticals. In the United States, 13 percent of all new jobs created will be in the healthcare sector. Yet in the United States and around the world, there is already evidence of a shortage of healthcare workers. The pharmaceutical industry is also expected to expand rapidly. On average, people aged 70 and above spend twice as much on prescription drugs than any other segment of the population. Pharmaceutical companies recognize this fact—in 2000 alone, they invested \$26 billion in research and development of drugs for the elderly. Looking abroad, and

## Growth in Mega-Cities

Cities containing more than 10 million inhabitants



Sources: The National Geographic Society and United Nations.

anticipating growth in the 60-and-above population of China alone, for example—from 134 million to 270 million in 2015—the future of the pharmaceutical industry looks promising.

**The Rise of the Mega-City** Within the next two to three years, half the world’s population will live in urban areas. In the United States, 75 percent of the population already lives in cities, and by 2030 this level will increase to 85 percent. The statistics for Western Europe are similar. In Asia, currently only 37 percent of the population is urban. This will grow to 54 percent by 2003, adding another 1.4 billion inhabitants to Asia’s cities. This trend has given rise to mega-cities, urban centers with populations of more than ten million people. Although they comprise a relatively small percentage of the total urban population today, the situation is changing quickly. In 1950, New York was the world’s only mega-city. By 2000, there were 16 mega-cities, with Tokyo taking first place.

By 2015, there will be 21 mega-cities. The vast majority will be in Asia and none in Europe, which is a stark contrast to 1950, when the region hosted ten of the world’s top 25 cities.

**The Implications** The tremendous growth of cities will present new opportunities for global companies and huge spin-offs for the domestic business base. Businesses in the mega-cities will have a larger potential consumer base, as their populations consume increasing amounts of goods and services. Growth may also enable businesses to relocate production and other operations to save costs by taking advantage of an abundant labor supply.

Competitively priced knowledge workers will once again be the key to this relocation. A classic example of this is in the meteoric rise of India’s call center industry, now competing head on with the “call center capital of



Europe,” Dublin. Companies such as Prudential have announced huge reorganizations of their businesses in favor of these emerging markets. Previously this attitude was only evident in the manufacturing industries.

### **The Future of Natural Resources**

As populations continue to expand, strains on the earth’s resources will become more pronounced. Growing scarcity of some resources is likely to cause shifts in consumption patterns, the emergence of new technologies, and, as a result, opportunities for individual businesses and nations to excel.

**Fresh Water Grows Increasingly Scarce** By 2015, America and Europe are expected to possess half the available water they had in 1950. China and Latin America will have one-quarter. The Middle East and Africa will have one-eighth. Overlaying growth in mega-cities with predicted declines in water supplies, it is clear that many regions will be affected dramatically. India, for example, already faces challenges presented by a rapidly growing population and political unrest with its neighbors. The additional strain of severe water problems could prove to be a source of further conflict with other water-deficient countries.

**Energy Supplies and Demand Shift** The United States is currently the world’s largest energy consumer. By 2015, however, China’s growing population and rising GDP will generate increased spending and investment in manufacturing, with the result that China’s energy consumption will be the hungriest in the world. Some countries such as Japan will need to rely on imports to satisfy demand for energy. Saudi Arabia and other Persian Gulf countries, which hold more than 66 percent of the world’s oil supplies, will continue to be critically important to world energy consumption. Although global consumption of energy will increase dramatically by 2015, supplies will likely be sufficient. However, the expense of accessing reserves, as well as political issues, could impact greatly the cost of energy.

**The Implications** Water increasingly will be viewed as a strategic political and economic asset in the future just as energy supplies are now. Water availability may drive corporate real estate decisions, especially in companies that need water to produce goods such as computer chips or paper. Governments may become more involved in the distribution and protection of water supplies. India will be forced to seek alternative future water supplies. Singapore is already totally reliant on Malaysia for its water. Governments in water-deficient areas may have

to invest in major infrastructure to transport water into their countries. As a result, there may be significant growth in the business of transferring and selling water. Additionally, companies investing in technologies such as desalinization may reap great rewards. Russia and Saudi Arabia are examples of countries that are well positioned to satisfy increasing global demands for energy. Given the growing use of natural gas and advanced technologies available to obtain supplies, Russia will sit on a virtual “gold mine” of energy. And, given Asia’s importing practices coupled with increased demand from countries like China, there is likely to be an even greater reliance on the Persian Gulf for Asian oil supplies.

Three other key determinants of locational change—pollution, politics and conflict—will remain important. As economies develop, environmental issues become increasingly important to the location decision. Thorny issues around conflicts and security are visibly at the forefront of occupiers’ and investors’ minds alike. Expansion of inter-dependant economies of the size and scale seen in Asia creates enormous tensions, which will continue to stymie investment and growth in what could be huge global marketplaces.

### **Shifts in GDP and Merchandise Exports**

By 2015 there will be significant changes in GDP trends in developing nations, and these forces will have a major impact on the world economy. China will continue to be a major exporter and will surpass the United States by 2015. As GDP grows, so does demand for specialized products and processed foods. GDP growth will also continue to drive changes in consumption. Nowhere is this more evident than in the agricultural sector, where demand for specialized products and processed foods increases as GDP levels climb. Over the last ten years, for example, the fastest growing international agricultural trade product has been pet food, which has grown at a 23.5 percent compounded annual rate. During the same period, chocolate grew at 10 percent, and wine at 6 percent. Trade of basic agricultural staples grew much more slowly—rice at 2.5 percent, and wheat only at 0.6 percent.

**The Implications** Greater demand for specialized products is likely to continue to grow rapidly as GDP increases. There is a tremendous opportunity for businesses to anticipate demand for products in countries with growing disposable incomes.

New economies can often leap straight to new technology. Asia’s demand for technology product represents a prime example. It is expected cell phones will surpass demand for installed phone lines in Asia. In the United States today, there are 400 cell phones per thousand people. In Hong Kong, there are 800 per thousand. By contrast, China has only 65 cell phones per thousand people. Assuming that China achieves the current U.S. level of cell-phone ownership by 2015, this represents a market for 500 million cell phones. Trends in personal computer (PC) ownership tell a similar story. Today there are 328 PCs per thousand people in the United States and two PCs per thousand in China. Again, should China match current U.S. levels of PC ownership by 2015, this represents a market for 500 million PCs.

### **Conclusion**

The world of real estate is becoming increasingly linked to, and impacted by, global trends. Even domestic businesses will feel the effects of shifting market demands, labor availability and resource accessibility. Whether the challenge is to plan for a new pharmaceuticals distribution facility to satisfy exploding demand, or to attract workers from developing countries to meet production and service needs, agility, creativity and careful planning will be needed to survive and prosper in this environment.

# Winning for Whom?

By Jacques Gordon and Rosemary Feenan



Deciding if a city is a “winner” or a “loser” depends, to a great extent, on where you stand.

### Different Stakeholders... Different Definitions of “Winning”

Selection criteria should be as diverse as all the ways that businesses interact with cities. For real estate investors, the focus might be on rental growth and steadily rising values. Corporate occupiers might emphasize labor markets, asset efficiency and lower costs. Clearly, any analysis attempting to identify “winners” must be explicit about how “winning” will be defined and measured by different stakeholders.

Even though the attributes of a successful city might differ depending on the point of view of the stakeholder, commonalities can also be found—even among interests that appear diametrically opposed (e.g. tenants and landlords). Issues of timing, performance targets and alignment of objectives between real estate stakeholders and the surrounding city have become increasingly crucial and interdependent. This World Winning Cities research suggests that when cities perform at the highest level, they often meet the needs of the broadest constituencies. This reflects the demands of today’s global economy, which requires real estate markets to become ever more symbiotically bound with the fate of their urban hosts.

The various dimensions of “winning” were brought into sharp focus when the first phase of the World Winning Cities project was given two high-profile “previews” during the latter part of 2002. The first was to colleagues at Jones Lang LaSalle’s International Directors Symposium, and then at Harvard University’s Global Cities Conference. Although the audiences were quite different, there was universal surprise in the revelation that Dubai, Dublin and Las Vegas achieved top billing.

The elusive concept of “winning” was spotlighted comprehensively and a working definition was proposed at both venues. This definition, for purposes of the early stages of this work, emphasizes sheer growth—in terms

of workers, population and the size and absorption of the office stock. But, in truth, the largest benefit of the World Winning Cities project is that it allows for an isolation of many different definitions of “winning,” depending on the perspective of the stakeholder.

### The Occupier’s Definition of Winning

The last decade has seen a powerful revision in the order of influences on real estate markets. The corporate world has been turned inside out by the technology revolution, the hollow promise of high returns from new economy business models and more recently, by the widespread corporate accounting scandals.

Despite the chaos, a number of significant and lasting trends have emerged which intensify the corporates’ very precise definition of the term “winning.” In locational terms, it is increasingly characterized by a low-cost, well-educated workforce, or finding the next high growth consumer market. Nearly all consumer products and business services companies still care a great deal *where* growth markets are emerging, especially since more firms have moved to multinational production and distribution platforms. These companies still need to reach customers at the local level, for marketing, sales and delivery, even though many functions (headquarters, research and development and back office) can be effective even if they are located far from the ultimate consumer.

For the occupier then, winning may well mean city locations that have as yet an unproven economic track record or those that are not on the investor radar map. It may extend to cities that may have attractive relocation incentives but poor tax environments for real estate owners, or those that have connectivity but no one keen to pay for the last mile. Winning may well mean owner occupation in an emerging economy where corporate responsibility includes a major contribution to the building of the city’s success.



### The Investor's Definition of Winning

For the investor, traditional terminology for considering the role of real estate in a city context has revolved around the strength of the city economy and more critical issues such as supply constraints and market liquidity.

While the rapid expansion of a metropolitan market represents enormous opportunities for a broad spectrum of industries, our analysis uncovered that many investors likely would recoil from such cities. Unbridled growth can be very unsettling to a long-term focused real estate investor. Rapid growth of a metropolitan area can be accompanied by periods of oversupply, chronically over-burdened infrastructure, and abrupt changes in the desirability of specific locations within a city. Such characteristics have been dominant over the past decade in many of the 21 cities analyzed in developing and transition economies.

Stable, supply-constrained markets perform much better for investors. Las Vegas, one of the top three winning cities of the last decade, has not been a market that we have recommended to risk-averse investors. But its high ranking raises some compelling questions. At what point does a market become so large that ignoring it is an investment peril? Is the growth of leisure-driven cities sustainable and does this growth spill over to the non-leisure sector?

### Sustainable Growth—The Predictor of Future Winners

Global cities like New York, London, Paris and Tokyo don't really have to be "winning" cities to attract business and investment. They have already "won" in the broadest sense. This World-Winning Cities research

uncovers which cities currently are experiencing the most rapid growth and predicts those that will win in the future. The multivariate cobweb charts hint at the fact that uneven growth in Las Vegas and Dubai ultimately may prove to be unsustainable. Growth across many different dimensions, such as Dublin, for example, may be the best indicator of a truly sustainable winning city.

Larry Summers, the President of Harvard University, summarized the challenge facing all cities in his remarks to the Global Cities conference, "The case for concentration and for highly specialized spaces to serve human capital is stronger now than ever. Real estate though is not a discipline it is a subject. It draws on economic geography, finance, sociology, engineering, architecture, law, marketing and many different types of learning to serve our society. Problems in the world's developing countries, like the rapidly urbanizing mega-cities of Bogota and Cairo, can only be tackled by bringing these disciplines together."

Other speakers at the Harvard conference validated the underlying themes of the World Winning Cities presentation by reinforcing the importance of regulatory environments, economic incentives, the enforceability of contracts and high transparency in the success of cities like Dubai, Dublin and Las Vegas. Likewise, our colleagues who work with clients in emerging markets such as Hyderabad, Moscow, Bangkok, São Paulo and Guangzhou all stress the importance of infrastructure, regulatory issues and taxation when doing business (real estate or otherwise) in the world's cities. Moreover, they tell us that London, New York, Paris and Tokyo are certainly not exempt from these considerations, when competing against the up-and-coming generation of rising stars.

## Global Research Board

### Co-chairs

**Jacques Gordon**

*Chicago*

**Nigel Roberts**

*London*

### Members

**Timothy Bellman**

*Hong Kong*

**Gerald Blundell**

*London*

**Rosemary Feenan**

*London*

**Robin Goodchild**

*London*

**William Maher**

*Baltimore*

**Melinda McKay**

*Chicago*

**Jane Murray**

*Sydney*

**Christof Widmer**

*Frankfurt*

## Global Research Business Board

### Chair

**Lynn Thurber**

*LaSalle Investment Management, Chicago*

### Members

**Peter Barge**

*Asia Pacific CEO, Singapore*

**Peter Downie**

*Global Director of Planning, London*

**Molly Kelly**

*Marketing and Communications, Chicago*

**Jeremy Lester**

*European Chief Operating Officer, London*

**Richard McBlaine**

*Strategic Consulting, Chicago*

**John Wallerius**

*Information Technology, Chicago*

**Craig Williams**

*Capital Markets, Sydney*

200 East Randolph Drive  
Chicago Illinois 60601  
United States of America  
tel +1 312 782 5800  
fax +1 312 782 4339

9 Raffles Place  
#39-00 Republic Plaza  
Singapore 048619  
tel +656 220 3888  
fax +656 438 3360

22 Hanover Square  
London W1A 2BN  
United Kingdom  
tel +44 20 7493 6040  
fax +44 20 7408 0220