THE NUMBER OF NEW CITY DWELLERS GLOBALLY IN THE NEXT FIVE YEARS.
The equivalent of three times the population of Japan.
The UN is forecasting the world’s cities to increase in population by 380 million people in the next five years. Consequently, the planet will need to build the equivalent of five cities the size of Los Angeles every year between now and 2020, and all the supporting infrastructure. The development potential of this rapid urbanisation is huge, offering considerable opportunities to firms and investors that operate globally.

Knight Frank and Newmark Grubb Knight Frank would like to brief you on what this will mean for your business. Consequently, we have asked our researchers around the globe, from Los Angeles to Delhi, from São Paulo to Beijing, to draw together a comprehensive outlook for real estate in 21 of the leading business cities. This is Global Cities: The 2016 Report.

We also this year include a Watch List of five cities we believe are set to play a bigger role in the global business community in the coming years. These up and coming centres range from Nairobi in Kenya, which demonstrates Africa’s rapid modernisation, to Dubai in the U.A.E., which has pulled clear of past difficulties and is expanding as a hub for investment, tourism and transport.

The cities covered by this report are very different in character, but a common theme among them is new infrastructure development. The Global Cities are awash with cranes as airports, high speed railways, underground railways, port facilities, and power stations are being constructed. Cities like Mumbai and São Paulo are playing catch-up, bringing in the infrastructure to match the rapid population growth. Mature centres like Paris and London, having reversed population decline in the past are laying new rail lines in anticipation of swelling future numbers of commuters and tourists. Places like Dubai and Beijing are developing mega airports in order to maintain the momentum behind their commercial success.

Whatever the reasons behind the new wave of infrastructure projects, they will reshape the Global Cities. New business districts will emerge, creating gentrification in former industrial districts, and in turn necessitating the development of new homes, shopping centres, leisure facilities, and offices. All this will be underpinned by an advanced logistics system, which starts at the factory gate on one continent and ends with a home delivery thousands of miles away.

Real estate will play an essential part in all of this, and Global Cities: The 2016 Report aims to brief you on where the opportunities are to be found. We hope this study will be a useful tool to assist with your business planning for 2016. Feel free to contact either of us should you wish to discuss the report’s conclusions further.
A new global economic cycle is fuelling the expansion of cities. Which centres will benefit the most?

Which is the most expensive city in the world to rent an office that has a helicopter view?

Across the world, the development of rail lines, seaports, and airports, looks set to create new business hubs.

The office is being transformed as firms strive to create an inspiring workplace.

Collaborative offices are rising fast around the world as the number of start-ups mushrooms.

Sydney is a trailblazer for activity-based working, where sofas are making desks redundant.

More people are living away from home for long periods of time, so flexible apartments are in growing demand.

An interview with architect Zaha Hadid, discussing how architects can help build inclusive modern cities.

See important notice at the end of this report.
The Global Cities are about to see huge growth, and their real estate markets need to be ready for new waves of citizens, firms and global investors

The UN is forecasting the global urban population to grow by 380 million people by 2020, which if correct means demand for city real estate is about to surge. The development potential of this forecast growth is huge, because it requires all the new homes, offices, shops, logistics centres and infrastructure projects that such rapid expansion would necessitate.

Cities in high-income countries are projected to rise in population by 34 million by 2020, the equivalent of three cities the size of Paris. City populations in middle-income countries are forecast to increase by 260 million people over the same period, which is about 12 cities the size of Shanghai.

THE INVESTOR’S DILEMMA

The dilemma faced by today’s global real estate investor is whether to buy into the slower growth established cities in the high-income countries, or the faster growing but riskier emerging markets. While the rapid growth in emerging markets speaks for itself, the strengths of the mature cities are sometimes overlooked. While Shanghai has more than twice the population of Paris, GDP per capita is four times higher in the French capital, a consideration when buying lifestyle-related property like retail or leisure.

Also, rather than anyone building a ‘new Paris’, in wealthier countries we expect new city dwellers to settle in existing cities that will expand accordingly. Being long-established centres, they will find international investors willing to fund the necessary development. In emerging markets, where towns can transform into cities in a few years, a share of the projected growth could be in cities that are so new it would be ambitious for an overseas investor to buy there. Since 1990, an estimated 470 new cities have been established in Asia, of which 393 were in China and India.

Expansion for the newer emerging market cities will probably be funded by local investors. International investment is more likely to look at either established centres or the emerging cities that have moved into the global league, like Beijing or Bengaluru.

This is not to say the developing world does not offer opportunities. There can be the opportunity to exploit transformational change if rapid growth is well managed. Indeed, on satellite maps there is now an identifiable super city along China’s Pearl River delta, encompassing Hong Kong, Shenzhen, Guangzhou and Macau, that is home to an estimated 120 million people.

With the UN predicting China’s urban population to grow by 95 million by 2020, more super cities will appear. Similarly, Indian government policy is pushing an ‘industrial corridor’ between Mumbai and Delhi.

Therefore, we expect property investors to seek a balance of growth and diversification in a global property portfolio.

SOURCES OF CAPITAL

Next year, we expect two major sources of capital to be particularly active, namely North American money into the global market and opportunistic domestic money in Europe.

The dollar has strengthened on currency markets, while the spread between U.S. real estate and bond yields has narrowed. Recent economic indicators suggest that the Eurozone is through the worst, and we expect U.S. capital to look to exploit recovery opportunities. Current evidence suggests a pattern of both direct investment and providing non-bank finance.

CONTINUED ON 10-11
OFFICE RENTS - CHANGE ON 2007 BASED ON END OF 2015 FORECAST

CONTINUED FROM

New patterns of economic growth since the downturn have led many corporate occupiers to look abroad for opportunities, so are not restricted to the limited number of options the major cities offer. The success of some of these efforts is now setting up a trend for other cities in Europe.

In London, property yields have fallen below 2007 levels while still maintaining a healthy spread over government bonds. Expectations of how low property yields can go remain low, as volumes are picking up, and prices are on the rise in many European markets sales of large office buildings are drawing buyers into the market. As a result, many European markets where yields were previously at high levels are picking up, and prices are beginning to move up. This is leading to a healthy spread over government bonds.

However, many investors are concerned about the risk of a further slowdown in the global economy in the second half of 2015, as growth expectations in China and some other emerging markets continue to fall. This has led to a general rising trend in the global economy, with some cities in the emerging world showing signs of weakness.

The key trends are now diversification and flexibility. Both investors and occupiers need to be operating in a dynamic labor market for the occupier to catch the next rising tide.

The move towards non-desk workspace is particularly collaborative. It is the result of changes in the workplace, and the way people work, with technology and other industries.

The trend is towards a workplace that is more pleasurable, from games rooms that make the whole work experience more enjoyable, to technologies that improve productivity.

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These are often technology-driven media parks, particularly collaborative offices. These are often technology-driven media parks, particularly collaborative offices.

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With the world’s cities predicted to add 380 million new inhabitants in the next five years, new mass transit systems, power and utilities, and faster connections to markets will be needed. Here is our choice of the mega infrastructure projects that will be generating new business clusters, and creating real estate opportunities.

### AFRICAN AMBITIONS

A massive infrastructure project is underway in the LULURAT Coal Park and Mining Industrial Complex (Enugu, Nigeria). This consists of a 300-kilometre long rail link and a rail link to the Ijora Port. A new railway line is under construction from the inland manufacturing city of Onitsha through Igboeze, and another is under construction from Enugu to the port of Calabar. The rail project is expected to create jobs and improve the region’s transportation infrastructure.

In Nigeria, the Adomi Bridge is scheduled to open around 2018. This bridge will connect Ibadan and Lagos, two of the country’s largest cities. The project is expected to boost the region’s economy and reduce travel time between the two cities.

### SUPER AIRPORTS

In Dubai, Al Maktoum International Airport, which opened in 2010, is the expanded former Dubai International. It serves over 100 million passengers a year. Al Maktoum is part of the Dubai South, an economic freezone covering 56 square miles, which links up with the nearby Jebel Ali Port.

In Singapore, Changi International Airport has a new fourth terminal under construction, which will increase the airport’s capacity to 82 million passengers a year. Also, plans are being advanced for a third runway at Hong Kong International Airport, which would allow it to handle up to 102 million passengers.

### CHINESE GLOBAL RAILWAY LINKS

China is using rail to speed up transporting freight to Europe on routes running through Russia, or via Iran and Turkey. By road, it takes two months to reach the inland manufacturing city of Chengdu, but at sea and by rail it takes a month or less. As China diversifies its trade routes, new business hubs will appear, creating opportunities for property investors.

### THE DELHI–MUMBAI INDUSTRIAL CORRIDOR

The Delhi–Mumbai Industrial Corridor (DMIC) is a development zone that will be a hub for investment in heavy industry to support India’s rapid urbanisation. The project will be jointly backed by Japanese investment. The developing corridor will include a shared railway network, which is intended to push down logistics costs in the region.

### EXPANDING THE PANAMA AND SUEZ CANALS

Presently, ships averaged over 5,000 containers a year at the Panama Canal, which has a recent capacity of 5,000 containers. A new set of locks, complete with expanded capacity, will allow ships to pass through Panama’s locks that can carry up to 13,000 containers. Port facilities around the world are being expanded to handle post-Panamax ships, creating development opportunities for real estate investors.

### SUPER CITIES

In China, the Belt and Road Initiative links 65 countries, promoting investment in infrastructure projects across the region. This initiative, which includes the construction of new railways and ports, is expected to boost economic growth and create new opportunities for property investors.

In Africa, the construction of a new railway line between the port of Malabo and the capital of Malabo is expected to boost economic growth and create new opportunities for property investors.

WRITTEN BY

James Roberts, Chief Economist, Knight Frank
Manhattan is experiencing a transformational wave of new development.

**NEW YORK CITY**

**GATEWAY CITIES**

The nature of the workplace is in the midst of a paradigm shift.

With eight buildings comprising 16.4 million sq ft of new ultra prime office space in the construction pipeline, the burgeoning development at the Hudson Yards rail site amounts to the ground up creation of an entire micro campus of Silicon Valley and the office design, borne out of the workplace that became the archetype for creative retro-fitted loft spaces in Midtown South and at the World Trade Center. Further Downtown, the World Trade Center is undergoing a massive rebuilding effort. One World Trade Center delivered 3.0 million sq ft in November 2014. Condé Nast, the global advertising giant, Group M. Two high-profile commitments from various industries, such as legal, technology, creative and luxury goods, which enabled construction to commence on additional towers and boosted the area’s visibility. Coach, L’Oréal, SAP, Time Warner and Skadden, Arps, Slate, Meagher & Flom are examples of anchor tenants that have allowed various projects to enter the next phase of development. Running concurrent to the office pipeline at Hudson Yards is the development of nearly 4.0 million sq ft of residential space alongside world class retail, hospitality and amenities. Luxury retailer Neiman Marcus will establish its first store at Hudson Yards in 2015. With 26 million sq ft of new office space slated for completion, New York City is in the midst of a construction renaissance similar to that of the 1980s, when more than 50 million sq ft of space was built. The lack of modern office product in Manhattan’s traditional business corridors, coupled with growing demand from the expanding TAMI (Technology, Advertising, Media, and Information) sector, has driven the large-scale development projects underway on the Far West Side and at the World Trade Center site. Inactivity in Manhattan’s construction pipeline over the past 15 years has created substantial pent up demand for modern offices. With an average age of 70 years, most buildings in the traditional Midtown core-submarkets cannot offer the space efficiency and customization that many tenants now expect when making long-term lease commitments. Government rezoning initiatives are underway to incentivize landlords to replace outdated office buildings with modern skyscrapers that would enhance the city’s inventory and offer comparable options similar to other global cities.

Additionally, the nature of the workplace is in the midst of a paradigm shift, with the emphasis on increased density, open floor plans, collaborative space and shared recreational facilities. The rapid growth of the TAMI sector has been the major driving force behind the work/play office design. Home out of the workplace campuses of Silicon Valley and the retro-fitted loft spaces in Midtown South that became the archetype for creative workspace, Large TAMI tenants have been among the most active players in the new developments on the Far West Side and at the World Trade Center.
Singapore’s stellar transformation from ‘third world to first’ in the span of five decades is a success story many other nations aspire to match, but few succeed. The process of building the city state into a thriving metropolis was shaped by the need to decentralise business locations and house new, up-and-coming industries. The Global Financial Crisis (GFC) and the rise of new technology office tenants is now resulting in changes in occupier demand in the CBD and Fringe-office markets, with future opportunities for both.

Changes in legislation to give greater powers to landlords in 1969 paved the way for wholesale redevelopment of the city centre during the 1970s and 1980s, which provided the offices to support Singapore’s rapid growth during those decades. However, to create business space to accommodate future waves of expansion, a policy of ‘decentralisation’ was adopted through the 1991 Concept Plan. This aimed to use the Mass Rapid Transit (MRT) rail system to establish various commercial zones outside the crowded CBD area, creating new suburban and peripheral office markets.

Decentralisation resulted in an expanded commercial real estate market. Within the past 15 years, total office space stock in Singapore grew by 24% to 81.6 million sq ft (see graph), although in the Fringe area, stock increased by 40% over the same period. This is not to say the traditional CBD stagnated. In fact, it expanded on to land reclaimed from the sea at Marina Bay, where tower developments housed the front offices of Singapore’s fast growing financial community.

This created a real estate landscape that was highly suited to the financial and business services industries, with front office operations paying higher rents to be in CBD buildings, while back offices occupied more affordable space in Fringe districts like Tampines and Changi. As office rents escalated in 2007, government agencies were urged to consider relocating out of the CBD to make space for the private sector.

However, the post-2007 period has been a time when the relationship between the CBD and the Fringes has changed. After the falls in rents during the GFC, the CBD became more affordable, reducing pressure on cost conscious tenants to consider relocating to the Fringes. Consistent with the relocation in New York and London, the TMT (Technology, Media and Telecoms) sector defied decentralisation and made its move into the CBD.

Office rents peaked in Q1 2015, amid slowing demand and consolidation of office space in the face of an economic slowdown in the Asia Pacific region. However, over the long term we see future sources of demand emerging that will create opportunities in both the CBD and the Fringes.

While at present the financial sector is seeing consolidation, leaving some occupiers with ‘shadow’ space, in the long run, finance should benefit from Singapore’s growth as the key trading centre for South East Asia. To date, asset management, insurance and currency trading are fast growing industries, which are drawn to Singapore by the conducive business environment. This should provide demand in the long-term for both the CBD and Fringe markets, from front and back office operations respectively.

Technology firms are in our view a strong source of future demand for offices in Singapore. The Smart Nation iN2015 masterplan is a positive step towards promoting technology, and will benefit various sectors of the economy, including commercial property. Moreover, as the workforce becomes increasingly dominated by tech-savvy Millennials, companies need to change the way they work. This will mean a rethink in how firms lay out their offices, where they are located, and how much technology is incorporated into the workplace (and indeed in public areas, and the home). This will buoy technology firms and in turn generate office demand, probably with more of a CBD bias, given the preference for city centres shown by the TMT sector across the world.

Also, Singapore is working towards a well diversified and sustainable economy that builds upon its success in healthcare, education, logistics, aerospace, petrochemicals, and biotechnology. For many firms in these industries, locating in the CBD is not essential – indeed, globally, aerospace and biotechnology firms are usually in suburban office markets – which should generate office demand in the Fringes. The government plans to establish various commercial clusters. Business and industrial parks by 2030 provide further insight into where future property development will appear in Singapore.

New business locations will house future office demand

Written by Alice Tan, Director and Head, Consultancy & Research, Knight Frank Singapore

“Technology firms are in our view a strong source of future demand”

The Gateway Cities

Breakdown and Proportion of Singapore Office Space

By Area / Region, 2000 to First Half 2015

Source: Knight Frank Research

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Source: R.E.S. Knight Frank Research
The third quarter of 2007 was the time that the Global Financial Crisis (GFC) reached London, as confidence in the banking sector slumped. However, eight years later, the office market is thriving. London's economy is being driven by a new wave of technology and creative firms who are shaping the digital age. The last year has also seen more traditional financial and professional occupiers initiating office searches, which demonstrates broadening demand.

Comparing rents today with Q3 2007, the strongest growth has occurred in the areas popular with the technology and creative industries. Noho is a former garments industry district that is now home to many leading creative firms. Prime rents are 35% higher today compared to Q3 2007. Shoreditch, another former industrial area, is a hub for start-up technology firms. Office rents there are 26% above their pre-GFC peak.

Infrastructure projects abound in London. The development potential of the Nine Elms corridor is being unlocked thanks to a planned new underground rail line to the Battersea Power Station site. With the Crossrail 1 and Thameslink upgrade railway projects under construction, we are seeing the development of a transport hub running from Tottenham Court Road to Farringdon to King's Cross. This hub would be boosted further if the proposed Crossrail 2 receives government approval.

Source: Knight Frank Research

HEATHROW AIRPORT

Heathrow is a major business centre as well as a transport hub. There is more office stock in the surrounding area than there is in the CBD of Birmingham, the U.K.'s second largest city.

CROSSRAIL 1

London's under construction east-west rail line opens in 2018. We expect a boost for office rents near Crossrail stations in the 2017 to 2019 period, i.e. just before and after services commence.

BATTERSEA & NINE ELMS

Plans for a new U.S. Embassy, extensive mixed-use schemes, a new underground rail line, and redevelopment of the iconic Battersea Power Station site, will transform this former industrial area.

TRANSPORT HUBS

Crossrail 1 intersects with the Thameslink rail upgrade at Farringdon, creating a new travel hub. Crossrail 2 would meet Crossrail 1 at Tottenham Court Road, then Thameslink at St Pancras, producing two more interchange hot spots.

Develoment

Since 2000, central London has seen more than 70 million sq ft of new offices built. This is more than the total office stock of Singapore. Yet London's vacancy rate is falling and at a 14 year low.

WRITTEN BY

Patrick Scanlon, Partner, Central London Research, Knight Frank
Land shortage in Hong Kong is a widely known problem for the densely populated city. Limited office availability in the CBD, also known as Central, means it is becoming increasingly difficult to fulfil multinational companies’ rising demand for business space. With the highest prime office rents across the globe, Hong Kong also creates a major challenge for firms who wish to set up offices there – especially in Central, where net effective rents rose above U.S.$160 per sq ft per annum recently. Manufacturing firms shifting operations to mainland China have left Kowloon East with many vacant industrial buildings. In order to alleviate Hong Kong’s office supply shortage, the government announced an initiative to develop Kowloon East into CBD2 in 2012. Many former factories have been redeveloped as high quality office buildings. Other supporting policies, such as land rezoning, improvement of connectivity and enhanced urban design, have also accelerated the redevelopment process in the area. As an emerging business district with abundant supply, Kowloon East’s office rents are still as low as U.S.$46.50 per sq ft per annum. Thanks to the ample supply of new offices, and the significant rent discount compared to Central, many companies that are anxious to control costs have relocated to Kowloon East in recent years. Kowloon East has now become the second largest business area after Central in terms of Grade A office stock. With many upcoming development projects in Kowloon East, the total amount of Grade A office space in the area is expected to overtake Central within the coming decade. Meanwhile, a new East Lantau Metropolis is proposed to become the third core business area over the next 50 years. 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PARIS

The Cargo has landed in the 19th arrondissement of Paris

With more than 160,000 sq ft across six floors, The Cargo is the largest start-up incubator yet in the French capital. Moored alongside the impressive 2,000 ft long Macdonald warehouse, The Cargo fits in perfectly with other ship-like structures in the area. The Macdonald industrial building from the 1960s is currently undergoing a major transformation, harbouring a secondary school, over 1,000 housing units, 355,000 sq ft of retail, as well as 290,000 sq ft of office space. The office element has recently become home to hundreds of employees of a leading financial institution. This port is the gateway to the future, the Paris of tomorrow: mixed-use, hi-tech, maritime effect. It is part of the new urban model, which acknowledges that urban living, offices, public and private spaces, that are all close to work. Via a workplace that is integrated into an individual’s daily life, companies forge links with their employees, and a community is born. The new economy plays a vital role in this new world, drawing on its own mechanisms, players, organisation and working methods. Businesses aim to attract high flying young professionals by offering a workplace that is fun, fluid and part of the work-life balance. The aim is to blur the lines between work and leisure, which leads to less clock watching and reduced hierarchy. The Cargo is designed with the challenge posed by the sociologist Bruno Macròf, in mind: we need to rethink the work that makes a city. As a result of this changed approach to work and urban living, offices, public and private spaces, neighbourhoods and even the city will undergo a profound transformation towards greater openness, equality, and a stronger community spirit: longer opening hours and more services, new ways of using them and emerging roles.

This major change is no work of science fiction. The Cargo is not an isolated step in this process; the various co-working spaces are another example of this new movement. The Cargo is designed with the challenge posed by the sociologist Bruno Macròf in mind: we need to rethink the work that makes a city. As a result of this changed approach to work and urban living, offices, public and private spaces, neighbourhoods and even the city will undergo a profound transformation towards greater openness, equality, and a stronger community spirit: longer opening hours and more services, new ways of using them and emerging roles.

"YES, THE REVOLUTION IS HERE!"

“YES, THE REVOLUTION IS HERE!”

PARIS OFFICE VACANCY RATES

Source: Knight Frank Research

<table>
<thead>
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<th>Year-H1</th>
<th>0%</th>
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<th>2%</th>
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PARIS IS HERE!

Demanding through the business district, Paris France

377,000 sq ft of shared space will be made available to start-ups in this entirely private investment, headed by a leading French business tycoon. Expectations are high in this area of strong demand. France and its capital city stand out at a European level in terms of the number and vitality of tech start-ups. At the Consumer Electronics Show (CES) 2015 in Las Vegas, the largest tech event in the world, France, with 120 exhibitors, had the greatest presence among European countries far ahead of Germany (39) and the United Kingdom (33). In Kurea Park, the section dedicated to emerging start-ups, one in four businesses were French. Naturally, some of these companies come from outside Paris, but the Paris tech scene is particularly vibrant and always on the lookout for growth opportunities. Paris has launched the first Paris French Tech Tickets competition targeted at foreign businesses wishing to join the Paris tech scene. Innovative businesses are flocking to areas which were previously economically disadvantaged and working class, where there was little interest in the commercial property market until recently: from the north to the south of Paris, from the 13th to the 19th arrondissement, and along the ring road that defines the city limits. These areas form an arch of innovation which is being actively promoted by the local authorities. It boasts competitively priced property, development opportunities and an increasingly young and trendy feel. A number of new developments are coming to these areas, with a call for proposals from teams backed by investors, with local authorities entrusting the projects to the most innovative bidder. Even the tower block is no longer a dirty word. In June, the Paris City Council approved the Triangle tower project led by Unibail Rodamco. This 1,900 ft tower, located at Porte de Versailles (15th arrondissement) and designed by the architects, Heneg and de Meuron, will be the first mixed-use new generation skyscraper to grace the Parisian skyline. Yes, the revolution is here!
How businesses view their offices has changed enormously in the past two decades. Previously the emphasis was on cost control. Firms looked for ways to pack more desks on to floors, and there was a trend towards relocating jobs from expensive Central Business Districts (CBD) to lower cost out-of-town office markets. However, today firms are more conscious of the role the workplace plays in controlling a far bigger business cost — namely staff retention. This is reversing the out-of-town trend, and transforming the perception of the office from a business expense into a place that firms use to inspire and energize their staff.

**Losing Staff is Expensive**

A study by Oxford Economics found that the cost of replacing a member of staff averages U.S.$50,000, with over 80% of the cost in lost output while the new employee gets up to speed. If the new worker is in a leadership or rainmaking role, this loss of output could have a trickle-down effect on other staff who are reliant upon that person for work generation or guidance.

On top of the replacement cost, there is also the loss of value that goes out the door with the departing employee, such as training, knowledge, reputation, and client relationships. Some studies estimate the total cost of losing an employee can be equivalent of 150% of salary.

For a typical office worker in London, the total cost of their workstation in rent, local taxes and service charge, is around U.S.$16,000 per annum. The median salary in London is U.S.$54,000, so based on the 150% figure, their replacement cost is U.S.$81,000 or five times the cost of a workstation. Most professional workers earn far more than the U.S.$54,000 figure, with the average newly qualified commercial lawyer earning U.S.$91,000, according to recruitment firm Michael Page, suggesting a replacement cost of nearly U.S.$143,000.

Given that the cost to the business of replacing the worker vastly overshadows property costs, more firms are questioning the logic of achieving a small saving by moving to a peripheral business location if it increases staff turnover. There are even examples of firms choosing to move out-of-town jobs into more expensive CBD areas in order to appeal to a broader talent pool.

**Activity-Based Working**

Indeed, transforming the office into an inspiring and enjoyable place to work is now seen as an effective means of retaining staff. In Europe and North America, technology and media firms were the first to break the mould, and bring free buffets, exercise areas, spiral staircases, games rooms, and sofas into the office, and now more traditional industries are following suit.

**In the future, the office will principally be a place that generates staff satisfaction and interaction**

WrittEn BY James Roberts, Chief Economist, Knight Frank

CONTINUED ON 28-29
In Australia, the financial sector has led this movement away from the desk, known as activity-based working (or ABW), which heeds the question will all industries eventually go down this route?

Levels of adoption of ABW vary from one city to the next. In some European cities, where the office stock contains a lot of historic buildings, internal walls sometimes can hinder adopting ABW. Another issue is when lease expiries fall, as it is during a relocation that a company has to acquire a new fit-out, making it the time for a radical change. Consequently, the shift to ABW will be gradual – not earthquake – in any market.

**ON TO PHASE TWO**

The first wave of ABW was about breaking down barriers in the office, and creating a communal atmosphere. However, we are now seeing a second phase that builds on the experiences of phase one. By removing the partitions and increasing the level of interaction, noise is becoming an issue for those who need some quiet time to write a report. Some firms have found that by removing cellular offices they lost a raft of unofficial meeting rooms, placing extra strain on the actual meeting rooms. So, interestingly, the next wave of ABW is now putting some barriers back in, introducing quiet areas and private booths.

We are also now seeing more firms who are going down the ABW route aiming to provide more space per worker for those actually in the office, but based on the assumption that a percentage of staff will be out of the office at any given time.

**DO YOU REALLY NEED A DESK?**

Cutting the bond to a personal desk is allowing firms who fully embrace ABW to take a lower multiple of space compared to total staff. This does not mean that firms will need less office space in the future, as the total workforce continues to expand over the long-term in most Global Cities. Irrespective of whether they allocate 90 sq 100 sq ft for each additional worker, a firm still needs to acquire more space as it grows. However, the multiple of space per worker is probably going to fall, as companies will utilise absence to offer a spacious office to those who are actually at work.

The net result is that companies are achieving highly efficient offices, but staying in the more expensive CBD areas. This allows staff to enjoy all the amenities available in city centres, and indeed that amenity offering supports the companies’ own activities. In any Global City, the cafes and restaurants are actually the unofficial meeting rooms of the business community, while their sports and cultural venues are used by firms in their marketing mix. A company distances itself from all these ‘beyond-the-office’ benefits of the big city when it moves to a business park.

*Ego space for the boss?*

A Hong Kong executive in an advertising firm gets four times more office space than his secretary, but in Sydney the boss and PA get about the same. Here is the boss to support staff office space ratio from ad firms around the world.

<table>
<thead>
<tr>
<th>City</th>
<th>Boss to Support Staff Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hong Kong</strong></td>
<td>4:1</td>
</tr>
<tr>
<td><strong>London</strong></td>
<td>1.9:1</td>
</tr>
<tr>
<td><strong>Shanghai</strong></td>
<td>1.9:1</td>
</tr>
<tr>
<td><strong>New York</strong></td>
<td>1.5:1</td>
</tr>
<tr>
<td><strong>Sydney</strong></td>
<td>1:1</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research / Newmark Grubb Knight Frank Research

*Transforming the office into an inspiring and enjoyable place to work is now seen as a cost-effective means of retaining staff.*

Global Occupiers

*Global Occupiers*

*Draft Inc, Tokyo, Japan
Atlas Holdings, Greenwich, Connecticut, U.S.
FCB, Chicago, U.S.*
New technology has been bringing previously unconnected people together to achieve things. We have crowd sourcing to develop ideas, and crowd funding to raise money. Now a new type of office is bringing people together, often in the service of advancing the tech economy.

Collaborative offices are the real estate equivalent of crowd sourcing, but in the form of a rather cool serviced office. An office space is fitted out with a combination of meeting rooms, hot desks, and lots activity-based working (ABW) space, with sofas and communal tables. Entrepreneurs then take out memberships allowing different levels of access, where they will mingle with other people running their own firms. The fit-out is often unashamedly targeted towards Millennials, and the tech and creative industries.

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Activity-Based Working (ABW) is increasing rapidly in popularity in Sydney offices. This raises the question: will ABW one day become ubiquitous around the world?

According to Telsyte, by 2020 two thirds of Australian offices will be using some form of ABW, up from about 28% today. This is in response to a drive for greater efficiency and adaption of the workplace to match the practices of Millennials.

ABW is not just a new incarnation of hot-desking, but the provision of a series of work areas that staff move between, depending on the task at hand. By breaking perceptions that an employee should bug their desk, and have claims on it even when on holiday, the company enjoys greater efficiency of office use and increased productivity through interaction and knowledge sharing.

01 LIGHT AND CIRCULATION
ABW offices aim to get natural sunlight to as many people as possible, via atriums and minimising the use of partitions. Internal staircases and the absence of blocking lines of desks encourage people to go speak to colleagues in person rather than sending emails (a common source of miscommunication).

02 INTERACTION AREAS
Often resembling a branch of Starbucks rather than a traditional office, this area reflects the need to dip in and out of interaction with others and screen time. This flip-out increases the likelihood of chance encounters and conversations overheard, promoting knowledge sharing.

03 QUIET SPACES
These range from one-person booths for those with a report to write, to fountains of desks behind glass partitions for a group project with a tight deadline. Also, short-stay mini-pods are dotted around the floor, so people can take that confidential mobile phone call.

04 HUDDLE ZONES
In an office with no fixed desks, a problem can be finding the rest of your team. ABW offices often use decoration or different styles of fit-out to create identifiable locations. A working day may in the future begin with a text from a colleague that says, “We’re all in ‘the garden’, come join us.”

05 HOME-IN-THE-OFFICE
Free buffets, 1980s-style arcade games, yoga areas, and table football. As the boundary between work and home blurs, firms want their staff to think of work as home and thus provide an office people want to spend more time in. Locker rooms also allow staff to jog or cycle to work, or change before going out in the evening.

WRITTEN BY
Matt Whitby, Head of Research & Consulting, Knight Frank Australia
Five Future Trends in Capital Markets

Niche markets and deregulation are creating new property investment opportunities

1. Specialist Property

Specialist property continues to evolve as a segment, led by fixed income sectors such as healthcare and retirement accommodation. It also encompasses automotive hotels, student accommodation and even private rented sector residential accommodation. The key reasons for the growth in demand for specialist property relate to changing market requirements. For example, 20 years ago the demand for purpose-built facilities for the elderly or students was relatively limited. However, strong growth in the ageing population and expansion in student numbers—combined with generally poor-quality existing provision—has stimulated occupier demand.

Another major reason for increased investor interest in specialist property has been the drive for diversification, particularly following the GFC. While sentiment in global real estate markets has improved markedly, some parts of the traditional market have been challenging until recently. The less cyclical nature of specialist property has therefore been appealing to investors.

As demand and competition for investment product has increased, yields across the traditional sectors have been squeezed. As a result, investors have sought alternative ways of protecting and enhancing their wealth. Assets such as petrol stations, service areas, data centres and waste management facilities are now playing an increasing role in property investment portfolios.

2. Property Income—Long or Short?

Essentially, commercial real estate is an income-driven asset class whose long-term performance has been driven mainly by a high and stable level of income. In the U.K., for example, from 2000 to 2014 the average annual income return on all property was 6%, against a total return of 72%.

A key attraction of commercial property in many Western markets is the availability of long leases, which provide good security of income especially valuable during times of economic and property market instability. In addition, many countries (particularly in Europe) have basic structures where rents are inflation linked.

However, market realities mean that more investors are being forced up the risk curve. This is particularly true in locations where stronger occupier activity is coinciding with declining availability. A good example is the central London office market, where there is a significant imbalance between supply and demand. With rental growth expected to continue for the next two to three years and a limited development pipeline, availability is falling steadily. As a result, some investors are increasingly willing to buy buildings with limited unexpired income, provided the asset can be turned around quickly for re-letting.

In Asia Pacific, the market drivers are somewhat different, with relatively short leases of two to five years typical. Investors therefore tend to focus more on capital values and rental growth prospects, rather than initial yields and lease lengths.

Over the longer term, commercial real estate has proved its value within a mixed investment portfolio, steadily during times when other asset classes have been unstable.

“Over the longer term, commercial real estate has proved its value within a mixed investment portfolio.”

Source: Knight Frank

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Global Capital Markets

Commercial Real Estate Returns

(10 years to 2014)

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<thead>
<tr>
<th>Country</th>
<th>Total Return</th>
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<tr>
<td>Japan</td>
<td>4.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Singapore</td>
<td>11.7%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

Source: IPD
3. DEREGULATION

Government regulation exerts a major influence on global capital flows and can help to make or break real estate investment markets. Changes to regulation – such as the removal of ownership restrictions or legislation to allow new investment vehicles – can also help to attract significant amounts of inbound capital, an example being India’s new Real Estate Investment Trust (REIT) legislation in 2014. The Indian REIT sector could be worth as much as U.S.$100 billion within a few years. India has also recently relaxed its rules on foreign investment in real estate. Significant recent changes include the decisions to allow Chinese and Taiwanese insurance companies to invest in international real estate in 2012 and 2013 respectively. Chinese insurers have since made in-roads into major international real estate markets and, on paper, have a potential U.S.$220 billion to invest in overseas property and other assets. Taiwanese insurers meanwhile have initially focused on major cities in the U.S. (New York, Las Vegas and San Francisco) and Asia Pacific (Shanghai and Tokyo), while London has been the core European destination to date. In the U.S., one potential major change relates to the much discussed relaxation of the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA – see box overleaf). Currently, foreign investors account for just 17% of the U.S. commercial market – considerably lower than the U.K. and Europe (around 50% and 60% respectively). An easing of the FIRPTA regulations could lead to a doubling of investment in larger U.S. cities such as New York and San Francisco.

4. MIXED-USE

The strong recent (and forecast) growth in city living has brought the focus back on how to best integrate the ways in which people live, work, shop and play. Mixed-use projects offer portfolio characteristics that allow investors to spread risk, as well as gain exposure to a fast growing trend that is set to continue for some time. However, investing in mixed-use requires an understanding of variety of different uses and business sectors, how they interact with each other and, in particular, how to approach valuation for the different components. Examples of mixed-use buildings and locations around the world range from Marina City in Chicago to the planned Super Tower in Bangkok, which comprises hotels, retail and offices. Europe is also seeing its share of new mixed-use developments, notably Battersea Power Station and White City in London, Bercy Charenton in Paris, and Milanosesto in Milan.

5. U.S. AND CHINESE OUTBOUND CAPITAL

Traditionally, U.S. investors have dominated cross-border investment. In fact, in the two years to June 2015, U.S. investors invested more than $100 billion in international retail, offices, logistics and hotel property. Major drivers for the acceleration in overseas investment have been a combination of the strong dollar, competition in the domestic market and...
opportunities to find value — notably in Europe where the property market recovery has lagged behind. In the last two years, over 80% of U.S. overseas investment has focused on Europe, with a very heavy bias towards London and Paris, as well as Tokyo.

Asia Pacific has been on the radar of U.S. investors but in the last two years only around $8 billion, or 18%, of outbound U.S. capital has been deployed in the region. Of the acquisitions made by U.S. investors, some 66% was spent on office assets. U.S. interest in China peaked in 2013, with the recent economic slowdown impacting buyer confidence. In H1 2015 the number of deals has been limited, although transactional volumes will look impressive on the back of Blackstone’s U.S.$804 million acquisition of lifestyle, an office and retail complex in western Shanghai. However, following the stock market turbulence of summer 2015, U.S. interest in the Chinese market may cool in the near-term.

A slowing domestic economy, measures to cool the housing market and the relaxation of regulations on overseas investments has also prompted many Chinese investors to seek opportunities abroad. As a result, Chinese outbound investment continues to grow, with a total of U.S.$24 billion invested in overseas commercial property in the two and a half years to June. In July, sovereign wealth fund, CIC, bought a U.S.$1.8 billion portfolio of office buildings in Australia, solely Investa Property. There have been several waves of outbound capital, beginning with the sovereign wealth funds buying trophy assets and banks securing property for owner-occupation. The second and third waves comprised large developers and institutional investors respectively. The fourth wave of outbound investment is now underway, with wealthy individuals and small to mid-cap state-owned enterprises seeking exposure to global real estate markets.

The Chinese authorities recently announced the Qualified Domestic Individual Investor programme 2 (QDII2) in six cities (Shanghai, Tianjin, Chongqing, Wuhan, Shenzhen and Wenzhou), which will lift restrictions on the amount individual investors can spend overseas. Investors with over U.S.$60,000 of assets will be able to invest up to half the value of their total assets in overseas markets, while the limit for corporate investors will rise from $300 million of foreign assets to $1 billion. Global megatrends are re-shaping the world economic order. From mass urbanisation, to the rise of the global middle classes, ageing populations, technological trends and the shift of economic power from the West to the emerging world, all pose major implications for the built environment and demand for real estate. While megatrends in emerging Africa and Asia tend to lend themselves to the more eye watering headlines, their more subtle impact on developed world cities can sometimes get overlooked. Yet understanding their impact is critical. Although the short-term performance of real estate is determined by economic cycles, there may be potential risks to long-term value as these trends play out.

What is FIRPTA?

The Foreign Investment in Real Property Tax Act (FIRPTA) has been in force since 1980 and applies to foreign nationals selling U.S. real estate.

There has been considerable discussion about repealing or changing the act, which is seen as discouraging international investment in U.S. real estate, given the onerous nature of some of the rules for foreign investors, in particular the 10% withholding tax on disposals.

However, despite ongoing discussion among U.S. legislators, there has to date been little progress in terms of concrete changes. The Foreign Investment in Real Property Tax (FIRPTA) has been in force since 1980 and applies to foreign nationals selling U.S. real estate.

The first stage of any filter process, therefore, is not about real estate investment fundamentals, but purely about targeting cities that are “future resistant” from economic, social and environmental perspectives. Factors such as size, affluence, age profile, the willingness to embrace technologies, and the quality of life are all relevant. Given the emphasis is on long-term investment opportunities, growth potential is also an important consideration. As mentioned, traditional structural measures of specific real estate risk must not be overlooked, so potential city targets must also score adequately against liquidity, transparency and income security measures. This is why institutional investors often struggle to access opportunities in emerging world cities, where megatrends are producing dramatic impacts and leading to an explosion in new consumer markets. Of course, the focus on long-term demographic, social and environmental trends does not mean that timing entry and exit points and asset management initiatives are not critical factors in day-to-day portfolio management decisions.

When constructing a portfolio, the benefits of diversification — whether location, sector or demand drivers — should be at the forefront of any acquisition strategy. A balance of occupiers by industry type helps lower volatility and void risk. Investments underpinned by financial and business services, for example, might be complemented with investments in resource or technology-led cities.
Retailers with international ambitions need to adapt to local needs

Internationalisation among retail occupiers is anything but a new phenomenon. The likes of H&M and Zara are common sights on high streets worldwide, while IKEA sheds are an equally omnipresent force out-of-town. However, global retail markets are anything but homogeneous, and the path to international growth is not necessarily paved with gold. Many retailers have successfully made the transition, others are just starting out in their endeavours. Some retailers are still licking their wounds in the wake of ill-advised or poorly executed overseas forays. The rewards of successful internationalisation are substantial, but the risks are also manifold. Real estate is a far lower level of risk and potential reward. The ‘middle’ options can be a long one. At the other end of the spectrum, franchising is a far lower-risk option, offering the win-win scenario of some retailers expanding from mature to emerging markets.

The Occupier Options

A retailer with international aspirations has four key options for market entry:

- Organic expansion
- Acquisition of a local operator
- Collaboration with a local player
- Franchising

The Occupier Rational

The attraction of internationalisation for retailers is simple: growth. Domestic opportunities may be limited due to market saturation, excessive competition or regulatory issues, such as restrictions on market share. International retail markets may also be on a far higher growth trajectory, while at the same time offering the win-win scenario of being less competitive. This is particularly true for retailers expanding from mature to emerging markets.

The Pitfalls

The most common failing is that it is an inability to understand and adapt to the local marketplace. Abroad international ventures invariably stem from a retailer rigidly trying to impose its domestic values on a new market, rather than tailor its proposition to meet local demands. Internationalisation also brings greater exposure to more volatile economies, with those offering the highest growth often those also with the highest level of uncertainty. Currency fluctuations are another inherent risk, as many U.S. retailers are currently experiencing. Any hard earned growth achieved by international markets can be rendered negative by unfavourable exchange rates.

Global Markets

Globalisation is undoubtedly a force for good for real estate markets on a number of counts. There is a direct correlation between the level of risk and potential reward. The financial returns of organic expansion are potentially the highest, but there are also significant downside risks. Organic expansion tends to be a slow, piecemeal process and the lead time to break even can be a long one. At the other end of the spectrum, franchising is a far lower-risk option, but the returns are usually less attractive. The ‘middle’ options offer a more balanced risk-reward profile, drawing on the know-how and expertise of a local operator familiar with the market.

Globalisation is undoubtedly a catalyst for positive change generally – and positive change is invariably a stimulus to rental and capital value growth.

Implications for Real Estate Markets

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There are two compelling factors driving global demand for short-term rental accommodation. First, companies have become more cost conscious after the financial crisis and are cutting the expense and altering the nature of overseas assignments. Second, there is a new generation of younger employees used to more flexible business and leisure travel, which is encouraging companies to deploy people around the world for shorter periods. However, supply is struggling to match fast growing demand in many established markets, for what is a relatively new form of accommodation. It is a situation compounded by the fact that short-term lets often fall into a legal grey area, despite the rise of online providers like Airbnb.

The combination of a supply shortage and a fluid regulatory landscape means those cities that embrace the short-term rental model stand to reap substantial economic benefits.

For investors and landlords, there are clear long-term rewards in the world of short-term rental accommodation. Cities that embrace the flexibility of models like serviced apartments will reap the economic rewards.

Some 63% of companies reported increased pressure to reduce assignment costs, according to a 2015 report by Brookfield Global Relocation Services. Staying in serviced apartments saves employees making trips to scope out an area before they relocate full-time. And, unlike with hotels, extra costs like food and laundry do not tend to build up quickly.

The trend for short-term stays is part of a fundamental shift in the way companies manage their real estate, says Wadih Canaan, Managing Director of buying and relocation agent WSC Properties. “It has taken a while for people to figure out there was a market for serviced apartments,” Canaan explains. “Companies used to lease or buy buildings, but that is capital intensive. They are not in the real estate business and would rather not deal with the headache of maintaining properties.”

Short-term assignments are forecast to grow to over a fifth of all international relocations in the three years to 2017, according to assignment consultant ECA International. Meanwhile, long-term

Estimated increase in the number of serviced apartments worldwide between 2014 and 2015

18.2%
assignments are expected to fall from 52% to 45% over the same period. Shorter-term relocations are less disruptive than longer-term moves and are also driven by the desire of larger companies to share skills around the world, including the rotation of graduates, says Alec Smith, Accommodation Services Manager at ECA. “The traditional expat package is based on a longer-term, two to five year deal,” Smith explains. “That approach is still popular, but ultimately the world is more global and clients have a growing need for short-term project work. Five years ago companies were put off by the administration of tax and immigration compliance for stays of less than 12 months. While that is still a big challenge, they are more prepared now to accept that they need to absorb the pain.”

THE STRUGGLE TO MEET DEMAND

However, while demand is surging, supply around the world is often patchy or constrained by local regulations. Hong Kong is one of the most mature markets for short-term lets, but for a two bedroom apartment at the most popular level of U.S.$6,450 per month, availability is low.

In India, there is currently an under-supply of serviced apartments in most major cities. However, a number of developers are building spaces that will hit the market in the next few years.

In Central London, the supply of serviced apartments and short-let accommodation falls far short of the demand from both international tourists and the film industry. Between April and October there is particularly strong demand from directors, producers and actors for three bedroom apartments in Notting Hill. Property that is realistically priced lets immediately and those clients unable to obtain a short let property have to use the more expensive hotel option.

In preparation for the emirate’s Expo 2020 event, for private landlords, lets of less than 30 days are a grey area in New York, and condo and co-op boards and local bylaws make short lets difficult, even though the internet is driving the popularity of the model. Furthermore, the market is not standardised and there are laws to protect tenants that can result in problems for landlords when getting them to leave. Such grey areas have done little to dent the growth of online short-term accommodation providers like One Fine Stay and Airbnb. The latter entered the Cuban market this year, following reports that it would float in the U.S. with a valuation of $20 billion.

Despite the rapid growth and heady valuations, local restrictions can limit the scope for such platforms, as is the case in Singapore: Airbnb is allowed under Singapore law but the property

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Despite the rapid growth and heady valuations, local restrictions can limit the scope for such platforms, as is the case in Singapore: Airbnb is allowed under Singapore law but the property
The rise of the serviced apartment

An all-inclusive hybrid of a hotel room and a rental apartment, the number of serviced apartments in the world grew by 10% since 2014 to about 750,000, according to a report by The Apartment Service, a global provider of short-term accommodation.

The advantage over a hotel is that it’s cheaper and more homely. In India, a decent complex can be about a third of the price of a five star hotel.

The serviced apartment began life in the U.S. in the 1980s and North America still accounts for 65% of the world’s serviced apartment locations, followed by Europe (17%), Australia (11%) and Asia (5%).

The fastest-growing markets in 2015 were Europe (up 42% on the previous year), Africa (34%), while the number of serviced apartment sites in Asia and the Middle East grew by 31.5%. North America increased by a more modest 6%.

The fact that demand exceeds supply puts upwards pressure on occupancy levels, with nearly three quarters of global operators reporting a year-on-year increase, according to The Apartment Service report.

Such strong occupancy rates mean hotels are increasingly moving into the serviced apartment market. Marriott and Intercontinental were two of the first large serviced apartment operators in the world by number of units in 2004.
Dame Zaha Hadid argues that all architects now have a social responsibility to create buildings that welcome the public and celebrate communal spaces. As an architect, your client is everyone. This is very exciting and adds to the richness of civic spaces.

**OPENING DOORS**

All buildings should have a civic component. Even a commercial high-rise should offer public spaces in which people can connect. Developers in both the public and private sectors must invest in these spaces. They are a vital component of a rich urban life – they unite a city, tie the urban fabric together. Arts centres, sports houses, dance schools, sports centres and public parks, by the very nature of their cultural and civic importance, are spaces accessible to everybody, eliminating segregation and division in our cities.

There has been a move in many world cities in recent years towards walled, private spaces. As architects, we must reject this. Over many centuries, architects have been trying to liberate the city, open it up, and make it more porous and accessible. Building closed communities, like mini Kremlins, is a huge step backwards - a very archaic way of living. Modern communities should be inclusive, with varied spaces and programmes that invite social interaction.

**MATERIAL GAINS**

Part of architecture’s job is to make people feel good in the spaces where we live, go to school or work, so we must raise standards. Having a home is a crucial issue – not only in terms of a shelter, but also for wellbeing, for a better life. There’s enough wealth in society today that all people should have a good home, not just the very rich. Social housing, schools, hospitals and other vital infrastructure have always been based on the concept of minimal existence, but that shouldn’t be the case today. Architects have the skills and tools to address these critical issues, and many communities around the world are committed to resolving them.

Architecture is ultimately about wellbeing – the creation of pleasant environments for all aspects of life. It is also important to create places that uplift, enliven and inspire people. Architecture can carry a sense of vitality and optimism, the ability to connect communities and shape their futures. Ecological sustainability and social disparity are defining challenges of our generation, and the ‘architecture of inclusivity’ offers solutions to these key issues.

The complexity and dynamism of contemporary life cannot easily be cast into the simple orthogonal grids and blocks of the 20th century architecture of Henry Ford’s era. We must move beyond these ideas of separation and compartmentalisation, towards an approach for the 21st century that addresses the richness, complexity and interconnectivity of modern day lives. More than half of the world’s growing population now lives in cities, and this figure is increasing. Cities today are much more diverse and must now cater for a range of people with different cultures, experiences and influences.

As an architect, your client is no longer a single person or type of person – your client is everyone. This is very exciting and adds to the richness of civic spaces.

Architecture can assist in the reorganisation of living patterns in a meaningful way, so that everyone can contribute to a more ecologically and socially sustainable society. Huge advances in design technology are enabling architects to rethink both form and space, using new construction methods and materials in development, such as sophisticated architectural facades that can take almost any shape, and have the structural, weatherproofing and insulation properties compressed into a single layer. They can be easily fabricated and assembled anywhere, and 3D printing is also opening many new possibilities for the construction industry.

We can now create buildings that optimise their environment to suit the needs of their users and changing weather patterns at any given moment. We are also researching new materials, design techniques and construction methods that bring significant environmental benefits. As these different developments - sustainability and the applicability of the materials - come together, we are beginning to find significant solutions to urgent ecological challenges.

Our task as architects is to continue this progress. We must marry concepts of accessibility and integration with the incredible advances in ecologically sound materials and construction practices. We must not look at the disparate parts, but understand them as a whole, working together to create integrated communities that present solutions to the defining ecological and social challenges of our time. It is only through an architecture of inclusivity that we will create a truly sustainable society.

**AS AN ARCHITECT, YOUR CLIENT IS NO LONGER A SINGLE PERSON OR TYPE OF PERSON - YOUR CLIENT IS EVERYONE**

The complexity and dynamism of contemporary life cannot easily be cast into the simple orthogonal grids and blocks of the 20th century architecture of Henry Ford’s era. We must move beyond these ideas of separation and compartmentalisation, towards an approach for the 21st century that addresses the richness, complexity and interconnectivity of modern day lives.

Ecological sustainability and social disparity are defining challenges of our generation, and the ‘architecture of inclusivity’ offers solutions to these key issues.
A growing wave of Asian outbound capital is targeting core real estate assets in Western markets. Here we examine the key outbound trends over the last 24 months.

**ASIA DASHBOARD**

**ASIA INVESTMENT INTO U.K., 24 MONTHS (Q3 2013 - Q2 2015)**

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**ORIGIN OF ASIA OUTBOUND CAPITAL FLOWS**

- Singapore: 21,263
- China: 6,443
- South Korea: 2,762
- Hong Kong: 1,271
- Malaysia: 1,050
- Japan: 1,900
- Other: 5,655

**DESTINATION OF ASIA OUTBOUND INVESTMENT VOLUMES IN U.S. MILLION**

- Spain: 21,263
- Italy: 6,443
- Germany: 2,762
- France: 1,271
- USA: 1,900
- Other: 5,655

**ASIA INVESTMENT INTO AUSTRALIA, 24 MONTHS (Q3 2013 - Q2 2015)**

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**DESTINATION OF ASIA OUTBOUND INVESTMENT VOLUMES IN U.S. MILLION**

- London: 31,032
- Sydney: 12,373
- Melbourne: 5,832
- Los Angeles: 2,934
- Sydney: 2,744
- San Francisco: 1,417
- Washington, DC: 2,365
- Chicago: 1,172
- Houston: 950
- Miami: 600

**ASIA INVESTMENT INTO CONTINENTAL EUROPE, 24 MONTHS (Q3 2013 - Q2 2015)**

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**ORIGIN OF ASIA OUTBOUND INVESTOR TYPE**

- Singapore: 52
- China: 62
- South Korea: 62
- Hong Kong: 62
- Malaysia: 62
- Japan: 62
- Other: 62

**DESTINATION OF ASIA OUTBOUND INVESTOR TYPE**

- France: 52
- France: 62
- France: 62
- France: 62
- France: 62
- France: 62
- France: 62

**TOTAL IN U.S.$ MILLION**

- France: 222

**SOURCE:** Real Capital Analytics / Knight Frank Research
In the Municipal Corporation of Greater Mumbai, the focus on transit-oriented development will continue with a view to aligning transit systems with the infrastructural needs of the city. PIN and the transit-oriented development strategy of the larger MMR will be reviewed to address concerns pertaining to the impact of high FAR and low open space, it is clear that provisions relating to the infrastructure of the larger MMR must be supported by fast track development of the infrastructure of the larger MMR.

In Greater Mumbai has focused on transit-oriented development, to encourage high FAR projects, plan for high-density development, which will be supported by fast-tracking of infrastructure development. These provisions will be implemented in the wake of a hike of approximately 50% in the FAR for transit-oriented development. The inclusion of transit-oriented development with high FAR would allow the development of high-density projects and attract developers to focus on fast-tracking of infrastructure development. This would also help in aligning transit systems with the infrastructural needs of the city. The development of transit-oriented development would also help in reducing traffic congestion and improving the quality of life of its residents.

The distinction of being the financial capital of India and the largest commercial and financial hub in the country, Mumbai has gained the most from the growth. The city, known as “Asia’s technology capital,” is a major global center for business, technology, and media. The city’s population increased to 18.97 million in 2016, making it one of the most densely populated cities in the world. The city has a high population density, with over 1.68 million people living in slums. While the population increased, the city’s infrastructure development did not keep up the pace, putting tremendous pressure on the quality of life of its residents.

The situation is aggravated when we look at the larger geography of Mumbai. An extensive railway network, covering a stretch of 1,143 miles, puts further pressure on the city’s infrastructure. PIN and the transit-oriented development strategy of the larger MMR will be reviewed to address concerns pertaining to the impact of high FAR and low open space, it is clear that provisions relating to the infrastructure of the larger MMR must be supported by fast track development of the infrastructure of the larger MMR.

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SHANGHAI

A shortage of land in the city is pushing development underground

The redevelopment of global event sites are interesting projects that often prove challenging for local government. Currently, the former 2010 Shanghai Expo site is undergoing such a transformation, with the aim of creating a new business, leisure and exhibition centre, some of which will be subterranean.

The plans for the Post-Expo area cover the former Expo site and surrounding area. There will be five zones and one belt: the cultural museum zone, the urban-botanist practice zone, the global community zone, the convention, exhibition and business zone, the Binjiang development zone and the Bingjiang ecological and leisure landscape belt. The site covers a total of 5.28 sq km (3.25 sq miles) in Pudong and 1.35 sq km in Putuo.

GOING UNDERGROUND

For further city development, Shanghai must find a way to maximise its limited space. Traditionally, most metropolitan cities have resolved their spatial constraints by building upwards or outwards. Both these solutions, however, pose various problems and challenges. Expanding outwards often breaks up business clusters and creates political conflicts of interest, such as construction on natural areas and green fields surrounding cities. When building upwards, developers must consider the potential environmental impact, including increased energy use. In addition, some cities, like Shanghai, are slowly sinking due to the massive development of towers on soft soil and the effects of global warming. Expanding underground is an alternative for cities with Central Business District land. Shanghai’s government has begun exploring this trend as a way to accommodate future development.

THE FIRST AND LARGEST SUPER UNDERGROUND CITY

In May 2013, construction of Zone B1 underground complex on the Post-Expo site was completed. The 4.4 million sq ft underground space is linked to the permanent Expo buildings and 28 headquarters buildings. It includes a pedestrian passageway, shopping malls and entertainment venues where the former China Pavilion currently stands. It will also provide approximately 6,000 parking spaces with a cutting-edge system that will help drivers find their vehicles easily.

The Post-Expo site’s massive underground complex will provide a new benchmark for the development projects in Shanghai. In addition, there is no doubt that going underground will become a new trend in China for cities facing land shortage.

A new airport will lead to the development of a massive regional CBD

Beijing already has one of the world’s busiest airports, but the expanding city is about to see a second international airport built. This will have a major impact on the real estate market. Beijing Daxing International Airport, the proposed second international airport for the capital, is to be built on the southern outskirts of the city in Daxing District, 18 miles to the south of the Beijing CBD along the borders of Beijing, Tianjin and Hebei Province (or “Jing-Jin-Ji”, the abbreviations of the Chinese names of the three regions).

The planned airport is scheduled to complete construction in late 2019. It is expected to serve the economies in Jing-Jin-Ji, led by Beijing (the nation’s capital and a financial centre), Tianjin (a port city with hi-tech manufacturing) and Hebei Province (which has an abundance of land and labour). The airport will have a capacity of 72 million passengers per year by 2025. A new 14-mile high-speed rail line is planned to connect the airport to Beijing South Railway Station, with a travel time of 30 minutes to the city centre.

Like many Asian cities, Beijing is undergoing a process of decentralisation to tackle a shortage of land. The government’s latest blueprint promotes the development of more satellite townships for the capital.

The completion of the new airport is expected to nurture a new CBD in Daxing District, in line with government plans to limit large-scale commercial development within the city’s inner circle. The new Daxing CBD is expected to accelerate the process of decentralisation, forming a new district in Beijing’s Grade A office market.

Some leading developers have already invested in high-end commercial projects in Daxing. Vanke’s Shanghui Vanku Centre, which is about 12 miles away from the new airport, will complete in late 2018. This commercial complex has a total floor area of about 2.2 million sq ft, consisting of a premium Grade A office tower, luxury service apartments, a lifestyle mall, low density garden-style office buildings and prime shopping streets.

City clustering is the latest trend in China’s urbanisation process, in which nearby cities utilise each other’s comparative advantage to maximise their economic gain. The famous examples are the rise of the Yangtze River Delta (YRD) led by Shanghai, and the Pearl River Delta (PRD) bordering Hong Kong. These are powerhouse regions of the global economy.

Daxing airport, conveniently situated at the heart of Jing-Jin-Ji cluster, will help harness the advantages of nearby municipalities, and propel the region to a status on par with the YRD and PRD. The Daxing CBD will also certainly benefit from industries attracted to the region.

Source: Knight Frank Research

A WRITTEN BY
Knight Frank Research

Source: Image 219x522 to 653x851
AUSTRALIA DASHBOARD

From a wave of new overseas investment, to more offices switching to other uses, the Australian market is seeing transformation that is creating opportunities

MAJOR INFRASTRUCTURE PROJECTS

Confirmed projects U.S.$310 million+ total U.S.$530 billion in expenditure and are largely transitioning from resource sector related projects to urban road and rail long-term improvements

Source: Knight Frank Research/KCA

CHINESE OUTWARD REAL ESTATE INVESTMENT IN SELECTED GATEWAY CITIES

Past 5 years, $US million (Does not include accidental or multi-family developments)

Source: Knight Frank Research/PCA

CONVERTING OFFICES TO OTHER USES

The permanent withdrawal of older office stock is becoming more prevalent in the East Coast office markets, with both CBD and near-CBD office premises being impacted. Demand for residential development opportunities is behind much of this activity; however hotels, student accommodation/indication and office redevelopment are also factors. Particularly in the Sydney and Brisbane CBDs, the office withdrawal activity will somewhat balance high new office supply to 2018.

Offshore capital flows into Australian real estate

Source: Knight Frank Research/PCA

BASED ON OFFSHORE CAPITAL FLOWS INTO AUSTRALIAN REAL ESTATE

Offshore capital flows into Australian real estate 2013–14

Source: Knight Frank Research/PCI

OFFSHORE CAPITAL FLOWS INTO AUSTRALIAN REAL ESTATE

CONVERSION OF GLOBAL CAPITAL INTO AUSTRALIAN PROPERTY

Past two FY (2013/14 and 2014/15) global region

Source: Knight Frank Research/PCI

IN SELECTED GATEWAY CITIES

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Ownership of major CBD office and hotel assets is going global.

In the office sector, Knight Frank’s analysis reveals that offshore ownership is increasing. In Sydney, office and hotel assets owned by offshore groups has grown considerably over the past five years, with just over 3,000 rooms, or 29%, of the total stock owned by offshore groups, either wholly or in joint ventures. This may have been influenced by dangling incentives in the area since January 2010, and recently 2015, to take tenants. Renting activity has been strong throughout the period, when compared to the historical performance of Hilton Group. In comparison, domestic ownership has shown signs of strong growth, with U.S.$2.39 billion invested in the market by domestic owners in 2015, and with the strong inflow over the past year, when compared to January 2010. The result has been boosted by strong migration to the CBD, with 56 tenants, occupying 3.4 million sq ft have moved into the CBD over the same period, 37% of the market by value, while offshore ownership is contributing 27%.

In the hotel sector, analysis of four and five star hotels in the Sydney CBD (10,850 rooms) shows that, since January 2010, eleven fold to U.S.$3.26 billion, accentuated by migrating tenants was evenly spread by industry sector, the space absorbed by migrating tenants was evenly spread by industrial sector with administrating the highest net absorption of 88%.

The Melbourne CBD is now the largest office market in Australia (behind Sydney), with a total of nearly 7.9 million sq ft. The Melbourne CBD has been one of the largest office markets, with a total of 10.850 rooms, occupying 2.3 million sq ft in the area, or 9,340 new arrivals from domestic owners in 2015, and recently 2015, to take tenants. Renting activity has been strong throughout the period, when compared to the historical performance of Hilton Group. In comparison, domestic ownership has shown signs of strong growth, with U.S.$2.64 billion invested in the market by domestic owners in 2015, and with the strong inflow over the past year, when compared to January 2010. The result has been boosted by strong migration to the CBD, with 56 tenants, occupying 3.4 million sq ft have moved into the CBD over the same period, 37% of the market by value, while offshore ownership is contributing 27%.

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The U.S. recovery has weathered the recent plunge in oil prices, in part thanks to expansion by technology and media firms. Office demand is surging in the cities popular with “TAMI”!

**Market Forecast**

Developments and construction levels have been more subdued than the forecast due to the expansion of the financial crisis. Rents for commercial real estate have been remarkably disciplined due to increased leasing activity. Another recession will occur eventually, controlling interest rates and government spending. However, it will anticipate the widespread overbuilding that occurred during the last recession.

**Economic Forecast**

The U.S. economy continues to perform as expected, with business confidence, appearing to be well managed. A recession is unlikely in the near term, although recession is a possibility in the next 12 to 18 months.

**2016 Office Outlook**

Economic activity is expected to improve in 2016, with business confidence expected to be well managed. A recession is unlikely in the near term, although recession is a possibility in the next 12 to 18 months.

**Historical Data**

The financial crisis has had a significant impact on the real estate industry, with many cities, particularly those in the Midwest, seeing a decline in office vacancies and an increase in demand for commercial property. The recovery is expected to continue, with a gradual improvement in office vacancies and an increase in demand for commercial property.
San Francisco

The Bay Area economy has been outperforming most other markets in the U.S., largely due to the strength of the technology industry. Of the 100+ companies on the Fortune list of “unicorns” (companies with a valuation of $1 billion or greater, based on fundraising), 41 are located in either San Francisco or Silicon Valley, including Uber, Airbnb, Pinterest and Square. Venture capital interest in this market remains strong; investments in Bay Area companies in the first half of 2015 totalled more than $8 billion, or about 40% of all investment nationwide. While the technology industry is centered on the city of San Francisco and Silicon Valley (South Bay), the entire region has benefited from the robust job market these companies have created.

A San Francisco address can give a company an edge in recruiting, and many have moved at least part of their operations here. As a result, increased demand and dwindling supply have driven up asking rents. Annual Class A asking rents in SoMa, the most desirable location for tech tenants, are nearly $78 per sq ft, having increased by more than 360% since the beginning of 2010. Scarce supply in SoHa is driving some tech tenants to the Financial District, particularly to buildings that have been converted from traditional corporate space to more desirable creative space. Other tech tenants, such as Uber and Stripe, are signing leases in buildings that have not yet been built.

Reflecting the high demand for office space, residential space is also in short supply. Young tech workers have long favored life in the city, over the suburbs, and San Francisco apartment rents have increased by nearly 16% in the past year to an average of more than $3,400 per month. Median home prices in San Francisco have also increased steeply, to $1,225,000 – 37% above their peak before the city’s present housing crisis. While housing in much of the rest of the Bay Area is less expensive, prices have risen sharply across the region. In response, Facebook is building a 24-unit residential development for its employees in Menlo Park in Silicon Valley, while corporate housing companies are reserving certain percentages of their units for tech clients under contract. For the past few years, many big tech firms in Silicon Valley have provided commuter buses for their employees living in San Francisco. Now, many San Francisco based tech companies are following suit, providing commuter buses for their employees living elsewhere in the Bay Area.

Los Angeles

Los Angeles County would rank as the 21st largest economy in the world if it were an independent country. More than 244,000 businesses drive the local economy, concentrated in technology, tourism, international trade, manufacturing and creative industries, including media, entertainment and advertising. However, technology and trade industries in particular are having a significant impact on the economy and the real estate market. Los Angeles has become one of the nation’s leading technology centers. Home to the headquarters of eight Fortune 500 companies, Los Angeles also ranks among the top regions in the U.S. for venture capital investment. Los Angeles has been a significant driver of the growth of young companies. These companies continue to absorb a significant amount of creative space in popular submarkets like El Segundo and West Los Angeles, where prominent high-tech companies including Apple, Google, Amazon, Sony, Yahoo and Microsoft have offices.

International trade has also been a driving force behind the Los Angeles industrial market, one of the largest markets in the U.S. and always the tightest, with vacancy currently at a nearly invisible 1.3%. The ports of Los Angeles and Long Beach, North America’s two busiest, handle almost one third of the entire continent’s imports, creating strong demand for warehouse space across Los Angeles and outbound into the deserts of the adjacent Inland Empire market.

While demand is expected to remain strong, it may be influenced by new regulations in the city of Los Angeles that will raise the minimum wage by 67% over the next five years. This could shift industrial demand outside the city if adjacent municipalities do not follow suit. Investment in Los Angeles, commercial real estate is very strong, with sales volume surging and cap rates trending lower. Investor demand is fueled by an influx of money from the Asia Pacific region, where investors have more than doubled their stake in the past 12 months to almost $13 billion.

With its legendary traffic congestion showing no sign of improvement – the Southern California urbanized region, with Los Angeles County at its heart, has a population of 21 million people – substantial investment in transportation infrastructure is being made throughout the region. Metro, highway, bus and rail projects in the pipeline total more than $10 billion. The nation’s first high-speed rail system is scheduled to carry passengers between Los Angeles and San Francisco by 2025, strengthening connections between businesses and California’s highly trained labor force. The new infrastructure will support the city’s growth as a technology and trade hub in the future.
Government cuts have impacted the market, but increased hiring by private firms offers cause for optimism

The Washington, DC metropolitan area continues to struggle towards a sustained recovery from the effects of federal austerity programs. Each of the region’s three jurisdictions is experiencing a period of light demand for additional office space, resulting in record high leasing concession packages and an investment sales market at times out of sync with leasing fundamentals. Close examination shows that the market is bifurcated, with the Class A market—especially trophy assets—continuing to lead, while the Class B and C properties no longer appeal to the needs of many tenants - a reality that is driving the bifurcation of the market. Simply put, demand is present for top of the market space, but largely absent for properties at lesser locations or without robust amenities.

Bigger tenants continue to tour the market well ahead of their lease expirations, as large blocks of high quality space remain rare. This has led to discussions with owners and developers about the redevelopment and additional development potential of their existing properties, particularly in the East End and Central Business District, where many older buildings are awaiting significant pre-leasing before renovations to modernize them can begin. These renovations will add floors, new amenities and upgrades to heating, ventilation and air-conditioning systems.

In early 2015, the National Institutes of Health (NIH) announced a 20 year master plan to shift all employees now located in space leased off-campus back to the main campus in Bethesda, Maryland. The return to a campus-centric model would substantially impact the market, as NIH leases more than 3.1 million square feet of office space. The NIH’s announcement comes after federal downsizings and consolidations by the Food and Drug Administration, National Institute of Allergy and Infectious Diseases and NIH in suburban Maryland soured the market. However, despite these headwinds, there are signs of improvement that bode well for the future outlook.

New budget proposals suggest an increase in federal spending over the next few years, which would aid the office market’s recovery, especially if additional spending boosts demand among government contractors. This should balance the continued downsizing by the federal government, as it addresses the pending expirations of its leased space over the near-term. Recent increases in hiring within the private sector, especially within the office intensive professional and business services sector, are a cause for optimism in 2016.

Chicago, IL

A growing population of Millennials is fostering a new wave of tech industries

As the third largest metropolitan region in the United States after New York and Los Angeles, Chicago is viewed as a gateway market, one of already defined groups of cities marked by their attractiveness to cross-border investors, corporate occupiers, and tourists. Among this elite group of cities, Chicago stands out for its low business and living costs and the higher yields it offers commercial property investors.

Chicago is served by an extensive public transportation system consisting of heavy rail (the L), commuter rail (Metra) and buses. This system has supported Chicago’s dense urban core, walkable neighborhoods throughout the city, and mixed-use ‘villages’ around suburban train stations—growth patterns that newer, auto dependent cities seek to emulate.

Chicago’s growing population of educated Millennials has fostered a robust tech community with companies including Groupon, Gogo and GrubHub progressing from start-up to IPO, and tech giants Google and Facebook opening state-of-the-art offices. The surge in manufacturing has been particularly strong in Chicago, where Goose Island, formerly home to heavy industry, is being transformed into a cutting edge manufacturing and tech district. Recently, the first of its kind UIC Labs Digital Manufacturing and Design Innovation Institute—a start-up hub for modern manufacturers—opened on the island.

Employers including United Airlines, Motorola, Capital One and Hillshire Brands have relocated their offices downtown to gain access to the young and educated workforce living nearby. Both downtown and suburban office vacancy rates are shrinking, while rental rates are rising downtown, but steady in the suburbs. Several new high profile projects are under construction downtown, including two 80-story skyscrapers. As a mid-continent transportation nexus, greater Chicago is home to the nation’s largest industrial market, with more than 1 billion square feet of space. More than 10.6 million square feet of new product—an eight year high—is under construction in new, multi-modal logistics parks, high image business parks and infill submarkets.

Chicago’s most famous retail strip, Michigan Avenue, continues to reinvent itself with a diverse mix of upscale retailers; many are establishing anchor or brand house facilities to showcase their offerings to a global audience. Retail districts throughout the city are evolving, as new and renovated residential development transforms neighborhood after neighborhood.

The region is not without its challenges. The City of Chicago, Chicago Public Schools and the State of Illinois are struggling under high debt loads, and the city’s lagging neighborhoods need investment. As Chicago tackles these challenges, it will remain a magnet for property investors, occupiers and young workers migrating to the city from across the Midwest and beyond.
With 80% of its exports flowing to the United States, Mexico offers a sophisticated industrial property sector with state-of-the-art product, occupied by U.S. and multinational manufacturers and distributors. This sector has experienced major growth and development over the past decade, driven by foreign direct investment and a recovering U.S. economy. The vacancy rate for modern industrial space in the country is in the mid-single digits.

The flow of investment into Mexico’s retail property sector is expected to top U.S.$1.5 billion by 2017, which will add 100 new shopping centers with an additional 36 million sq ft of space. About half of this development will occur in Mexico City and its environs. Mexico is not without its challenges. The peso has declined by almost 20% against the U.S. dollar over the past year, a trend that favors exporters but could restrain consumer spending and stoke inflation as imports become more expensive. The low price of oil is creating revenue shortfalls for the government, while the simmering problems of government corruption and drug-related violence have yet to be resolved.

Despite these challenges, Mexico City continues to enjoy vibrant growth. Construction activity has remained strong through the recent economic turbulence, and—unlike many emerging markets—demand has kept pace. REITs are competing to gain market share and to develop innovative space for increasingly sophisticated occupants. PwC forecasts that Mexico City will be the seventh richest city in the world by 2025, with a GDP of $1.0 trillion.

Brazil’s super city plans to direct growth towards transport links

SÃO PAULO

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The region is seeking to better align land use and transportation infrastructure. The plan calls for increasing densities in areas served by public transportation, with the goals of encouraging pedestrian and biking access, discouraging automobile use and protecting existing lower density neighborhoods from encroachment by incompatible high rise development.

The city is home to major companies from all sectors of the economy, notably manufacturing, services, technology, entertainment and hospitality. Development of corporate office space is expanding to the south, where most modern Class A buildings are located, and to the west, a newer area where development picked up about two years ago. Major developers and investors including Odebrecht, Brookfield, Tishman Speyer and Bueno Netto have acquired land in these areas, and are building Class A and Class A+ corporate space with Green Building certification. Most new projects are mixed-use developments that incorporate office, retail, services and housing components.

With GDP anticipated to shrink for a second consecutive year in 2015, the office market is contending with tepid demand at the same time that a large amount of new construction is moving through the pipeline. The vacancy rate, a slim 5% in 2011, is expected to hit 23% this year, and rents are expected to fall by 6.8%, the third consecutive year of softening.

Net absorption is expected to increase, however, as companies take advantage of weak conditions to move up to higher quality space. Areas that will receive major new deliveries in 2015 include Vila Olimpia (1.8 million sq ft), Marginal N-S and Berrini (both with about 800,000 sq ft) and Barra Funda (388,000 sq ft).
After years of crisis, the European property market is experiencing an early stage recovery.
Dubbed the Manhattan of Europe, Frankfurt am Main’s impressive city skyline has grown to become an attraction throughout Europe. With many banks and financial institutions operating from the collection of skyscrapers along the River Main, Frankfurt has become the financial capital of continental Europe. It houses not only Germany’s Bundesbank and Deutsche Börse stock exchange (the 18th largest globally), but it is also the seat of the European Central Bank (ECB).

Often praised for its accessibility, with the airport among Europe’s largest and busiest, and only a 15 minute train journey into the city, Frankfurt is an ideal location for multinational companies. The airport region’s office market has seen masses of expansion in recent years, with development still ongoing. However, the focal point for real estate development is currently in the heart of the city centre. Office completions in Frankfurt increased in 2014 to reach 3.2 million sq ft, although the ECB’s new headquarters accounted for approximately 30% of this figure. Their recent relocation to the impressive 194 metre tower along the River Main in the east end of Frankfurt will undoubtedly attract many tenants to the already popular city; however, a lack of modern vacant space will continue to be a hindrance to the office market.

In recent years, a great deal of low quality space has been withdrawn from the market for refurbishment or redevelopment, and together with the city’s growing occupier demand, vacancy rates have fallen each year since the global crisis to reach a 10-year low of 10% so far in 2015, and are forecast to fall further by year end. A moderate development pipeline in comparison to earlier years is expected in 2015 and 2016. Though not as high as 2014, office completions are forecast to total 1.9 million sq ft this year (of which 622,000 sq ft completed in H1), which may help relieve some pressure on the city’s high occupier demand in the medium term. However, construction activity will need to increase further beyond 2016, if the city is to accommodate future demand.

In addition to the future developments, approved plans for a 700,000 sq ft mixed-use office and residential tower in the banking district (due in 2018) have recently been unveiled - the first of its kind in Frankfurt - which could completely change the real estate dynamics throughout the city. Such a scheme could act as a catalyst, encouraging similar projects across the city. In the coming years, Frankfurt may see its banking district modernised and converted into a mixed-use district and, although commercial space will ultimately be reduced, the city could rival the likes of London and New York.

A new post-crisis landscape in the office market is apparent in Spain’s capital.

The office market in Madrid has been reshaped by the seismic changes seen in the real estate market over the last seven years. This has brought both positive and negative effects. On the negative side, a phenomenon of embedded availability is evident in certain peripheral areas of the city. In districts like San Sebastián de los Reyes, in the north of Madrid, availability has never been below 750,000 sq ft, even in the good years when the buildings were recently built. In the recession years of the cycle, buildings in these areas struggled with high vacancy, and must now compete against better located refurbished offices.

Another negative aspect is seen in the CBD, where there is a shortage of high quality space. As a result, we are seeing more tuck-in transactions in buildings in good locations which need comprehensive refurbishment. The shortage of quality office space and rising demand is pushing up prime rents, and drawing investors to the opportunities available in the refurbishment market. Moreover, the office market today is showing signs of having matured, in part regarding the refurbishment market. Furthermore, we are seeing greater evidence of occupiers clustering according to industry. While concentrations of law firms, technology and communication companies, banks and industrial conglomerates were in evidence before the financial crisis, the trend has become more pronounced in recent years.

Secondly, we are seeing occupiers changing office fit-out configurations. There is more demand for open workspace areas and zones for co-working, which has been accompanied by a drive for greater space efficiency.

Madrid is also in a period of transition on the characteristics of new office demand. Rather than looking to hand space back to the landlord, tenants now want to expand. Also, smaller tenants are returning to the market, suggesting the base of demand is broadening.

This backdrop of improvement, net absorption has turned positive, and 20% of take-up includes expansion space. Going forward, as the economy gains momentum, we expect a sharp rise in demand that will be reflected in take-ups.

Despite this scenario of improving demand and low supply in the CBD, development activity is low in Madrid due to a lack of finance. The banks have been consolidate, working down bad loans, and largely only financing projects with loan to value ratios of around 55-60%. This is keeping the future supply pipeline slim.

As a consequence, we see rents set to rise further in Madrid in the coming years, thanks to a recovering Spanish economy buoying occupier demand, and shortage of modern office space in the CBD.
Dubai: Building an Aerotropolis

Over the past 15 years, Dubai has become a city of superlatives – the tallest building, the largest shopping mall, and the biggest man-made island spring to mind. More recently though, the emirate added another to the list: the busiest international airport. In 2014, Dubai International overtook London Heathrow to become the world’s air travel hub, handling more than 68.1 million passengers – compared to the latter’s 64.6 million.

Much like the office buildings in close proximity to London Heathrow, good quality floor space near Dubai International Airport is in short supply, driven by strengthening tenant demand in recent years. Thus in response to increasing enquiries for space from both new and existing occupiers, authorities at Dubai Airport Freezone (an ‘offshore’ location adjacent to the airport, where a number of multinational firms are already based) have been building new facilities.

With the number of passengers passing through Dubai International expected to hit 100 million by 2020, and scope for expanding the existing site limited, officials have turned to Dubai’s second airport, Al Maktoum International. Its planned expansion is among the largest projects in the region and is anticipated to be fully complete in around ten years. Also, the airport is located in Dubai South – an area almost twice the size of the island of Hong Kong.

While full completion is still some way off, the airport is already conducting general passenger and cargo operations, with Emirates SkyCargo, for example, currently running air freight out of Dubai South. Eleven office buildings of around 3.3 m sq ft at Dubai South’s business park are complete and ready for occupation, but with the airport still in the early stages of development, occupancy rates are understandably low. Nevertheless, the park is already drawing in major names as tenants, such as Nestlé and CEVA Logistics.

So what does the future hold for the purpose-built aerotropolis? Also, why are companies gravitating towards it?

Over the next decade or so, Dubai South aims to be easily accessible by road, rail, sea, and air. Moreover, while the project is part of a long-term strategic masterplan, it also ties in with the World Expo 2020 that will be hosted at Dubai South. The event is projected to attract around 25 million visitors, of which around 70% are anticipated to be from overseas.

Al Maktoum International Airport is expected to play a critical role in transiting this surge of foreign visitors. In fact, Emirates, the global airline, has said that if the required facilities at the new airport are completed in time, it may well move operations across from Dubai International in time for the Expo. Given that Emirates is already flying to over 140 destinations across six continents, this will boost the appeal of Dubai South for firms looking for a hub to serve the Middle East, as well as parts of Africa and Asia.

Another scheme planned to improve Dubai South’s connectivity with the rest of Dubai is construction of Route 2020. This partly comprises the extension of the existing metro’s red line from Jebel Ali (the main seaport to Al Maktoum International Airport. The area is also envisioned to be served by Etihad Rail, which will eventually connect the emirate with neighbouring countries – although the level of progress so far suggests the full network will not be joined up by 2018, as originally intended.

It is also worth remembering that Dubai South is linked to Jebel Ali (the largest container port between Rotterdam & Singapore) via a dedicated logistics corridor. This forms a single customs bonded freezone, allowing the seamless flow of cargo from sea to air by eliminating the processes of exit and entry between the two freezones. Also, the road network leading to Dubai South is currently being improved in order to cope with an anticipated rise in traffic.

Looking forward, Dubai South’s improving connectivity will be pivotal in establishing it as an important commercial hub in the UAE. The freezone is in a strong position to appeal to firms looking for international reach a four hour plane ride from Dubai allows access to a third of the world’s population and an eight hour flight to two thirds. This wave of mega infrastructure projects should guarantee Dubai’s reputation as a global centre over the next decade, with Dubai South as a cornerstone.
KUALA LUMPUR

The Malaysian capital is the centre of a rapidly expanding rail network

Written by Judy Ong, Executive Director, Research and Consultancy, Knight Frank Malaysia

Transport infrastructure development is being stepped up in Greater Kuala Lumpur/Klang Valley, having been outpaced by the rapid urbanisation in the region. With Malaysia’s urbanisation rate at over 73%, there is an urgent need to address road congestion. The main modes of public transportation currently serving Greater Kuala Lumpur/Klang Valley include the Monorail, Light Rail Transit and KTM Komuter train service. The past few years have seen massive investment in the country’s transport infrastructure. The first line of the Klang Valley Mass Rapid Transit (MRT) project, the ongoing MRT Sungai Buloh-Kajang Line, will serve a corridor with a population of 12 million people. Slated for full completion by 2020, it will enhance connectivity within the Greater Kuala Lumpur/Klang Valley region.

In planning is the second MRT line, the Sungai Buloh-Serendang-Putriyana Line. The proposed line, covering a distance of 32 miles, is expected to serve a highly populated corridor with 2 million people. Scheduled for completion by 2022, this line will further alleviate congestion in the capital city.

The Central Business District (CBD) of Kuala Lumpur is considered to be the area lying within Sultan Ismail, Silom, Phochin, Wireless, Rama I and Rajdammi roads. With a high density of office buildings, hotels and retail complexes, including the Rama I shopping precinct, the area in recent years has suffered from a shortage of land for development, pushing prices up sharply. While the mass transit system has anchored the city centre, encouraged by the expansion of the public transport system, commercial development projects have therefore started to spread to three new emerging areas.

Ratchadapisek-Rama 9 is the most talked about commercial sub-centre. This area, just to the north east of the CBD, has at its centre the impressive Grand Rama 9 project. This cluster of high-quality office buildings includes the planned Super Tower, a 125-storey tower with a height of over 2,000 ft which on completion will be the tallest building in Southeast Asia. The project area additionally includes the under-construction G Land and the newly completed U-Place, a 12 storey 570,000 sq ft green office building, let to Unilever. Elsewhere, further up Ratchadapisek Road, the new Stock Exchange of Thailand’s (SET) head office will be flanked by the American International Assurance (AIA) office building and Unisign PLC’s new mall called The Street. The competitive rents on offer in the area, along with the quality office supply with supporting amenities and mass transit stations underlines why this area is expected to attract a large number of occupiers over the coming years.

The Bangna area of Bangkok, to the south east of the CBD and conveniently connected into the Bangkok Transit System (BTS) at Udomsuk Station in the second district to highlight. The Mall Group’s announcement to develop the Bangkok Mall project of 6.5 million sq ft has enhanced the commercial potential of the area. The project will consist of businesses, residencies, offices and a theme park and water park. Other new commercial developments include Bhiraj Tower at BITEC and SJ Infinite 2. The offices in this area largely serve companies engaged in related to airport operations and logistics, as well as companies with factories located on the eastern seaboard.

"RATCHADAPISEK-RAMA 9 IS THE MOST TALKED-ABOUT COMMERCIAL SUB-CENTRE. THIS AREA HAS AT ITS CENTRE THE IMPRESSIVE GRAND RAMA 9 PROJECT"

The decision to build a new transport hub at Bang Sue Grand Station, to the north of the CBD, looks likely to be another commercial real estate catalyst in the third of the new commercial districts. Provincial bus networks, rail lines and the city’s rail system, which is expanding by more than 250 miles, will all intersect in the area and the station will become the city’s main transport hub, replacing Hua Lamphong, Bangkok’s current major station. With a significant amount of land available to private developers, the area is set to be a future hotspot in the Bangkok real estate landscape.

Bangkok - The city’s CBD is branching out in three new directions

Written by Rianne Sarkaputra, Director, Research and Consultancy, Knight Frank Thailand

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HSR IS ESTIMATED TO REDUCE TRAVEL TIME BY TWO HOURS COMPARED TO FASTEST ALTERNATIVE TODAY

Source: SPAD
NAIROBI

Ready, steady... shop! Kenya’s capital is rapidly expanding its retail experience

WRITTEN BY
James Roberts,
Chief Economist, Knight Frank

Those embarking on a shopping trip in Nairobi today have a lot more choice compared to a year ago. Around 1.8 million sq ft of modern shopping mall space has opened in 2016. Given that the mall stock previously had totalled 980,000 sq ft, this amounts to a revolution in the city’s retail experience, which matches the huge economic and demographic changes that have unfolded in Kenya.

Kenya has seen its economy expand by nearly 9% between 2010 and 2014 in constant prices, according to the National Bureau of Statistics. Over the same period, electricity consumption has risen by nearly 24%, secondary school pupil enrolments have increased by nearly 30%, and university student enrolments have more than doubled. Famously, Kenya is seeing a surge in electronic payments via mobile phones. The country is undoubtedly developing a world success story.

While agriculture retains a large share of GDP, Kenya is developing a broad-based economy with rising services and production industries. The country is a fast growing centre for IT and telecom industries in Africa, and output from information and communication industries has risen by 30% between 2010 and 2014 in constant prices. Financial and insurance output has risen by 24% over the same period.

Nairobi, in particular, is also taking off as a hub location for global corporations looking to establish an office to serve East Africa. This partly due to a growing realised by many multinationals that sub-Saharan Africa is too big to be serviced just out of an office in South Africa. For 2016, the IMF is forecasting Kenyan GDP to expand by nearly 7.2%, compared to 2.1% for South Africa and nearly 5.0% for Nigeria.

For several years, the economic focus of East Africa has been moving towards Nairobi, with rising services and retail industries. They are now living, working and shopping ever more in line with developed world expectations. As well as a modern retail experience and international brands, there is rising demand for food and leisure outlets, now that shopping is increasingly combined with socialising. This is why Nairobi needs more modern retail stock.

Over the five years to 2020, the United Nations is forecasting Kenya’s urban population to expand by nearly 2.8 million people, an increase of nearly 7.7%.

Clearly, there is going to be more demand for modern retail over the next few years, although the shopping development pipeline is ready to meet the challenge. In 2016 and 2017, a further 1.3 million sq ft of modern retail space will complete development in Nairobi.

Nairobi is expanding from being the economic focus of East Africa into its biggest modern shopping destination.

MOSCOW

WHAT NEXT FOR MOSCOW CITY?

Falling rents are resulting in a drift back into central office locations

WRITTEN BY
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MOSCOW

Inspired by London’s Canary Wharf business area, the Moscow City district has risen over the last decade to become arguably the most impressive skyscraper cluster in Europe. Built on a riverside site 2.5 miles west of the city centre, it includes Europe’s tallest completed building, the 1,112 ft high Mercury City Tower. Two other tall buildings, OKO Apartment Tower (1,054 ft) and Federation Tower (1,223 ft) are close to completion.

However, behind the gleaming facades of Moscow City’s towers, there are large swathes of vacant office space. The district’s vacancy rate currently stands at 26%, and is forecast to rise to 36% by the year end, due mainly to the imminent delivery of 1.3 million sq ft of offices in the mixed-use IQ Quarter complex. This development will be entering a uniquely challenging market, as office demand in Moscow has fallen sharply over the past 12 months as a result of Russia’s economic difficulties.

The landlords of Moscow City have had to offer significantly reduced rents and increased incentives to attract tenants. In U.S. dollars, average office rents in the district are now more than 30% below their previous peak, at US$85.73 per sq ft per annum, and they may fall further by the end of 2015. It has become increasingly commonplace for tenants to negotiate leases with ruble-denominated rents, as currency depreciation has had a massive impact on businesses that earn their income in rubles, but pay their rents in dollars.

Although challenging, the current market conditions have provided some businesses with opportunities to lease or acquire large volumes of office space. The state-owned company Transneft has bought one of Moscow City’s most distinctive structures, the twisting Evolution Tower, and it intends to relocate to this building.

The availability of large amounts of office space at relatively low rents in both Moscow City and the CBD is causing a reversal of the decentralisation trend that has characterised the Moscow market in recent years. Prior to the current slowdown, suburban business parks had become a major focus of office market activity, but occupants are now gravitating back towards more central locations.

Moscow City’s landlords currently face an uphill task in filling their vacant offices and it may be some time before they are able to achieve acceptable occupancy levels. In the meantime, tenants will be able to lease some of the best offices in Moscow at sharply reduced rents.
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Our objective is to deliver uncompromising standards - our clients deserve nothing less.

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