THE NUMBER OF NEW CITY DWELLERS GLOBALLY IN THE NEXT 15 YEARS. NEARLY THE EQUIVALENT OF THE POPULATION OF INDIA.
INTRODUCTION BY — JOHN SNOW
Head of Commercial, Knight Frank

Recent years have seen a renaissance for what this report calls the Global Cities. These are the cities major airlines consider it essential to offer flights to, Fortune 500 companies will definitely have an office, and famous hotel groups invariably have a five star property. This makes them target locations for global property investors and occupiers.

This report is intended to help you with planning your future business strategy, by highlighting the future trends in real estate. I consider the following to be the key points:

1. Rapid technology change is reshaping the city economy, and buildings must match these changes to be fit for purpose. The report identifies super prime offices, nanocores, skyscrapers, and all-in offices as the real estate best placed for future growth. These are described in The Super Cities (p.9).

2. Increasingly the workplace is about staff retention, and today the best and brightest want to be in the trendy part of town. Consequently, firms are moving their offices to edge-of-CBD locations, creating new office hubs, and homes and shops are following. This is discussed in Rise of the New Districts (p.21).

3. The roller coaster economy of the last five years has flushed huge sums of money into residential markets. A world returning to normality means investors will need to be more selective where they develop homes, and potential future hotspots are highlighted in Cities of Opportunity (p.33).

4. European commercial real estate markets are seeing a multi-speed recovery, presenting different challenges and opportunities. Key for investors is timing when to move up the risk curve – see Rising from the Ashes (p.43).

5. North America is leading the global recovery, thanks to the rapid expansion of the technology and energy sectors. Cities not previously considered 'tech' have experienced a surge in start-ups, and the effect is broadening, as discussed in The Americas (p.57).

6. Across the globe, the rise of Asia-Pacific is becoming an major influence on real estate markets – outside investors want in, while Asian money is stepping out to the world stage. Within the region, Australia is seen as both a safe haven and an opportunity. This is examined in Opportunities in the Asian Century (p.67), and Australian Outlook (p.77).

By attracting the most productive workers, the Global Cities draw the great name companies, high flying financial firms, and the start-ups that become tomorrow’s star tech firms. This makes property in these cities sought after investments. Essential to success for both investors and occupiers is good timing, careful selection of location, and delivering the right building to match a fast changing business world. This report will inform your future real estate decisions, and I would be interested to hear your views on its conclusions.

NAVIGATING THE GLOBAL CITIES

A global recovery creates challenges and opportunities in real estate.
n the next 15 years the world is forecast to add another 1.1 billion city dwellers, nearly the equivalent of the population of India. Across the planet developing more offices, shops, homes, and distribution centres will be critical to house this urban explosion.

Premium pricing for real estate is found in cities with the most high-value knowledge workers, which attract the world’s leading corporations. These are the Global Cities, and shaping their future is:

1. The growing centrality of knowledge workers, which is influencing the location and design of modern offices.
2. The transformation of former-industrial areas into new districts, bringing offices, leisure and homes closer together.
3. Investors seeking higher returns on their money, offering a pool of funds to back future urban development.

Encouraging these trends is essential in order to accommodate the new workers and firms the Global Cities are expected to attract.

It is little surprise that cities are expanding. The workers of the Global Cities are among the most productive in the world, typically outperforming their host countries. Asia’s cities have powered ahead, with Singapore’s GDP (PPP) per capita overtaking the USA in 2005, while Hong Kong surpassed Switzerland in 2006.

Firms want to capitalise on this success, and governments need the tax revenue. So cities will be encouraged to achieve their potential, resulting in a new wave of development. Micro-cities will be built within cities, ranging from Barangaroo in Sydney to Nine Elms in London.

The Global Cities are set for further expansion, thanks to a digital revolution that is unfolding around us. Rapid technological change is an established reality, and the pace is accelerating.

Ahead is a future where hedge funds use cheap satellites and drones to assess harvests in the field, informing their commodity investments. Smart fridges will monitor eating habits and order new food, while office maintenance robots inform HR if we work too many late nights. With so much machine data being generated, it will require software to draw the attention of humans to the relevant trends.

We expect the resulting surge in economic opportunities arising from ubiquitous technology to create many more jobs, most of them in occupations that presently do not exist, and energise demand for real estate.

Real estate markets in the Global Cities are enjoying a renaissance, and a new economic paradigm of creativity is about to spur demand.
CBD, drawing in technology and creative industries.

The Creative Halo has transformed edge-of-CBD areas from cheap rent backwaters into the driving force of the post-Lehman city economy. Cafés, shops, bars, and street markets have followed the offices, leading to a surge in property demand in places like London’s Shoreditch, New York’s Brooklyn, and San Francisco’s SOMA district. While the trend began in the west, it is spreading to emerging market cities, like Beijing (see page 26).

Normally a new property market cycle starts in the core areas and spreads to the fringes. However, in London since 2010, the City Core financial district has seen 9% rental growth. Shoreditch in the Creative Halo has seen rents grow by 54%, and the real estate industry has dropped the term ‘fringe’.

The switch from the Finance-led city economy to the Creative-led economy has required industries to adapt. Financial and professional firms are rethinking office layouts now they are competing with tech firms for the best graduates. Break-out spaces and brainstorming rooms are migrating from trendy ad agencies to law firms and banks. We are now seeing more office demand from financial and professional industries. This has been largely prompted by upcoming lease expiries, although headcount is growing again for financial firms, with many adding compliance staff. A subdued start to the new economic cycle from finance is to be expected, but nevertheless, this previously embattled industry appears to have normalised. However, in a world set to be transformed by the ‘internet of things’, robotics, and driverless cars, tech is at the thin end of the wedge. Non-tech industries also want to raise the creative bar, and arranging workers in rows of desks is seen as a barrier to achieving this. The creative era is entrenched and has many years to run, and real estate must adapt to its needs. Offices where desks are intermingled with different work areas are now almost the norm, so it is a more question of how far away from the desk a company is prepared to move. Wearable technology, like Google’s Glass, will make new firms comfortable with workers who spend less time at desks, with the future office assuming a forum role.

The trailblazers of the new economy are also facing big changes ahead, as the tech and creative firms are rethinking what sort of offices they occupy in order to keep growing. Generation Y’s preference for living close to CBD – cycling distance to the office is growing rapidly as a criteria – is keeping firms focused on city centres. However, being the first industries out of the ‘Great Recession’ means the locations favoured by the tech and creative firms have seen supply of office space quickly come under pressure. Supply of the converted warehouses favoured as offices by tech and creative firms is dwindling. They are turning instead to modern buildings that are able to achieve high-quality standards as less focus is being placed on ‘traditional’ financial and tech clusters. This marks the transition to the ‘Creative Economy’, a new hybrid industry cluster that was the financial district, but in recent years we have seen the rise of the ‘Creative Halo’. This has typically been a former-industrial district, on the edges of the city core industries, like law and finance. Salesforce.com, for instance, is building a London office in a district historically associated with finance and insurance. In San Francisco, we are seeing a different approach with finance district-type buildings being constructed in the tech quarter, SOMA.

This will begin to level the playing field for CBD rents. Instead of the escalating rents that started high in the most exclusive districts, and stepped incrementally lower as one looked gradually further afield, we see office accommodation (and consequently rents) falling into four categories: future, today, tomorrow and yesterday.

**SUPER-PRIME**

A luxury market of small ‘suite’ or ‘hedge fund’ offices in the most exclusive buildings, achieving headline grabbing high rents. A driving force will be a shift of high-margin financial activities from mega banks to specialist boutiques, which face less regulation by only servicing a high-flying clientele. It is the quality of that clientele that necessitates the luxury of the offices.
These are master planned clusters of buildings that are maintained as an estate, with their own branding, 24/7 security and maintenance, retail and gym elements, and integrated features (such as cultural events in public areas). Particularly on the edge of CBDs we expect mixed commercial and residential Nano Cores emerging.

**GENERAL CBD**

With most companies in the future seeing little difference between a high specification building in core or edge of CBD location, rents for grade A will converge as occupiers focus on the quality of the offices. Within the CBD, sudden drops in rent once one crosses a certain street will become rare.

**ALL-IN OFFICES**

These will be a mix of serviced offices and tech incubator, whereby small firms pay on an all-inclusive rent, and collocate with other firms. Being surrounded by other entrepreneurs is valued by the tenant as replicating the collegiate atmosphere found in a typical office, as even in the start-up world working alone in a garage is not for everyone.

The General CBD will accommodate the majority of occupier demand, with Nano Cores providing their main source of competition.

In the face of competition from the higher priced but tailored Nano Cores, we see landlords in the general CBD responding by bundling together to introduce initiatives to give local districts an ‘estate’ feel. We already see an element of this with the Business Improvement Districts in London, some of whom have introduced bowler hatted ‘street ambassadors’ who answer questions from the public and inform the borough council of any local problems.

This offers significant challenges and opportunities for property investors and developers.

With the Creative Halo not the traditional Core leading the new cycle, investors are familiarising themselves with the geography of districts that were previously the domain of specialist developers.

New infrastructure projects, like the Grand Paris Express, are similarly causing investors to look widely for opportunities. Demand for mixed-use real estate in the Creative Halo is enhancing potential value, and reducing risk through diversification.

Another influence on today’s investment market relates to changes in the bond market. 1994 to 2007 was a period of long-term decline for government bond yields, to the backdrop of general confidence in state covenants.

Demand for mixed-use real estate in the Creative Halo is enhancing potential value, and reducing risk through diversification.

Another influence on today’s investment market relates to changes in the bond market. 1994 to 2007 was a period of long-term decline for government bond yields, to the backdrop of general confidence in state covenants.

Cycle expectations have been ridden out, and property investors are familiarising themselves with the geography of districts that were previously the domain of specialist developers.

New infrastructure projects, like the Grand Paris Express, are similarly causing investors to look widely for opportunities. Demand for mixed-use real estate in the Creative Halo is enhancing potential value, and reducing risk through diversification.

Another influence on today’s investment market relates to changes in the bond market. 1994 to 2007 was a period of long-term decline for government bond yields, to the backdrop of general confidence in state covenants.

Cycle expectations have been ridden out, and property expectations have a significant ‘weight of money’ effect on real estate. Global property investment volume totalled US$559 bn in 2013, whereas the market for issued UK government bonds alone is US$2.3 trn.

Cyclic expectations have encouraged investors to buy real estate. This reflects the view that even if there are further road bumps ahead, the worst of the downturn has been ridden out, and property investment today could look a canny investment when reviewed in five years’ time.

Events in the occupier market add weight to this cyclical view. Many occupiers during the downturn years who were faced with a lease expiry opted to extend that lease rather than relocate during a time of uncertainty. Many are now contemplating that delayed lease expiry in the coming years, with the added twist that

**INVESTING IN TOMORROW’S CITY**

Consequently, some investors were happy to pick-up yield compression in the ‘risk free’ investment of government bonds rather than ride the cycles of property.

Today, bond yields in many cases are trading above their 2011-2012 low, while government covenants have lost their shine. The USA, France and UK have faced credit rating downgrades in recent years, while the previous cheerleading over the BRICs has faded. However, property values look re-priced and competitive, while a recovery in occupier market demand means that property yields can increase in a good way, through rental growth.

Due to the relative sizes of the markets, a small re-allocation away from bonds and towards property can have a significant ‘weight of money’ effect on real estate. Global property investment volume totalled US$559 bn in 2013, whereas the market for issued UK government bonds alone is US$2.3 trn.

Cycle expectations have encouraged investors to buy real estate. This reflects the view that even if there are further road bumps ahead, the worst of the downturn has been ridden out, and property investment today could look a canny investment when reviewed in five years’ time.

Events in the occupier market add weight to this cyclical view. Many occupiers during the downturn years who were faced with a lease expiry opted to extend that lease rather than relocate during a time of uncertainty. Many are now contemplating that delayed lease expiry in the coming years, with the added twist that
the development pipeline has died ind 2007. This offers opportunities for investors in the development sites market.

A feature of the new real estate landscape is the internationalisation of the investment market. Foreign buyers have accounted for the majority of investment volume in London for seven of the last ten years. Most of the other Global Cities have seen a notable rise in foreign investment, buoyed by new money from emerging markets. For new comers, buying in core locations is tempting, but that is not necessarily where the best opportunities are.

Emerging markets investors have proved quick to acknowledge this, as shown by Chinese money targeting up-and-coming Brooklyn, and a Malaysian consortium backing the regeneration of the Battersea Power Station site in London. We believe the next few years will see more joint venture development between international investors and local property companies. Or in some cases we may see large sovereign wealth or pension funds recruit in local talent and establish themselves on the ground in leading Global Cities.

We believe the larger institutional global investors will see the Nano Core as an opportunity, as a way to develop in scale in order to deploy large volumes of funds. This issue of scale is very important to the big global funds.

We also see skyscrapers as being in demand with investors. They offer an efficient means to quickly respond to the shortage of development pipeline post-2007, thus exploiting the anticipated rise in pre-let demand. There is also the option of tapping into growing demand for luxury high-rise residential by including apartments in the mix of uses.

Another point to consider is the growing importance of airports in shaping real estate investment. Direct flights from the Middle East to Birmingham and Manchester have put these UK regional cities on the interest list of investors from the region. Dubai’s growing popularity as aviation hub has supported the city’s rise as a strategic post for international real estate investment. Also, port facilities are being expanded around the world, such as Singapore’s Tuas Mega Port scheme, which will create opportunities for property investors.

While the Global Cities will in our view lead the new cycle, thanks to their large pools of knowledge and resources, they are in a position to exploit the growing trend of urban living and work and home are drawing closer together.

Consequently, we expect investors to target Africa’s mature markets of Kenya, South Africa, Botswana, and Nigeria. Nairobi in particular has grown rapidly as a regional centre due to oil discoveries, the rise of the telecoms industry, and many global firms deciding that a regional base in east Africa is necessary to truly operate a pan-African business. Cape Town, Johannesburg and Lagos are also strategic hubs, and Dubai services a growing flow of African investment capital.

This offers opportunities for property investors and developers, who are in a position to exploit the growing trend of urban living across the globe. The rise of Creative Halo areas was phase one of the 21st century’s property renaissance. Investing in phase two, which will be fired by hybrid tech industries and the general acceptance of creativity as the dominant economic paradigm, is the new frontier for real estate.
It is remarkable to think that just five years ago no one owned an iPad (launched in April 2010) illustrating how quickly new technology becomes taken for granted today. This is an example of a technological advance that has accelerated changes in how we work, shop and spend leisure time, with implications for commercial real estate. Some people who previously shopped regularly for books, CDs, DVDs, and video games, now access all these products through their tablet computer. This has contributed to a reshaping of retail property, and sparked a wave of office-based start-ups that produce apps. Similarly, the popularity of e-shopping has buoyed demand for warehouses. New technology undoubtedly impacts the property market, raising the question, where will change come from next?

Here is our selection of upcoming technologies that we see changing property.

**Office Robots**

Development has begun on telepresence robots, whereby a remote worker can log into a droid, traverse the office, see what is occurring, and speak to colleagues. Cleaning robots at home have already taken off. An office service robot that cleans, reloads printers, and performs basic security duties, could be a future extension of this technology. Future office buildings may need storage, recharge and service areas for these droids.

**The Internet of Things**

This is where everyday appliances are connected to the internet, so they can be controlled remotely or intelligently monitor how we use the device. For instance, a fridge could monitor its contents, and send the homeowner a suggested shopping list to his mobile phone with a ‘buy’ button. This would add momentum to the rise of e-retail, increasing demand for logistics property. Internet-linked machinery could also result in smart office buildings that partially manage themselves.

**Drones**

When Amazon rolled out plans to deliver small goods by drone helicopters there was initially a sceptical reaction. However, other firms quickly announced they too were testing drone delivery. In the future, logistics properties may come to resemble mini-airports, as drones come and go. EasyJet, the airline, has plans for its maintenance crews to use drones for aircraft inspection. Similarly, the property industry could use drones to inspect buildings.

**Driverless Cars**

A computer driven car, using wifi to communicate with other vehicles and receive traffic reports, should improve traffic flow and speed up commuting. The result will be a better quality of life in office districts, as efficient traffic movement allows more streets to be pedestrianized, improving public areas and passing trade for retailers. The city will become a more pleasurable experience encouraging people to work, live and shop there.

**3D Printing**

3-D printers are being used more often for producing components, but those parts then need to be assembled into a working product, which will require quality control testing. This requires a factory. However, in R&D and specialist manufacturing, 3-D printing is having an impact, bringing down costs on short production runs. Consequently, we could see a wave of ‘start-up’ manufacturers offering bespoke or specialist goods, generating more demand for light industrial units.
Hong Kong’s commanding lead reflects three factors:

- A restricted geographic area, which creates the logic of building upwards, and effectively converting air into ‘land’.
- The famously volatile Hong Kong office rents mean that investors can reap potentially high rewards in the long-term. After a soft 2013, rents have recently started to rise again.
- The ‘ego’ appeal of the upper floors, with the panoramic views, delivers higher rents compared to the wider market. In Hong Kong and London, upper floors in skyscrapers can command a 15-20% premium over typical rents.

London is the highest ranked European city, with capital values on upper floors more than double those of skyscrapers in Paris or Frankfurt.

Worth noting is that San Francisco’s towers have leapfrogged over four Asian cities, rising from ninth place last spring to rank number five today. The rapid growth of California’s technology sector is driving demand for San Francisco’s skyscrapers.

HK office towers remain the most expensive commercial real estate in the world, according to the latest Knight Frank Skyscraper Index. Capital values on the premium upper floors of Hong Kong’s skyscrapers are 50% higher than those in Tokyo, the city ranked second.

### Skyscraper Index

<table>
<thead>
<tr>
<th>City</th>
<th>Prime Capital Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>$6,390 per sq ft</td>
</tr>
<tr>
<td>Tokyo</td>
<td>$4,180 per sq ft</td>
</tr>
<tr>
<td>New York (Manhattan)</td>
<td>$2,980 per sq ft</td>
</tr>
<tr>
<td>London (City)</td>
<td>$2,400 per sq ft</td>
</tr>
<tr>
<td>Singapore</td>
<td>$2,260 per sq ft</td>
</tr>
<tr>
<td>Sydney</td>
<td>$2,000 per sq ft</td>
</tr>
<tr>
<td>Shanghai</td>
<td>$1,740 per sq ft</td>
</tr>
<tr>
<td>Beijing</td>
<td>$1,670 per sq ft</td>
</tr>
<tr>
<td>Seoul</td>
<td>$1,600 per sq ft</td>
</tr>
<tr>
<td>Paris (La Defense)</td>
<td>$1,230 per sq ft</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>$1,210 per sq ft</td>
</tr>
<tr>
<td>Moscow</td>
<td>$1,170 per sq ft</td>
</tr>
<tr>
<td>Chicago</td>
<td>$1,140 per sq ft</td>
</tr>
<tr>
<td>Singapore</td>
<td>$950 per sq ft</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research / Newmark Grubb Knight Frank

### Future Skyscrapers

- **100 Bishopsgate, London, UK**
  - 405,000 sq ft of office, retail and residential space.
  - The scheme consists of a four-storey office, and 40-storey residential tower, and looks over Bishopsgate and Liverpool Street.

- **Shanghai Tower, China**
  - This 1,817 ft tower will be one of the tallest buildings in the world, reaching a total floor area of 309 ft.
  - Expected completion is due in 2015.
  - The tower will feature a 151-room hotel and 100,000 sq ft of retail space.

- **10 Hudson Yards, Manhattan, New York**
  - 52-storey, 1.7 m sq ft tower is due for completion in 2015.
  - 60% pre-leased to tenants Coach, SAP and L’Oreal.

- **Salesforce Tower, San Francisco, California**
  - The 61-storey, 1.4 m sq ft tower is scheduled for completion in 2017.
  - 714,000 sq ft of office space will be available.

- **Oasis Tower, Mumbai, India**
  - 372 metres (1,220 ft) high, the second tallest building in India.
  - 85 floors, with 53 floors dedicated to offices, retail and apartments.

- **The City Tower, Vauxhall, London, UK**
  - 60-storey, 267 private apartments, ranging from studios to penthouses and 51 affordable homes.
  - A five-star hotel will also be on the lower part of the building.
Gentrification is not new, and in many of the Global Cities it has roots back to the early 1980s. However, the last decade has seen it reach a new peak, stepping beyond young professionals moving into up-and-coming areas. Today gentrification is a broad-based economic phenomenon, where a wide range of business activities are relocating into previously neglected fringe areas. Offices, homes, and shops are being developed in large scale in former industrial districts, effectively building new cities within the world’s leading property markets.

During the 1960s and 1970s, many of the Global Cities experienced a partial exodus, leaving large swathes of vacant properties. Factory districts were hit by deindustrialization, while inner-city dock areas were left redundant by the introduction of container ports. Tenements and terrace houses where industrial workers had lived became run-down, and rising crime added to the sense of decline.

An initial wave of young financial and professional knowledge workers – the Yuppies – began the rebirth of these districts as places to live in the 1980s. The 1990s saw early examples of large scale office development, sometimes with financial firms as anchor tenants; a trend that gained momentum around the turn of the millennium.

A mushrooming digital economy in recent years has moved the new districts towards centre stage in the modern city economy. The ascendance of tech areas like London’s Shoreditch and New York’s Midtown South occurred mostly to the backdrop of the Global Financial Crisis, which demonstrates the momentum behind their rise. Unsurprisingly, the real estate world is hurrying to capitalise on opportunities.

Today these former-industrial districts are among the fastest rising office, residential, shopping and leisure locations in the Global Cities. Companies are moving into these areas to bring the workplace closer to where their younger staff live and socialise; as employee retention and satisfaction rises up the corporate agenda. Those employees live in the new districts as this is where new homes can be built en masse to match population growth.

The new districts are of increasing significance within the Global Cities. This chapter looks at some of the leading examples, and considers what has led to their success.

**The geography of our cities is changing and so is the way we live and work, so what are the implications for the future?**

**AUTHOR** – PATRICK SCANLON
Partner, Commercial Research

**KNOWLEDGE WORKERS**

However, an initial wave of young financial and professional knowledge workers – the Yuppies – began the rebirth of these districts as places to live in the 1980s. The 1990s saw early examples of large scale office development, sometimes with financial firms as anchor tenants; a trend that gained momentum around the turn of the millennium.

A mushrooming digital economy in recent years has moved the new districts towards centre stage in the modern city economy. The ascendance of tech areas like London’s Shoreditch and New York’s Midtown South occurred mostly to the backdrop of the Global Financial Crisis, which demonstrates the momentum behind their rise. Unsurprisingly, the real estate world is hurrying to capitalise on opportunities.

Today these former-industrial districts are among the fastest rising office, residential, shopping and leisure locations in the Global Cities. Companies are moving into these areas to bring the workplace closer to where their younger staff live and socialise; as employee retention and satisfaction rises up the corporate agenda. Those employees live in the new districts as this is where new homes can be built en masse to match population growth.

The new districts are of increasing significance within the Global Cities. This chapter looks at some of the leading examples, and considers what has led to their success.

**G**

**KNOWLEDGE WORKERS**

However, an initial wave of young financial and professional knowledge workers – the Yuppies – began the rebirth of these districts as places to live in the 1980s. The 1990s saw early examples of large scale office development, sometimes with financial firms as anchor tenants; a trend that gained momentum around the turn of the millennium.

A mushrooming digital economy in recent years has moved the new districts towards centre stage in the modern city economy. The ascendance of tech areas like London’s Shoreditch and New York’s Midtown South occurred mostly to the backdrop of the Global Financial Crisis, which demonstrates the momentum behind their rise. Unsurprisingly, the real estate world is hurrying to capitalise on opportunities.

Today these former-industrial districts are among the fastest rising office, residential, shopping and leisure locations in the Global Cities. Companies are moving into these areas to bring the workplace closer to where their younger staff live and socialise; as employee retention and satisfaction rises up the corporate agenda. Those employees live in the new districts as this is where new homes can be built en masse to match population growth.

The new districts are of increasing significance within the Global Cities. This chapter looks at some of the leading examples, and considers what has led to their success.

**G**

**KNOWLEDGE WORKERS**

However, an initial wave of young financial and professional knowledge workers – the Yuppies – began the rebirth of these districts as places to live in the 1980s. The 1990s saw early examples of large scale office development, sometimes with financial firms as anchor tenants; a trend that gained momentum around the turn of the millennium.

A mushrooming digital economy in recent years has moved the new districts towards centre stage in the modern city economy. The ascendance of tech areas like London’s Shoreditch and New York’s Midtown South occurred mostly to the backdrop of the Global Financial Crisis, which demonstrates the momentum behind their rise. Unsurprisingly, the real estate world is hurrying to capitalise on opportunities.

Today these former-industrial districts are among the fastest rising office, residential, shopping and leisure locations in the Global Cities. Companies are moving into these areas to bring the workplace closer to where their younger staff live and socialise; as employee retention and satisfaction rises up the corporate agenda. Those employees live in the new districts as this is where new homes can be built en masse to match population growth.

The new districts are of increasing significance within the Global Cities. This chapter looks at some of the leading examples, and considers what has led to their success.
The Santa Clara Valley in the South Bay area of San Francisco, nicknamed Silicon Valley, has enjoyed a long association with the technology sector. Having grown around Stanford University, it remains the location of choice for some of the world’s largest and most successful tech firms, accommodating offices and research & development (R&D) facilities.

A recent report by PwC and the National Venture Capital Association found that venture capital investment in software companies in the first quarter of 2015 totalled US$4 billion, three times higher than biotechnology, which came in second place. This continued focus from venture capitalists has ensured that demand for commercial space in Silicon Valley has remained strong.

Despite the relatively high cost of living, young tech workers have long favoured life in the city over settling in the suburban towns in Silicon Valley. San Francisco is seen as more vibrant and fashionable, than its neighbouring towns to the south, and of all its districts, SOMA has the reputation for being the most edgy and hip.

Recruiting the Best

The presence of young, affluent tech workers is a new phenomenon; many of the major tech firms in Silicon Valley provide commuter bases for San Francisco-based employees. However, firms have become increasingly competitive in attracting the brightest talent, and have recognised that a SOMA address can give them a recruiting edge.

Additionally, government initiatives to promote regeneration in the area have meant that tax incentives have been available for firms to relocate their businesses to SOMA. Inevitably, this increase in demand has driven rents upwards. The Class A asking rent in SOMA is now US$64.40 per sq ft, significantly higher than the nearby financial district.

Rents for residential accommodation have also risen, which has led to anger amongst long term SOMA residents towards what they perceive as tech-fuelled gentrification. Indeed, there are examples of commuter buses being surrounded and prevented from leaving the area.

Despite this, SOMA’s rise as one of San Francisco’s most important new districts is expected to continue for some time to come, as more venture capital funding poured into SOMA, and tech innovators moving there, the area offers is perfect for the tech firms of any neighbourhood, which has led to anger amongst long-term SOMA residents towards what they perceive as tech-fuelled gentrification.

While both large established and small start-up tech occupiers have colonised Midtown South, other districts are also attracting significant tech demand. DUMBO, Downtown Brooklyn and the Brooklyn Navy Yard, known as the Brooklyn Tech Triangle, have become significant tech hubs within the city; DUMBO has the highest concentration of tech firms of any neighbouring New York City. The area is home to 500 tech and creative firms employing over 16,000 workers, all in just a 10-block radius.

The largest recent deal was Etsy’s, the online shopping site, leasing 200,000 sq ft in the renovated buildings known as Dumbo Heights. Etsy will relocate there from an 80,000 sq ft office. Its head count is expected to jump from the current 360 to 750 within five years.

Tech growth in the area may have been organic, but there are plans to further encourage the new wave of firms. The Brooklyn Tech Triangle Strategic Plan is an initiative led by a coalition of tech leaders, government, and the real estate industry, which aims to provide the environment and office space for tech firms to prosper. The area has traditionally been associated with the arts and creative industries, and the warehouse-type post-industrial buildings lend themselves well to the requirements of young tech firms.

To accommodate future growth, the plans for the area include the improvement of transportation and pedestrian access, and the addition of cycle paths and green areas. Also, there are proposals to open up new office space by converting buildings currently used by the NYC Department of Transportation, municipal buildings in Downtown Brooklyn, and around 700,000 sq ft of space currently used for warehousing.

Forecasts suggest that net new requirements for office space in the Brooklyn Tech Triangle could grow by 980,000 sq ft to 2.2 million sq ft by 2016. Brooklyn’s transformation is in its early days, with more opportunities for developers ahead.
London has traditionally been concentrated around the core areas of the West End and City: the spiritual home of the capital's corporates, specialist financials, banks, accountants and insurers. While these remain leading business districts, over the last few years new markets outside the traditional core have emerged, creating new business clusters, employment opportunities and property value growth for offices, retail and residential.

New business locations have fared well in London’s modern districts. More London, Regent’s Place and Paddington are all examples of successful new markets. Areas have succeeded not just because of their lower occupational costs, but also because of the flexibility occupiers can enjoy by moving into a managed environment.

The next 10 years will see the emergence of more new markets as occupier demand strengthens and working practices evolve. London is expected to become the UK’s first megacity (population in excess of 10 million by 2025), bringing the need for more real estate and improved infrastructure.

The redevelopment of the former railway land at King’s Cross is one way from completion, yet has secured commitments on more than 1.8 million sq ft from tenants including Google and BNP Paribas. The land between Battersea Bridge and Vauxhall station is undergoing substantial redevelopment and has attracted foreign missions including the United States and the Netherlands, with the Chinese Embassy believed to be following suit.

The redevelopment of the iconic Battersea Power Station will provide a focus point for the area. These areas offer more than simply an office location; their mix of commercial, residential and retail uses make them a destination and a place for working and living.

**ENERGY MARKET**

London’s emerging markets are not just found in large estates. Planning permission is in place for numerous commercial and residential schemes in Shoreditch and the northern City fringe, driven by the prospect of increased demand from London’s growing creative industries including media and technology.

The growth in Shoreditch has been organic. The area has long been associated with art and fashion, and has traditionally been a mix of small businesses and residential accommodation, all within a stone’s throw of the financial powerhouse that is the City. Tech entrepreneurs recognised the advantages of being in a creative environment, with relatively low accommodation costs and easy access to potential clients, and began to cluster around the Old Street Roundabout. In 2008 it was estimated that the Tech City cluster comprised 15 companies; today there are more than 1,300, reflecting the success and popularity of the area.

However, the area’s growth has not been without issue. While many welcome the investment the area has attracted, others warn of gentrification changing the essence of what attracted the initial tech businesses: vibrancy, charm and affordability. Many tech start-ups now complain that owning an apartment or renting an office have become unachievable for individuals with little capital and businesses with no covenant.

London is a constantly evolving city, no more so than in its real estate markets. The emergence of these new districts has prompted improvements in local infrastructure and attracted new business, which will be at the heart of London’s ongoing growth.

**ENERGY MARKET**

Beijing has embraced its growing technology sector. The Zhongguancun Science & Technology Zone is an area primarily occupied by technology firms in the Haidian district of Beijing. The area came to prominence in the 1980s and was established through government-backed development as Beijing’s version of California’s Silicon Valley. Like Silicon Valley, development grew up in the area surrounding one of the country’s top universities, and it is home to some of the world’s largest technology companies. Google, Intel, Oracle, and Sony all have offices there. The Zhongguancun Science & Technological Park has more than 8,000 hi-tech enterprises.

**NEW-wave firms**

To date Beijing’s tech sector has been dominated by the more traditional and established technology businesses. However, there has been a noticeable increase in the development of social media platforms similar to those which have led to the growth of the new wave of tech firms in San Francisco’s SOMA, New York’s Brooklyn Triangle and London’s Tech City. Many of these new techs are developing smartphone apps.

While the continuing growth of Zhongguancun is not in question, the growing popularity of start-ups focusing on social media platforms raises the possibility of less corporate, more creative districts benefiting from increased demand for office space.

**VIBRANT URBAN LIFESTYLE**

One possible benefactor of this demand is the Dashanzi Art District in Beijing’s Chaoyang district. Centred on the 798 factory, the area is characterised by a number of Bauhaus-style decommissioned military buildings designed by East German architects and constructed in the 1950s, and has become Beijing’s artistic hub. It is home to galleries, design studios, fashion houses, restaurants and bars, and small publishing firms.

The area shares many of the ingredients which have attracted young tech firms in other major global cities. Should tech start-ups base themselves here, it is likely that the initial growth will be organic as the young entrepreneurs look to immerse themselves in a creative environment.

While western cities have dominated discussion on new districts, Beijing’s new tech and creative hubs show this is a global phenomenon.
As work and home draw closer, both the office and workers are adapting.

The 21st century has experienced seismic shifts in the way business is conducted, particularly in the relationship between work and home. This has put the office at the forefront of today’s city economy, and led to its transformation as a place to work. Similarly life beyond the office is shaped by the realities of working in a city.

When considering the success of the city and the office in recent years, it is worth considering that this is at odds with what pundits were predicting decades ago. During the 1970s, cities were viewed as in decline in favour of suburban towns. In the 1990s, the arrival of the internet prompted forecasts that working from home would negate the need for offices. Effective cities have achieved for centuries what the tech world calls crowding sourcing. Turning to why the office survived (indeed prospered) through the rise of the internet, again we come back to people, their happiness and their relationship with their employer.

The modern city is a knowledge economy, driven by interaction of employees, which increases idea generation and exchange of information. Consequently, employers want their staff to be on site, while workers are conscious of how isolated they become working from home. Today’s office, which is built around interaction, has spawned new work areas (team space, cafes, exercise areas) which are displacing desks. The war for talent means the balance of power in the modern workplace has shifted towards the employee; thus companies locate where staff want to be. Once relocated from anonymous CBDs to areas with shops, cafes and leisure, more workers choose to live close to the office, which benefits the firm who want staff to work long hours.

This environment of lots of people interacting, and easy transit, creates a dynamic place to live, which attracts large numbers of talented people.

Companies follow the talent into the cities, the crowd effect of their competitors and clients doing the same creates efficient business hubs.

As a result, inner city homes are heavily in demand, often in areas where office supply is falling. This is driving up house prices, with knock-on pressure on the incomes of young workers (See Generation Y Cost of Living Index, p.91).

The loss of older offices to redevelopment as homes, in order to house the influx of workers, is placing further pressure on supply of business accommodation, and pushing up rents. The challenge for the Global Cities is balancing the conflicting demands of accommodating the new wave of firms, and their workers, in the same highly sought-after districts.

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>SUSTAINABLE SOLUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cities can accommodate lots of people and many companies, by providing high density living and working accommodation.</td>
<td>1. More workers choose to live close to the office.</td>
</tr>
<tr>
<td>2. People can travel efficiently and en masse moved around the city’s micro-economy by a complex transport system.</td>
<td>2. More workers choose to live close to the office.</td>
</tr>
<tr>
<td>3. This environment of lots of people interacting, and easy transit, creates a dynamic place to live, which attracts large numbers of talented people.</td>
<td>3. More workers choose to live close to the office.</td>
</tr>
</tbody>
</table>

The modern city is a knowledge economy, driven by interaction of employees, which increases idea generation and exchange of information. Consequently, employers want their staff to be on site, while workers are conscious of how isolated they become working from home. As a result, inner city homes are heavily in demand, often in areas where office supply is falling. This is driving up house prices, with knock-on pressure on the incomes of young workers (See Generation Y Cost of Living Index, p.91).

The loss of older offices to redevelopment as homes, in order to house the influx of workers, is placing further pressure on supply of business accommodation, and pushing up rents. The challenge for the Global Cities is balancing the conflicting demands of accommodating the new wave of firms, and their workers, in the same highly sought-after districts.

Discussion of new districts usually focuses on office demand from technology firms. However, financial firms have a track record for opening up new areas. The type of young, ambitious graduates they target places finance in competition with techs for staff, increasing the need to be in an office location attractive to Generation Y. Lower rents and brownfield sites increase the draw of new districts to financial companies.

Presently, financial occupier demand is improving but patchy. ESRC has pre-let 285,000 sq ft of offices in Sydney’s Barangaroo, HSBC has pre-let 285,000 sq ft of offices in Sydney’s Barangaroo, although elsewhere in the world banks are consolidating offices in order to reduce their overall occupation. In some cases new districts are benefiting, such as JP Morgan Chase moving jobs to Brooklyn. There has also been a shift in activity in some financial districts towards insurers and fund managers, as shown by recent deals in London and Singapore.

**Financial Providers**

**Rollercoaster Ride - Office Take-up by Financial Firms in London**

In some cities, financial and creative hubs are found in close proximity. Many of the younger bankers in London’s Broadgate drink and socialise in trendy Shoreditch, meeting up with friends who work in tech firms. Financial institutions eager to attract the best graduates must now think about providing a working environment that makes them competitive vis-à-vis tech firms, while matching the needs of financial trading.

Australian banks have been trailblazers, proving both requirements can be met via innovative site. Hong Kong is keen to leverage this synergy between social and work life with plans to build a ‘Cultural City’ in Kowloon West, a new district drawing in banks. Lower rents on high quality offices are part of the draw of Kowloon West, and reduced profit margins could encourage more banks to look in developments in edge-of-CBD areas in other Global Cities. Financial firms in the core CBD are increasingly specialised and high margin, and restrictions on banks operating in high risk businesses suggest we will see more of these ‘boutique’ financials. This will provide demand for quality CBD offices, whether in ultra-exclusive districts, or upper floors in skyscrapers.
TEN TOP OFFICES

SINGAPORE

**Reed Smith, Ocean Financial Centre, Singapore**

Elegant, refined and contemporary are the three words used to describe the international law firm’s offices globally. The new office provides streamlined solutions, caters for growth and highlights innovation through materials. With a green initiative, and eventual Green Mark Gold certification, the office features a green wall at reception and green certified furniture and finishes, with the result being a calming and soothing aesthetic.

LONDON

**Google Central to office, London, N1C**

Google’s new offices in London are configured to be a base for key cities in its global footprint. The focus was on an open concept space to allow the teams to collaborate and utilise the various workspaces. The design uses Google’s own hardware products to define the office and bring the brand to life.

BANGKOK

**Pinterest, 808 Brannan Street, CA 94103**

Pinterest recently relocated from Palo Alto to this 55,000 sq ft renovated warehouse in SOMA. The space has been left intentionally unfinished so it can be adapted as the company changes over time, and is designed to encourage community and creativity, while actively avoiding any suggestion of decadence or success.

PARIS

**Reed Smith, 8 Rue de la Paix, Paris**

The firm’s 1800s modernist red brick facade was restored to 1920s standards. The firm maximised the building’s existing layout, while introducing new work stations and walkways. The natural light from the wood windows, along with the oak interior surfaces, bring an open and inviting atmosphere to the office. The result is a dynamic, yet tranquil, workspace.

LONDON

**Google, Central to office, London, WC2**

One of Google’s three London offices, sustainability is a key priority. There is an allotment space for staff, and high volumes of reclaimed materials such as second-hand furniture and a jet fighter canopy have been utilised. The fitout adheres to Google’s ‘Red List’ of products, that are free of known toxins.

AMSTERDAM

**Microsoft, Evert van de Beekstraat 354, 1118 CZ Schiphol**

Employees at Microsoft’s Amsterdam office have no allocated desks, and are encouraged to locate themselves in the building according to the task they are working on and the time of day. Staff are also encouraged to work from home when appropriate to maximise the 25% reduction in travel space that the company is promoting offsite.

MEXICO CITY

**Oro Negro, Mexico City**

The headquarters of oil & gas company Oro Negro has been designed to have an ageless feel and convey a message of strength and solidity. The pattern of the Iranian Travertine marble which forms the walls was chosen to represent layers of sediment.

LONDON

**Google, 3 Sheldon Square, W2**

The US tech firm asked Morgan Lovell to create space reflecting its brand values of innovation, disruption, openness and fun, while referencing the location of the office, adjacent to Paddington station. The open plan office has phone booths, a Tardis-style demo room, and a Pullman carriage which acts as a meeting room.

SYDNEY

**Fujitsu, 118 Talavera Road, North Ryde, Sydney**

Japanese multinational information technology, equipment and services company, Fujitsu, leased this 98,000 sq ft office in North Ryde, a business district to the north-west of Sydney. The space is Fujitsu’s Australian HQ and represents the firm’s first ‘agile’ work environment – a cutting edge activity-based workplace, in which nobody has an allocated permanent desk.

SAN FRANCISCO

**Pinterest, 808 Brannan Street, CA 94103**

Pinterest recently relocated from Palo Alto to this 55,000 sq ft renovated warehouse in SOMA. The space has been left intentionally unfinished so it can be adapted as the company changes over time, and is designed to encourage community and creativity, while actively avoiding any suggestion of decadence or success.

MEXICO CITY

**Oro Negro, Mexico City**

The headquarters of oil & gas company Oro Negro has been designed to have an ageless feel and convey a message of strength and solidity. The pattern of the Iranian Travertine marble which forms the walls was chosen to represent layers of sediment.

LONDON

**Google, 3 Sheldon Square, W2**

The US tech firm asked Morgan Lovell to create space reflecting its brand values of innovation, disruption, openness and fun, while referencing the location of the office, adjacent to Paddington station. The open plan office has phone booths, a Tardis-style demo room, and a Pullman carriage which acts as a meeting room.

SYDNEY

**Fujitsu, 118 Talavera Road, North Ryde, Sydney**

Japanese multinational information technology, equipment and services company, Fujitsu, leased this 98,000 sq ft office in North Ryde, a business district to the north-west of Sydney. The space is Fujitsu’s Australian HQ and represents the firm’s first ‘agile’ work environment – a cutting edge activity-based workplace, in which nobody has an allocated permanent desk.

SAN FRANCISCO

**Pinterest, 808 Brannan Street, CA 94103**

Pinterest recently relocated from Palo Alto to this 55,000 sq ft renovated warehouse in SOMA. The space has been left intentionally unfinished so it can be adapted as the company changes over time, and is designed to encourage community and creativity, while actively avoiding any suggestion of decadence or success.

MEXICO CITY

**Oro Negro, Mexico City**

The headquarters of oil & gas company Oro Negro has been designed to have an ageless feel and convey a message of strength and solidity. The pattern of the Iranian Travertine marble which forms the walls was chosen to represent layers of sediment.
Changes in the workplace are inexorably linked to shifting attitudes of workers to both their own wellbeing and that of the world in which they live. Also, the economic impact of living and working in a global city often prompts those many to modify their behaviour in order to relieve the pressure on their finances.

In London, the growing resident and working population is placing increasing strain on the city’s infrastructure, which has led to road congestion and overcrowded public transport. This has caused a boom in the number of Londoners cycling to work. Cyclists now comprise an estimated quarter of all rush hour road users, while the most recent data from Transport for London indicates that the capital’s cyclists now make twice as many daily trips as in 2001.

To encourage commuters away from cars and public transport, a number of initiatives have been launched. The most recent is the Cycle Superhighway scheme, which has provided cycle routes running from outer London into and across central London. However, the initiative with the biggest profile is the Barclays Cycle Hire scheme, known colloquially as ‘Boris Bikes’ after the Mayor of London during whose tenure the scheme was launched.

The scheme provides 10,000 bicycles located at 720 docking stations across the city, and has proved popular amongst residents and tourists. An analysis of nine million individual journeys between February 2012 and January 2013 shows the concentration of usage on certain routes; the thickness of the line on the map below shows the volume of cyclists taking that route.

While it is unsurprising that many of the most frequently used routes are between the main rail hubs and the business districts, there is considerable traffic from the east end of London, which is less well-served by public transport than other areas of London. It could be said that the ‘Boris Bike’ scheme has opened up new districts in London by making them more accessible at a low cost. This accessibility can only benefit the growing markets around Shoreditch and Hackney as they expand to the east.

Cycle schemes have gained popularity in cities around the world as residents and tourists look for flexible and environmentally friendly travel options. In Europe, there are cycle schemes in cities such as Amsterdam, Barcelona, Berlin, Copenhagen, Lyon, Munich, Paris and Warsaw amongst others. In North America, Boston, Chicago, Denver, Miami, New York City and Washington have rolled out schemes, with plans afoot for schemes in a number of Californian cities. In China, the cities of Wuhan and Hangzhou have 150,000 bicycles between them, making them the largest schemes in the world.

As global cities grow and infrastructure strains to keep pace, cycle schemes offer a relatively cheap and efficient method to ease pressure on public transport, while also helping to protect the environment.
Residential development and investment provides a high profile opportunity for property businesses to grow their brands globally. Significant investments during 2014 in Sydney, Los Angeles, New York, London and other key hubs, by some of the largest Chinese and Asian property companies, confirms the appetite for the sector.

This trend has coincided with a rapid expansion in cross-border demand for residential property from end purchasers. In most cases this demand has been led by an investment motivation, although lifestyle, safe-haven, education and other drivers have been common accompanying reasons.

With the macro-economic environment set for a shift away from stimulus measures in 2015 we believe a renewed focus on spotting micro-market opportunities is set to take centre stage.

Taking advantage of Knight Frank’s Prime Global Cities Index, which benchmarks the price performance of over 30 cities, on a quarterly basis, in this chapter we provide a unique insight into the relative strengths and weaknesses of these bellwether markets.

In the year to the end of Q2 2014, our Prime Global Cities Index rose by 6% overall, up from 5% at the same point in 2013, pointing to a continuing upward trend for prime city prices.

This ongoing market strength is evidenced by the fact that the index was 36% higher than its post-Lehman low in Q2 2009, and perhaps more surprisingly 25% higher than its pre-crisis peak reached in Q2 2008.

We consider the key trends, risks and opportunities which will dictate the future performance of these critical urban markets.

Over recent years strong market performance within the world’s leading city residential markets has come from all corners. Jakarta has featured prominently at the top of our growth rankings for several quarters, its growth is supported by the fact it remains one of the most affordably priced big city markets in the region.

Of all the recovery markets, Dublin has perhaps been the most obvious beneficiary of returning investor appetite. 2013 proved to be a notable turning point for Dublin’s upmarket residential areas such as Dalkey and Ballsbridge. Since then luxury prices have risen strongly, by around 24%, although they still remain 35-45% below their pre-crisis peaks.
Continued

Cooling measures in key Asian centres continue to weigh on prices and transactional activity, most obviously in Hong Kong and Singapore but also in Beijing and Shanghai.

Slightly over half our prime city markets, where we have the comparable data, show an outperformance in price growth over the five years to early 2014 compared to their wider national mainstream housing markets. Jakarta, Miami and London have led this outperformance. While New York and Los Angeles appear to have had a weaker recovery compared to their national housing markets, this appears to be related to the fact that the wider national house price returns take into account recent distressed sales which have unsurprisingly come from a very low base.

While the recent strength of key urban residential markets has been supported by safe-haven and wealth flows the story is much broader.

Similarly, while locations like Beijing and Shanghai, with 84% and 66% growth over our five year period, can hardly be regarded as slacks, even this level of growth has been insufficient to keep pace with strengthening prices at a national level.

Looking into 2015 and beyond, there is no doubt that a number of key market supports, which have helped to drive prices higher over the past five years, will be removed. Investors and developers will have to accept that recent returns have been supercharged by government market support, and features like cheap finance, delivered through ultra-low interest rates, and the ability of quantitative easing to hold down the rate of alternative investment returns, will begin to be removed from 2015. Weak economic growth in Europe is likely to only delay, rather than stop, the inevitable shift to more normal economic conditions.

Economic growth will drive some markets. If we take Dubai as an example, the fact remains, that by international standards, Dubai’s prime residential property market is relatively inexpensive. This, combined with the fact that the UAE economy and employment continues to grow strongly, suggests that the prime residential market in the Emirate is likely to see ongoing expansion despite new market controls, such as the doubling of transfer fees to 4% and newly introduced mortgage caps.

For other centres, the battle to secure investment returns will increasingly turn to micro-market outperformance. While the removal of stimulus will take away a key support platform from global residential markets, our view is that in most centres the return of sustainable economic growth, especially in Europe, means the outlook for the key world centres for 2015 and beyond remains positive. Our forecast table (see left), which considers the prime city residential price outlook for 2015, identifies only Hong Kong as being at risk of a price decline next year - although several markets will be at risk of flat price growth.

Overall, key urban markets are set to weather changes to the macro-economic environment relatively well.
CONTINUATION OF SAFE HAVEN TREND

Despite some easing of the crisis conditions facing the global economy in recent years, the flow of wealth from economic or political crisis locations into ‘safe haven’ markets is continuing.

In markets like London, Sydney, New York, Miami and Vancouver these flows tend to reinforce demand for established market neighbourhoods, by buyers focusing on wealth preservation and looking for mature and stable markets. Even in these markets however there have been signs that safe haven investors are willing to consider newer market opportunities – certainly Brooks’s regeneration has been in part driven by wealthy investors looking for an alternative to rising Manhattan prices.

As prices have risen in some target markets, the opportunity for developers to attract buyers in alternative markets within the same cities, or even alternative city markets is a trend we expect to see expand in 2015.

TOP OPPORTUNITIES

NEW WEALTH CREATION IN EMERGING MARKETS

As we covered in-depth in the 2014 Wealth Report, the growth in global wealth, especially from emerging economies, is set to power demand for residential investment property in many key global cities. We reported that the growth in Ultra High Net Worth populations (investors with more than US$30m in investable assets) is set to rise from nearly 260,000 to over 215,000 in the decade to 2023. While the ever popular global hubs are set to take the lion’s share of this investment, we also think 2015 will see a growing appetite for alternative markets and more speculative plays from investors – we note overcall a number of ‘near neighbourhoods’ markets where some of this investment is likely to focus on.

IMPROVING ECONOMIC FORTUNES

The weakest spot of the world economy has, for several years, been Europe, however the tentative improvements in economic fortunes has fed into belief that prices for property have hit a low point, and investor appetite has returned (strongly in some markets).

As Europe improves, there are other markets where improving sentiment and growth is helping to drive market performance – India is a notable example. The arrival of Narendra Modi’s new government has led to an increase in business confidence. A focus on residential market affordability is likely to be a key plank of future policy development – creating significant opportunities for developers and funders.

INVENTORY

The most obvious manifestation of this trend will be interest rate rises. It appears the UK and the US are likely to see the earliest moves in this direction; certainly the risk in Europe appears to have been pushed further down the track in 2014 or even beyond. Prime city markets are shielded to some extent by the fact they tend to be more equity rich than the mainstream national markets they sit within. The dollar to this advantage in that a yard rise in real estate investment, low yields, residential property could begin to appear less attractive as interest rates rise, rates rise from historic lows. We expect to see a greater focus on income potential from pure investor led projects in 2015, with increased interest in the sustainability of tenant demand.

CURRENCY INSTABILITY

There is no doubt that weak pound was an important factor which supported London’s prime market recovery in 2009, helping to drive surprisingly strong price growth directly after the Lehman crisis.

Predicting the next currency movement to shift investor flows into international property is not an easy task.

At the start of 2013, and again at the start of 2014, the widely held view was that the dollar would strengthen throughout the year and outpace the euro. This eventually didn’t come to pass, however with the Federal Reserve likely to increase interest rates in 2015, and the ECB’s move towards negative interest rates, the dollar is likely to rise – pointing to a stronger outlook for demand for prime residential property in the UK and Eurozone.

The Swiss franc’s role as a safe haven during the recent crisis, and some way to explaining the weaker demand growth or growth in the Zurich and Geneva prime markets since 2012 – with increasing investment outflows, the currency could well decline in 2015, boosting investor interest in the prime city markets.

The most interesting development will be future movements in the yuan. The currency is still not fully exchangeable, but is likely to be in five years’ time. Not all observers are expecting it to strengthen; there are a growing number of observers expecting a devaluation – which would dampen investment outflows into global residential property – especially property priced in currencies with a hard dollar link – Hong Kong in particular.

ECONOMIC REVERSAL

While the immediate threat of a collapse of the euro has retreated, other risks have taken up the slack for those nervous of the economic underpinnings of the world’s key city housing markets.

With the target market for many prime residential developments becoming increasingly cross-border, a sharp reversal in the Chinese economy, probably one of the biggest risk issues facing the market, threatens to undermine demand from these sources. However, do not underestimate the impact of economic uncertainty as a boost for safe-haven markets – as we note opposite in our opportunities section.

TAX

Vacation of residential property has become an increasingly live issue, especially in Europe, as governments have tried to shift the burden of taxation towards wealth and asset holdings rather than income. Ironically, taxation has also been used as a tool to reduce the impact of stimulus measures which have acted to push asset prices higher. The landscape in several countries for property taxation has undoubtedly become far less benign than it was pre-crisis, however outside of Hong Kong and Singapore, most changes have had a limited impact on demand.

POLITICAL INTERVENTION

So far political interventions in the world’s residential property markets, through cooling measures and limits to market access, have been concentrated in Asia, in particular Hong Kong, Singapore and China. The rising level of cross-border investment is likely to contribute to further debates in other parts of the world in 2015 on the impact of foreign buyers on local residential market affordability and stability. Changes to Canada’s immigrant investor programme in 2014 could result in a slowdown in Asian buyers in particular which could impact on the prime Vancouver market; a similar debate in Australia could see a reduction in demand in key centres such as Sydney. Dubai has already seen a number of modest interventions aimed at reducing speculative purchases. The subject remains a live issue in the UK, although second-guessing the eventual direction of this debate is higher risk than trying to forecast house price movements.

FIVE
The relentless march of gentrification and upscaling of neighbourhoods in inner urban areas in the world’s leading cities, offers opportunities to residents, who can access more affordable alternatives closer to CBDs, but most obviously for developers and investors betting on the next new Shoreditch or Meat Packing District in which to invest.

To help you navigate the competing claims for future cool locations - Knight Frank has produced the following list of the best to watch.

Prime City Price Performance*, How Your Investment Has Fared Over the Past...

<table>
<thead>
<tr>
<th>Neighbourhood</th>
<th>1 Year</th>
<th>2 Years</th>
<th>3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York - Williamsburg (Brooklyn)</td>
<td>40.6%</td>
<td>53.5%</td>
<td>41.5%</td>
</tr>
<tr>
<td>Tokyo - Tokyo Bay Area</td>
<td>4.5%</td>
<td>5.2%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Sydney - Barangaroo</td>
<td>13%</td>
<td>12.9%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Hong Kong - Admiralty District</td>
<td>1.5%</td>
<td>2.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Singapore - Tiong Bahru</td>
<td>-2%</td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>Paris - 16th Arrondissement</td>
<td>-1.4%</td>
<td>3.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Cape Town - Cape Town CBD</td>
<td>-11.7%</td>
<td>12.9%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Nairobi - Runda and Gigiri</td>
<td>68.2%</td>
<td>40.6%</td>
<td>29.4%</td>
</tr>
<tr>
<td>London - Victoria Park</td>
<td>4.2%</td>
<td>7.5%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Dubai - Business Bay</td>
<td>-1.5%</td>
<td>4.1%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

*The Knight Frank Prime Global Cities Index is the world’s most comprehensive benchmarking tool for measuring prime residential performance in the world’s leading cities.

While not a surprise for Williamsburg is after all the epitome of the gentrification model - a 25-year process starting with artists, musicians, then creative and now professional service residents. But the presence of high quality properties from rich owners, a strong lifestyle offering and convenient access to Wall Street means Williamsburg will still have a long life in it.

It is only an example listed as Tokyo, the presence of a large amount of vacant land, visas to the CBD and adjacent river water means the Tokyo Bay Area is set to see substantial investment over the next few years. This is about as big an opportunity as you can find in Asia’s most populous city.

Significant investment has expanded central London’s residential estate over the past five years. A development that has taken place already is the O2 Arena, which has enhanced the appeal of this major development area, with prices averaging £4,000 per sq ft.

The relentless march of gentrification and upscaling of neighbourhoods is a sensitive urban area which will require skilful interventions.

The growth of high quality café and retail offering in recent years has helped lift values. The presence of a large amount of vacant land, visas to the CBD and adjacent river water means the Tokyo Bay Area is set to see substantial investment over the next few years. This is about as big an opportunity as you can find in Asia’s most populous city.

Significant investment has expanded central London’s residential estate over the past five years. A development that has taken place already is the O2 Arena, which has enhanced the appeal of this major development area, with prices averaging £4,000 per sq ft.

An old neighbourhood which has retained more of its historic character than most in Singapore. The presence of high quality public spaces offering an excellent outdoor offering in recent years has helped boost values. Development opportunities are available but this is a sensitive urban area which will require skilful interventions.

This area is close to Downtown (Burj Khalifa and Dubai Mall), with good connectivity to major arterial roads. This area is seeing a rising demand for residential, with new development slowly expanding the area. With new development and infrastructure improvements, the residential sector will be enhanced by several significant rental and leisure developments together with the continued expansion of the KENYA Stock Exchange. These areas have relatively affordable values compared to Downtown.

This area is close to Downtown (Burj Khalifa and Dubai Mall), with good connectivity to major arterial roads. This area is seeing a rising demand for residential, with new development slowly expanding the area. With new development and infrastructure improvements, the residential sector will be enhanced by several significant rental and leisure developments together with the continued expansion of the KENYA Stock Exchange. These areas have relatively affordable values compared to Downtown.

This area has seen considerable growth in both value and demand and has been a strong hot spot for a South African called Potentially as a result of considerable residential and commercial development which has taken place already is the area, with the area’s neighbourhood growth in property values from 2013 to nearly 6,000 in the past five years. New development opportunities are being released through change of use from commercial to residential.

The relentless march of gentrification and upscaling of neighbourhoods is a sensitive urban area which will require skilful interventions.

The growth of high quality café and retail offering in recent years has helped lift values. The presence of a large amount of vacant land, visas to the CBD and adjacent river water means the Tokyo Bay Area is set to see substantial investment over the next few years. This is about as big an opportunity as you can find in Asia’s most populous city.

Significant investment has expanded central London’s residential estate over the past five years. A development that has taken place already is the O2 Arena, which has enhanced the appeal of this major development area, with prices averaging £4,000 per sq ft.
The move towards automated transactions and the ‘cashless’ society means that less space will be taken up by tills in store. Some companies have been installing more automated tills and touch screens as part of cost-cutting measures. Shop assistants will instead play a more ‘advisory’ role but will be able to process transactions from hand held devices.

Retailers will offer very quick delivery as standard, possibly the same day or even within an hour of goods being purchased, with robots or drones (as tested by Amazon) or even self-driving cars possibly being a key part of the process.

More shops will function purely as showrooms rather than holding significant amounts of stock, enabling more space to be used as purely sales area. Customers will be able to buy in store and have the items sent directly to their homes.

Stores will become places to inform and educate, rather than simply sales outlets. This will involve the provision of lots of information about products, how they are made and their social and environmental impact. Retailers will use high-tech gadgets and well-trained staff to educate customers.

Both Click ‘n’ Collect and Drive Thru are now established concepts but will become even more the norm in the coming years, with both offering potential growth avenues for retailers. Click ‘n’ Collect is likely to be the main way forward for grocery retailers, as high costs continue to weigh on home delivery operations.

High quality digital screens will increasingly replace physical store displays, so the old-style mannequins will begin to disappear. In addition, technology will allow signage to change so that advertisements can be targeted at individual customers, based on personal information given off by their smartphone as they pass by.

Customers will be able to stand in front of a smart mirror and see themselves wearing different products, from clothing to makeup.

Taking the ‘augmented reality’ theme a stage further, body scanners will allow shoppers to create their own personal profile and enable assistants to make recommendations.
Europe has come a long way in the last six years – through a major recession, a short recovery, then a sovereign debt crisis. The good news is that Europe is now in recovery mode – albeit patchy – offering significant opportunities for occupiers, developers and investors.

Indeed, in June, the European Central Bank (ECB) reduced its main deposit rate to -0.1% to stimulate growth and encourage banks to lend more. The ECB will also offer cheap loans to banks at low rates until 2018, while the possibility of buying loans to small businesses in the form of bonds and quantitative easing remains open. With demand still fragile and annual inflation in the euro area currently below 1%, the measures were also designed to stave off a possible deflationary scenario and have been broadly welcomed. However, there are reasons to be optimistic. The euro area has survived intact, despite many dire predictions of a messy break-up and peripheral bond yields are back to low levels following the unsustainable highs of 2012. Who would have thought even a year ago that Ireland and Portugal would have exited their respective bailouts, or that Greece would be back in the bond market? While Europe is not yet completely out of the woods, things are nonetheless looking up. The key question now is can growth be sustained?

While Germany continues to be the main driver of the European economy, the encouraging trend is that growth is now more widespread across the Continent. In particular, Spain has bounced back strongly with several successive quarters of growth and, while Ireland recorded negative growth in Q4 2013, the country is seeing a better performance. The Italian economy remains weak but has stabilised and, while Portugal recorded negative growth in Q1, the country had been enjoying an export-led recovery for much of 2013. Unemployment remains a scourge across much of Europe, with youth unemployment stubbornly high, although the numbers are stabilising and are even falling in some cases.

The European property market has also seen something of a rebound – although the recovery has not been uniform across the Continent and the investment market has recovered faster than the occupational market. Prime yields for commercial property have hardened across most of Europe since the market low point in 2009. The strongest yield compression has been in core markets such as the UK and France and, while pricing has generally shown a modest rebound, prime yields in most markets remain comfortably above their market peaks. Yields for more secondary stock meanwhile have seen only a modest degree of compression.

RISING FROM THE ASHES – EUROPE ON THE WAY BACK

European real estate markets are drawing new investment, and seeing gradual improvement in occupier demand. However, the speed of recovery varies considerably across the continent.

Author — Darren Yates
Partner, Head of Global Capital Markets Research

IN THIS CHAPTER

- The end of uncertainty on the future of the Eurozone has drawn a new generation of property investors.
- The ‘old continent’ is seen as offering portfolio diversity and steady income by investors from emerging markets.
- Economic recovery already pushing up occupier demand in London and Paris, with others set to follow.
- Crossrail and the Grand Paris Express will create new business clusters in London and Paris.
The Resurgence of the European Property Market

European investment volumes for commercial property amounted to US$103bn in 2013 and we are forecasting US$120bn in 2014 – a rise of around 10%, which would be the best year since 2007. Volumes for all sectors have risen sharply, but most notably for industrial and hotels. One notable trend has been the acceleration in the disposal of distressed assets, with loan sales playing an increasingly important role, although the release of troubled assets on to the market has been more gradual than many predicted. A wide variety of global investors are active in the European market, ranging from established US-based firms to sovereign wealth funds from the Middle East and Far East, as well as an increasing number of high net worth individuals.

Of particular note, private Chinese capital is now emerging as a serious player on the global property investment stage. Following the initial wave of investment by state-owned firms, there are also a growing number of examples of big global investors with abundant capital teaming up with domestic players who provide local expertise. Investment bright spots in Europe have included the UK and Germany, which continue to see a solid level of activity, with investor interest in the UK regions picking up markedly. The peripheral markets (notably Spain, to a lesser extent, Italy) have continued to see greater interest from investors in search of value, albeit demand is focussing increasingly on prime assets to let strong covenants. However, while the gateway cities of London, Paris and the top German cities continue to attract strong demand, cities such as Dublin, Edinburgh, Barcelona, Brussels, Rome and Milan are increasingly on the radar. Russia meanwhile has experienced a marked fall in deal volumes, with investors clearly taking a negative view of the crisis in Ukraine.

The Next 6-12 Months Will Be Tough and We May See the Odd Crisis, But the Important Thing is That Growth Has Re-EMERGED Across Most of Europe

While much of Europe continues to see high levels of unemployment and weak consumer spending, European retail’s strong 2013 continued in to 2014. A number of significant shopping centre deals were concluded in the first half of the year, including Unibail-Rodamco’s US$727mn acquisition of a 50% stake in Centre Città Oberhausen and Intu’s US$48mn purchase of Westfield Derby. Sprucefield Retail Park in Northern Ireland and a 50% stake in Merry Hill in Birmingham. Occupier markets have been recovering at a slower pace than the investment market – as is normally the case – with trends generally mirroring the wider economic picture. Rental growth has been limited to date, with the exception of a handful of core markets. However, one encouraging trend has been in the periphery, notably Dublin, where rents have risen sharply, while rents in Madrid and Helsinki have reached their floor.

There is a greater level of optimism regarding occupier activity and development, with a number of key projects either either underway or planned. Dublin has a number of schemes underway, while (as the government pursues their debt reduction strategies) the state continues to sell-off assets to the private sector. In the UK, a number of regeneration schemes are under way, including the 57-acre regeneration of the Conti site in Salford, which is expected to deliver 9,400 new homes. In Germany, the 40-acre site of the Hansa-Bahnhof shopping centre in Berlin is undergoing a major re-development, with the aim of creating a new mixed-use development with 2,900 residential units, 70,000m² of commercial space and a 3,000 space car park.

However, the challenge remains in the development pipeline. The pipeline of planned new deliveries is on a downward trajectory, with the exception of a handful of large projects. In the UK, a number of schemes are either being delayed or cancelled due to the financial constraints faced by the developer.

The next 6-12 months will be tough and we may see the odd crisis. But the important thing is that growth has re-emerged across most of Europe. The UK’s full recovery is likely to be slower, with the economic challenges facing the country continuing to be felt. However, the rest of Europe is likely to see a more rapid recovery, with a number of countries, including Spain, Portugal and Italy, expected to see economic growth in 2015. The central European markets, such as Poland, Czech Republic and Hungary, are likely to see stronger growth in 2015, with a number of key projects either underway or planned. In the wider European context, the key drivers are likely to be the continued recovery in the US, which is expected to see strong growth in 2015, and the continued recovery in the UK, which is expected to see strong growth in 2015.
Around the world, governments are investing billions in infrastructure, whether it is utilities, transport, telecommunications or buildings. Modern infrastructure, economic growth and the creation of real estate opportunities all go hand in hand. Two of Europe’s leading cities - London and Paris - are seeing significant investment in infrastructure. Both cities will see major new rail networks in the next few years, namely Crossrail in London and the Paris Grand Express.

The enhanced transport network is therefore likely to lead to a significant increase in demand for property around the major transport hubs. A significant amount of new development will be needed across a number of sectors – including retail, offices, hotels and residential, with locations like Canary Wharf, Whitechapel, and Paddington likely to benefit. Rail lines will extend from London into surrounding counties, reaching Shenfield in Essex and Reading in Berkshire.

In Paris, the Grand Paris Project was first announced in 2007, in order to provide improved government in Paris, La Défense business district – a stop on the Grand Paris Express.

The importance of infrastructure

Infrastructure is critically important because it underpins our entire social and economic fabric. A key aim for both projects is to enhance the movement of an increasing number of passengers around their respective cities, thus future proofing their growth as key Global Cities. In the process, they are acting as catalysts for new development and the creation of new commercial hubs.

The enhanced transport network is therefore likely to lead to a significant increase in demand for property around the major transport hubs. A significant amount of new development will be needed across a number of sectors – including retail, offices, hotels and residential, with locations like Canary Wharf, Whitechapel, and Paddington likely to benefit. Rail lines will extend from London into surrounding counties, reaching Shenfield in Essex and Reading in Berkshire.

In Paris, the Grand Paris Project was first announced in 2007, in order to provide improved government in Paris, La Défense business district – a stop on the Grand Paris Express.

The importance of infrastructure

Infrastructure is critically important because it underpins our entire social and economic fabric. A key aim for both projects is to enhance the movement of an increasing number of passengers around their respective cities, thus future proofing their growth as key Global Cities. In the process, they are acting as catalysts for new development and the creation of new commercial hubs.

The enhanced transport network is therefore likely to lead to a significant increase in demand for property around the major transport hubs. A significant amount of new development will be needed across a number of sectors – including retail, offices, hotels and residential, with locations like Canary Wharf, Whitechapel, and Paddington likely to benefit. Rail lines will extend from London into surrounding counties, reaching Shenfield in Essex and Reading in Berkshire.

In Paris, the Grand Paris Project was first announced in 2007, in order to provide improved government in Paris, La Défense business district – a stop on the Grand Paris Express.
PARIS LEADING THE WAY

Q&A INTERVIEW:
Jean-Louis Missika

Jean-Louis Missika examines what makes Paris so attractive and how the city will evolve over the next few years.

What makes Paris attractive (to people and businesses) as a global city?
Paris’ dynamic economy and ambition for innovation nurture entrepreneurial excellence and audacity, as well as attracting talent and investors. Already ranked first in the world for innovation and intellectual capital, Paris is now ready to move from the experimental stage to a higher plane, implementing urban innovation, sustainable energy solutions and digital applications throughout the city. New, state-of-the-art hubs which merge business incubators, co-working areas and multifunctional workspaces will continue to be created, and the city’s innovative ecosystem will become more international.

What is Paris’ dynamic economy?
The City of Paris promotes connections between small and large businesses, between entrepreneurs and investors. These efforts to encourage links between the different players in the Parisian economy are vital to the politics of the years to come, as they allow people to join forces to enrich the economy together.

As well as reinforcing and consolidating our most dynamic sectors, such as tourism and digital technology, we shall promote new activities that generate high added value and job opportunities. We shall continue to improve the appeal and quality of reception at decision-making centres such as the headquarters of international groups and major economic players. We must also preserve Paris’ status as a strong financial base by supporting its banking sector and ensuring fast, secure transactions. Lastly, Paris boasts unique assets in terms of facilities for families, healthcare, parks, culture, services and living environment. It remains committed to preserving and improving its heritage and cultural richness to offset the inevitable constraints of urban development, such as pollution and traffic congestion.

What are the emerging locations in the city?
Ten percent of the city’s area has been enhanced by development projects since 2003. Various new neighbourhoods are currently on the rise: Paris Rive Gauche and Clichy Batignolles, for example. The ‘Paris Nord Est’ area will be the largest site of upcoming developments, followed by Bercy-Charen- ton and the Boulogne/Foch area. All of these neighbourhoods will be at the forefront of urban innovation and ecology.

At the same time, we plan to construct the ‘Arc of Innovation’, building the Paris of the future by using the territory close to the ring road to install multi-faceted projects combining housing, work spaces and facilities, offices, business incubators, co-working areas, research institutes, and businesses of varying sizes. This ‘Arc of Innovation’ will be developed in partnership with the neighbouring communities and, as part of the project, the extension of tramline T3 (also known as the Märechaux tramline) will be completed.

What are the growth industries?
The industries for which Paris is famous – luxury goods, fashion and tourism – continue to thrive, with steady growth and highly positive financial reports. However, growth is not limited to the traditional sectors; solid progress is being made by the high-tech industries of biotechnology, sustainable development, digital technology, and the smart city, all of which are supported by specific projects led by Paris City Council.

How do you see the future of Paris?
Anne Hidalgo’s election as Mayor marks Paris’ entry into a new era, in which the city’s place in the circle of attractive, competitive global cities will be cemented thanks to an active economy and technological innovation. Paris has an audacious future ahead of it conserving the aspects that define it – its distinctive architecture, high urban density, cultural intensity, rich historical heritage, and public services – whilst increasing its international competitiveness and its position in emerging markets. This urban dynamic is the driving force behind enriching projects for the Parisian ecosystem, such as the world’s largest incubator (3000 Start-ups), which is to be installed in the Halle Freyssinet. The Arc of Innovation will fortify this dynamic, driven not only by economic growth but also by sustainability and responsibility and, in doing so, will add to numerous inspiring projects launched under Bertrand Delanoë’s mandate, of which Velib’, Autolib’, the tram system and the development of the riverbanks are just a few of the finest examples.

How important is infrastructure to a city and how well will the Grand Paris project impact on the city?
Paris is Europe’s most accessible city. The interconnections between various infrastructures create an exceptionally rich transport network, with six major railway stations, five RER lines, 16 metro lines, one tramline, 74 bus lines and connections to six motorways. In addition, the Île-de-France region is equipped with top-class infrastructure: it is the second largest air transport hub in Europe, offers access to the TGV high-speed railway network and boasts extensive transport solutions, including 210 km of metro lines, 1,400 km of RER and railway lines, 3,000 km of bus lanes and 2,100 km of major roads and motorways. With 70 ports spread out along 500 km of navigable waterways, the region is also Europe’s second largest river transport hub, a status which looks to be reinforced by the Axe Seine development project.

In the future, we will continue to focus on more accessible housing, smoother journeys and efficient social policies, whilst promoting economic growth and the transition to alternative energy sources.

As well as reinforcing our most dynamic sectors, such as tourism and digital technology, we shall promote new activities that generate high added value.

JEAN-LOUIS MISSISSA
Paris’ two airports serve almost 90 million passengers each year. This accessibility is strategically valuable, and we are developing it further by way of the extension of tramline T3 and the Grand Paris Express metro project which is under way. The Grand Paris project will allow the city to up-scale and to renew its links with neighbouring towns. Grand Paris will build upon proactive policy-making to focus on more accessible hous- ing, smoother journeys and efficient social policies, whilst promoting economic growth and the transition to alternative energy sources.
Energy is crucially important to all industrialized countries because it lies at the heart of all commercial and social activity. In Europe, its importance has been highlighted in recent years due to sharp price increases, not to mention an often tense relationship with Russia, which supplies over half the EU’s imports of fossil fuels and over a third of its oil. In fact, the EU is the largest energy importer in the world.

However, European fossil fuel demand is in the midst of a downward spiral despite a fledgling economic recovery. EU oil demand peaked back in 2005 at 15.1 million barrels per day (mmbd), has fallen to 12.8 mmbd in 2013, and is forecast to be 2% lower by the end of this decade. The 16% drop in just eight years stands in stark contrast to the 13% rise in oil demand for the remainder of the world over the same period of time.

In many ways, Europe has become far less dependent on energy with the declining structural demand detailed above, increasing efficiency, dieselisation of the automotive fleet, and slowing population growth rates. In housing terms, increasing urbanisation, the focus on environmentally conscious building standards (LEED), the breakthrough of ‘smart’ technology (Nest Thermostats), LED light bulbs, highly efficient new appliances and much cheaper solar panels all have the ability to significantly lower home energy use.

However, there are a few potential issues in European energy markets that could threaten the stability of the region. Firstly, largely as a consequence the drop in demand and the unsophisticated/high input and labour costs of European refiners, approximately two million barrels per day of net refining capacity has permanently closed since 2008. Secondly, Europe depends on Russia to a large degree for natural gas imports and to a far lesser degree for diesel imports. Given the upheaval seen recently with events in Ukraine, the reliability and price of that natural gas source is being called into serious question. Third, the largest source of ‘domestic’ European crude supply is the North Sea (mostly UK and Norway), for which production has halved over the past 10 years.

If you take those three elements together, Europe produces less crude oil, has fewer refineries to turn that oil into transportation products such as diesel and gasoline, and has a less reliable source of natural gas imports to heat homes and businesses.

On the bright side, fracking technology – which has been a game changer in the US – offers similar potential in Europe. However, progress to-date has been slow, due mainly to environmental concerns and difficulties in gaining drilling permissions.

So, with a shale revolution unlikely in the short term, how will Europe balance the need for reducing carbon emissions with greater energy independence? Greater pan-European cooperation will be encouraged by the recent crisis in Ukraine, which has pushed the European energy debate up the agenda. For now though, the sensible way forward would seem to be an appropriate mix of sustainable fossil fuels, safe nuclear, renewables and – of course – greater efficiency.

With buildings still accounting for around a third of the EU’s greenhouse gas emissions, it is here that real estate can play its part. While much progress on building efficiency has been made in recent years, both residential and commercial property still have a huge role to play in shaping Europe’s energy security.
Commercial property values vary widely across Europe, with the largest and most established markets of London and Paris being the most expensive in terms of rents.

- **London**: $174
- **Paris**: $95
- **Dublin**: $55
- **Berlin**: $35
- **Frankfurt**: $58
- **Munich**: $52
- **Amsterdam**: $43
- **Vienna**: $37
- **Budapest**: $30
- **Bucharest**: $27
- **Istanbul**: $50
- **Prague**: $30
- **Warsaw**: $37
- **Amsterdam**: $43
- **Zurich**: $78
- **Milan**: $57
- **Stockholm**: $62
- **Oslo**: $66
- **Helsinki**: $47
- **Lisbon**: $28

HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**KEY MARKET DRIVERS**

- **Auto manufacturing**
- **Aerospace**
- **Technology**
- **Tourism**
- **Financial services**
- **Energy**
- **Healthcare**

**PRECEDING PAGES**

- **Chapter 04 - Rising from the Ashes - Europe on the Way Back**

**COMMERCIAL PROPERTY MARKET**

- **Prague**: Recent years have seen an increase in the number of international companies setting up operations in the city, leading to a surge in commercial space availability.
- **Warsaw**: The office market has struggled with high vacancy rates over the past few years, leading to a decrease in prime office rents.
- **Amsterdam**: The city has seen a significant rebound in commercial property values, with rents now among the highest in Europe.
- **O soundings on European capital markets and investment opportunities:**
  - **London**: The largest and most established market, with high-quality office spaces.
  - **Paris**: Known for its historic architectural heritage and high-end commercial spaces.
  - **Berlin**: A rising star in European real estate, with a mix of modern and historic office buildings.
  - **Frankfurt**: Home to several major financial institutions, with high demand for prime office space.
  - **Munich**: A key player in the tech industry, with a growing demand for office space.

**MAPPING THE EUROPEAN COMMERCIAL PROPERTY MARKET**

- **London**: Home to a large number of multinational companies, with a diverse range of office spaces available.
- **Paris**: A major financial hub, with high-quality office spaces and a strong demand for prime office locations.
- **Dublin**: Home to a large number of multinationals, notably in the technology sector, including IT, Pharma and Digital Media.
- **Berlin**: One of Germany's wealthiest and fastest growing cities, with a significant rebound in commercial property values.

**HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)**

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**Source:** Knight Frank Research/Real Capital Analytics

**Chapter 04 - Rising from the Ashes - Europe on the Way Back**

- **Commercial property values vary widely across Europe, with the largest and most established markets of London and Paris being the most expensive in terms of rents.**

**HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)**

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**Source:** Knight Frank Research

**Chapter 04 - Rising from the Ashes - Europe on the Way Back**

- **Commercial property values vary widely across Europe, with the largest and most established markets of London and Paris being the most expensive in terms of rents.**

**HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)**

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**Source:** Knight Frank Research

**Chapter 04 - Rising from the Ashes - Europe on the Way Back**

- **Commercial property values vary widely across Europe, with the largest and most established markets of London and Paris being the most expensive in terms of rents.**

**HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)**

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**Source:** Knight Frank Research

**Chapter 04 - Rising from the Ashes - Europe on the Way Back**

- **Commercial property values vary widely across Europe, with the largest and most established markets of London and Paris being the most expensive in terms of rents.**

**HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)**

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**Source:** Knight Frank Research

**Chapter 04 - Rising from the Ashes - Europe on the Way Back**

- **Commercial property values vary widely across Europe, with the largest and most established markets of London and Paris being the most expensive in terms of rents.**

**HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)**

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**Source:** KnightFrank.com

**Chapter 04 - Rising from the Ashes - Europe on the Way Back**

- **Commercial property values vary widely across Europe, with the largest and most established markets of London and Paris being the most expensive in terms of rents.**

**HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)**

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**Source:** KnightFrank.com

**Chapter 04 - Rising from the Ashes - Europe on the Way Back**

- **Commercial property values vary widely across Europe, with the largest and most established markets of London and Paris being the most expensive in terms of rents.**

**HOW MUCH PRIME OFFICE SPACE DOES US$100M BUY? (SQ FT)**

- **London**: 21,593
- **Paris**: 40,072
- **Frankfurt**: 31,907
- **Munich**: 80,680
- **Dublin**: 8,364
- **Milan**: 62,182
- **Warsaw**: 81,514
- **Amsterdam**: 136,888
- **Warsaw**: 100,672
- **Prague**: 190,609

**Source:** KnightFrank.com
Cities in Africa will be among the fastest growing in the world.

Middle East property markets are benefiting from an improving global economy.

**The Middle East in Figures**

**A** 23% of Saudi Arabia's oil is for local consumption

**B** $25bn of projects under construction in Qatar

**C** 50% rise in new construction schemes in Kuwait in 2014

**D** 70% of UAE’s GDP is now non-oil

**E** 1st Dubai International now the world’s busiest airport

**F** 2.1m tourists visited Oman in 2013

**OIL PRODUCTION**

<table>
<thead>
<tr>
<th>Country</th>
<th>Oil Production (thousand barrels per day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>11,562</td>
</tr>
<tr>
<td>UAE</td>
<td>3,230</td>
</tr>
<tr>
<td>Kuwait</td>
<td>2,812</td>
</tr>
<tr>
<td>Qatar</td>
<td>2,067</td>
</tr>
<tr>
<td>Oman</td>
<td>945</td>
</tr>
<tr>
<td>Bahrain</td>
<td>55</td>
</tr>
</tbody>
</table>

**Cities in Africa**

- **Abidjan**
- **Casablanca**
- **Cairo**
- **Kinshasa**
- **Johannesburg**
- **Lagos**
- **Accra**
- **Luanda**
- **Addis Ababa**
- **Kampala**
- **Lusaka**
- **Nairobi**
- **Khartoum**
- **Dar es Salaam**

Source: United Nations Human Settlements Programme (UN-Habitat), Knight Frank, International Monetary Fund, US Energy Information Administration, World Bank
For the Americas section of this report, Newmark Grubb Knight Frank was asked to profile five cities – not an easy choice given the many cities across the western hemisphere that offer interesting opportunities. New York, the largest urban area in the U.S., was an obvious choice; as was the nation’s capital, Washington, D.C. We bypassed Los Angeles and Chicago, to focus instead on San Francisco and Houston, because technology and energy are driving the U.S. economy. Our fifth choice was Mexico City, the largest urban agglomeration in the Americas.

Several of the catalysts profiled elsewhere in this report are driving property demand across the Americas. Most notably, the unprecedented policies of the Federal Reserve to keep interest rates low and spur businesses to hire have pushed investors into riskier, higher-yielding assets, including commercial real estate. The grab for trophy properties in the leading American cities began shortly after the recession ended. Investors have begun to flip those properties and recycle their capital, often in secondary markets offering a higher initial yield.

Leasing markets have returned more slowly, but nevertheless continue to improve. CBDs and nearby residential neighborhoods have flourished, while the recovery in the suburbs has trailed.

As the Federal Reserve continues to wind down quantitative easing, the debate among economists has shifted to when the Fed should begin raising interest rates.

The Fed’s decision will reverberate throughout the investment world, including commercial real estate, and beyond U.S. borders. Financial market reaction last year when the Fed first hinted it would start to wind down QE, dubbed the ‘taper tantrum,’ saw money exit Latin America and other emerging markets. Mexico, however, was buffered by its close economic ties with the recovering U.S., while the formation of Mexican REITs (FIBRAs) attracted capital to the country’s property markets.

Our view is that the economy will be strong enough to withstand a gradual rise in interest rates beginning in the first half of 2015, but not without some volatility in the capital markets. Expect property leasing market fundamentals to continue improving gradually over the next two years, helping to buffer the impact of higher interest rates on asset prices. Class A prices in gateway cities will prove more resilient to rising interest rates than prices for Class B and C assets in secondary markets.

A new era of abundant energy and perpetual technological change is creating opportunities for commercial property investors.
New York City (NYC) is the premier gateway market for international investment in the United States. With a population of 8.4 million (2019 million in the larger catchment area), it is the largest city in the country. NYC’s economy proved to be surprisingly resilient during the financial crisis and recession despite its role as the global financial capital, thanks in part to its increasingly diversified business mix.

Manhattan is the epicenter of this market with over 447 million square feet of office space. FIRE (finance, insurance, real estate) remains an anchor, but increasingly TAMI (technology, advertising, media, information) has become a bigger slice of the employment picture. Moving forward, the healthcare and education sectors will play a growing role as well.

FIRE companies historically have been focused on Midtown Manhattan. While TAMI companies are looking beyond Midtown to Downtown and Brooklyn (across the East River), initially, lower rents were the draw, but rents are, in some instances, approaching Midtown levels.

Property sales prices are nearing 2007 peak levels. With interest rates low in the short term and institutions flush with capital, domestic and international buyers are chasing opportunities. Several landlords who purchased buildings between 2008 and 2010, when the market was depressed, have flipped their assets for substantial profits. New developments are underway, including the World Trade Center redevelopment Downtown and the ground-up Hudson Yards development in Midtown South. Even Midtown is likely to see new office buildings rise by the end of the decade.

Risks: A financial services industry coping with tighter regulations; another tech bubble; a higher vacancy rate in the near future due to new construction and revised work place strategies; and a high cost of living and doing business.

Advantages: a safe and liquid global market; a diversified economy; 24/7 environment.

Source: CoStar, Newmark Grubb Knight Frank

New developments are underway, including the World Trade Center redevelopment Downtown and the ground-up Hudson Yards development in Midtown South. Even Midtown is likely to see new office buildings rise by the end of the decade.
San Francisco Bay

Thanks to the technology industry, the Bay Area economy has been outperforming most other markets in the U.S. The boom is centered on the City of San Francisco itself as well as the Silicon Valley (South Bay). The East Bay economy, while more diversified, has been slower to recover. San Francisco proper has seen a big increase in tech firms opening or expanding. Companies have moved into older buildings in the mid-Market and South of Market districts. There has been some re-zoning near San Francisco Bay and below Market Street where new office and residential projects are being developed. This includes the newly renamed Salesforce.com Tower, a 1.4 million square-foot office building under construction where the software firm pre-leased 700,000 square feet. Other tech-centric tenants signing major deals in the city recently include Twitter, Dropbox, LinkedIn and Uber. Many of these companies are building or leasing suburban campuses that mimic high-density urban environments.

The East Bay houses the manufacturing and distribution centers for major tech companies, including Amazon, which took 575,000 square feet of warehouse space recently. Some firms priced out of San Francisco and Silicon Valley are moving their offices to the East Bay.

Property investors view the Bay Area as one of the safest and most consistent office markets in the U.S., matched only by Manhattan. Everything from creative loft properties to new office buildings are garnering exceptional sale prices thanks to strong market fundamentals.

Risks: Dependency on a single sector—tech—steep costs for both commercial and residential property that could price occupiers out of the market.

Advantages: Strong global demand for tech products; highly educated workforce; healthy wage growth; infrastructure; healthy sales and leasing activity. San Francisco and the Bay Area provide a growing supply of new tech workers thanks to the region’s high public universities.

The story of Houston is the story of energy production with all its ups and downs. Following an oil bust in the mid-1980s, Houston’s real estate market cratered. A generation of institutional property investors red-lined the market, repelled by the massive overhead and a lack of traditional zoning standards. But Houston has reinvented itself over the past quarter-century, propelled by a more diversified economy that includes world-class healthcare services, a growing petrochemical sector on the Gulf of Mexico, and a chemical industry that is benefiting from cheaper natural gas extracted from nearby shale formations. The city is expanding its light rail network, and planners have made strides in redeveloping downtown.

The city is enjoying a new construction cycle earlier in Houston, aided by the city’s longstanding pro-growth policies. Advantages: The energy industry is embarking on an era of more plentiful and stable supplies enabled by new technologies. This, along with Houston’s growing reliance on the healthcare industry, should temper the boom-and-bust risk that bedeviled the local economy in the past. Texas’s low-tax, pro-growth policies and strong population in-migration will provide a growing supply of new jobs and the workers to fill them.

Investors are recognizing Houston as a primary or gateway city.

The volume of office building sales has grown exponentially in recent years. While typical per-square-foot averages are in the US$200-300 range, pricing has approached US$400-US$500 on new construction of prime product. Cap rates have trended considerably lower and now average approximately 6.0-6.5%.

Risks: High-equilibrium vacancy rates; developers and lenders will initiate a new construction cycle earlier in Houston, aided by the city’s longstanding pro-growth policies. Advantages: The energy industry is embarking on an era of more plentiful and stable supplies enabled by new technologies. This, along with Houston’s growing reliance on the healthcare industry, should temper the boom-and-bust risk that bedeviled the local economy in the past. Texas’s low-tax, pro-growth policies and strong population in-migration will provide a growing supply of new jobs and the workers to fill them.

An Energetic Economy

The shale oil and gas boom created by hydraulic fracturing or ‘fracking’ combined with more efficient energy use, has brightened economic prospects in the U.S. Consider the following points from the 2014 Annual Energy Outlook from the U.S. Energy Information Administration:

- Domestic production of crude oil is projected to increase sharply to a peak in 2014, followed by a slow decline after 2016, after which it will level off and then slowly decline after 2020.
- Natural gas production, currently at the highest level ever in the U.S., will continue to grow, increasing by 8% between 2012 and 2040.
- Energy use by light-duty vehicles will decrease by 24% from 2012 to 2040, reflecting slow growth in vehicle miles traveled and improvements in vehicle efficiency.
- Natural gas and renewable energy will increase in the energy mix through 2040 while coal and nuclear will decrease.
- Net imports of energy, which accounted for 30% of domestic consumption in 2005 and 2006, fell to 10% in 2012 and are expected to account for less than 5% by 2030.
- Energy-related carbon dioxide emissions will remain below their 2005 level through 2040.

The energy revolution in the U.S. is expected to add 800,000-1.1 million new jobs per year for the next five years along with several hundred thousand jobs annually. Demand for commercial real estate will be strong in areas near the daily play including Texas, Oklahoma, Pittsburgh and North Dakota. The benefits will extend to all energy users, including commercial property landlords and retailers whose customers will have more disposable income to spend.
MEXICO CITY

Mexico has the world’s 16th largest economy in terms of GDP. The country is closely aligned with the North American economy and, along with Brazil, is a leader in the economic development of Latin America. Following a currency crisis dubbed the “Tequila Effect” during the 1990s, Mexico has enjoyed 20 years of economic stability, featuring single-digit inflation, relatively low interest rates and, over the last five years, a booming real estate investment market.

With 20 million inhabitants, Mexico City is the world’s fifth most populous urban area according to the United Nations. A partial result of its sheer size and proximity to the U.S., Mexico City is attracting large amounts of foreign direct investment, including investment in real estate.

In the last 20 years, developers have added 45 million square feet of new office space in Mexico City, and an additional 18 million square feet will be ready by 2017. The city’s industrial sector has become a major logistics and distribution hub with an inventory of over 66 million square feet of modern space. The commercial sector includes more than 1,000 modern shopping centers (mostly power centers) with more than 45 million square feet of space currently in operation.

South America experienced a mild recession in 2009 followed by a strong comeback in 2010 that was driven by commodity exports to China and a growing middle class. The region caught the attention of global property investors during this period, boosting sales. But exports receded as China entered a period of slower growth, and the spike in U.S. long-term interest rates in 2013 weakened currencies and pulled capital out of emerging markets, impacting prospects for growth.

Property sales volumes, which rose on South America’s strong economic recovery in 2003, slipped in tandem with the economic outlook.

In Brazil, a wave of new construction in both São Paulo and Rio de Janeiro has tipped the market in favor of tenants. Class A property market conditions in Buenos Aires are largely stable despite Argentina’s rising inflation and bond defaults. Office construction in Santiago, Chile totals almost 6.9 million square feet, approximately 20% of its inventory. Development of modern industrial space is on the rise in Lima, Peru. Property markets are slowly rebounding in Bogotá, Colombia despite a rocky 2013.

In Mexico, REITs have become active, boosting both property sales and new development projects, especially in Mexico City (please see related article).
Global investors are getting comfortable with smaller markets beyond the major gateway cities.

**Key Market Drivers**

- **Manufacturing**
- **Aerospace**
- **Financial**
- **Tourism**

**Technology Employment as % of Total**

**One Year Rent Change as %**

**Metro Area Employment Percent Change from Pre-Recession Peak**

**North American Market Outlook**

**Inland West**
- Silicon Valley (San Jose, CA)
- Orange County, CA
- San Diego
- Portland
- Salt Lake City

**Eastern Great Lakes**
- Cleveland
- Columbus
- Indianapolis
- St. Louis

**Texas**
- Austin
- Dallas
- Houston
- San Antonio

**Southeast**
- Raleigh/Durham
- Atlanta
- Jacksonville, FL

**Mid-Atlantic**
- Northern New Jersey
- Boston
- Washington, D.C.

**Pennsylvania**
- Philadelphia

**New York City**
- Manhattan

**Global Investors**

- Global investors are getting comfortable with smaller markets beyond the major gateway cities.
- The continued growth of smaller markets is encouraging for investors looking for opportunities in real estate.

**Technology Investment**

- **Volume of Cross-Border Investment - 2014 Through July (Millions)**
  - California: $5,405.4m
  - Texas: $2,200.5m
  - New York: $1,761.3m
  - Illinois: $1,386.5m
  - Florida: $1,241.5m

**Source:** Knight Frank, Newmark Grubb Knight Frank, Costar.
To put it lightly, Asia has scale. The region accounts for over 60% of the world’s population, 30% of its land mass and approximately 40% of the world’s GDP. But beyond these headline figures: an industrial base which supplies large parts of the world, an emerging consumer class and urbanisation on a scale never seen before in human history – all provide a compelling narrative to the region going forward.

INTEGRATION AND EXPANSION

So what can we expect to see in Asia over the next five years? We can highlight two trends we expect to see more of, firstly, the increasing inter-connectivity of Asia – led by China, and secondly, a more outward looking approach of Asian corporates and investors.

On the first, as a large part of Asia transforms itself from a cheap production base to a trading block, intra-Asian trade is on an upward trajectory. China, most notably, is now the dominant trading partner of most Asian countries, including being the leading export market for Hong Kong, South Korea, Thailand and Taiwan. In Southeast Asia, the move towards the ASEAN Economic Community, including the full removal of barriers to trade, will increase connectivity and interdependence over the coming months and years.

Further integration is not restricted to the trade of goods and services; we are also witnessing an increase of cross-border capital flows, again, led by China. The announcement in April of the Hong Kong-Shanghai stock connection – allowing equity trades between the two Chinese financial hubs – is a precursor to further loosening of capital controls, which will extend the country’s economic influence. Indeed, over the next five years, we expect the increasing internationalisation of the renminbi, which will soon be traded and cleared in London, to extend China’s economic reach even further.

On the second, Asian corporate occupiers are expected to be increasingly active in global cities around the world, led by banks, financial services and energy sectors. We are already seeing this trend in cities across Asia. Similarly, for diversification, growth opportunities and wealth preservation, Asia is now an important exporter of capital for real estate and we are seeing more investors and developers look outside their home markets for opportunities.

Asia’s real estate markets face significant changes over the next five years, on top of the transformation already seen. Economic growth, greater cross-border activity, and changing consumer patterns are set to transform the property landscape.
Economic growth drives activity
Office occupier markets, which have been fairly subdued over the last few years given the sluggish global economic recovery, saw a relatively strong end to 2013. Net absorption of office space peaked up in the second half of the year, reversing a downward trend stretching back to the second half of 2011.

In our core Global Cities, technology and IT sectors have been the key drivers of the take-up of office space. Financial services and banking, the sectors that led the pre-Global Financial Crisis (GFC) boom, continue to be more cost conscious, and while there is still demand from these sectors, there has been less ‘front’ or ‘prime’ office demand. Over the coming years however, we expect financial services and banking occupiers to come back to drive sizeable segments of demand.

Other sectors prominent in the Asian office markets include international law firms and the oil and gas sector. The former has benefited from the liberalization of the legal sectors in South Korea, Singapore, Malaysia and China, with a number of key transactions over the past two to three years. In the latter, oil and gas companies continue to be important prime office occupiers in Jakarta, Kuala Lumpur and Vietnam. The future exploitation of Cambodia's oil and gas reserves, could also lead to increased activity from this sector in the nascent Phnom Penh office market.

In Japan and India look forward
In the region’s second and third largest economies, Japan and India, recent events have raised expectations for improved economic performance. In Japan, Prime Minister Abe’s economic stimulus programme along with the prospect of hosting the 2020 Olympics has strengthened corporate demand in Tokyo. Grade A, earthquake tolerant office space in central Tokyo is seeing its vacancy rate fall, with the prospects of rental growth over the coming years. In India, the election of Narendra Modi has set expectations that a successful reformist agenda will free up a flagging economy, boosting occupier markets.

The biggest downside risk?
Throughout the 20th century, we saw both the Japanese economic miracle (1950-1990) and the Korean Miracle on the Han River (1961-1996) come to an end. It is not if, but how the inevitable slowdown of the Chinese economic boom (1983-7) is managed, that will have a significant impact on the regional and world economy. Given the increased interconnectivity of the Chinese economy, a sharper than expected slowdown, could undoubtably impact growth trajectories and subsequently occupier markets. All eyes will therefore be on the Chinese government, and how they manage the rebalancing of the country’s economy over the coming years.

In China, it is not an unusual sight to see large corporates own and occupy their office premises. Tier-1 cities on the country’s mainland are notably home to the headquarters of a large number of Chinese corporates with strong balance sheets. They have been developing and purchasing office developments either for owner occupation or in some cases for long-term investment.

Of course, China is not the only country with such office market characteristics. However, the interesting trend we have been witnessing is the flurry of real estate investment activity by mainland financial institutions in Hong Kong. One of the major deals in 2012 was China Construction Bank (CCB)'s purchase of a Grade A office tower in East Kowloon for US$1.3bn. This is added to their previous investment in CWB Tower in Central. Other notable deals include the Agricultural Bank of China’s purchase of a prime Central district office tower for US$2.6bn, along with numerous strata deals involving a floor of an office building by Chinese institutions.

Chinese financial institutions’ aggressive expansion is driven while allowing the institutions to manage their future occupation costs,” says Paul Hart, Executive Director, Knight Frank Greater China. “They already have extensive domestic real estate exposure and offshore investment allows them to diversify their risks. The Chinese investment landscape has also become very competitive and the desire to expand overseas markets for better returns is also a driver,” he adds. “Hong Kong, the biggest international financial market close to home, with its mature legal system and financial regulatory supervision, is ideal for this.”

Hong Kong is not the only market to have seen an up tick in activity. The recent purchase by China Construction Bank of 111 Old Broad Street, a central London office building for circa US$1.3bn, signals the latest move by one of China’s big four in purchasing owner-occupied office space in the UK’s capital. The bank, recently selected to become the first Chinese bank to provide remittance clearing services in the UK, joins the Bank of China (BOC), who purchased One Lombardy, and the Industrial and Commercial Bank of China (ICBC) who have also bought office space in the city.

Chinese financial institutions’ expansion into offshore markets is expected to continue, with the relaxation of regulations and the freeing up of the currency providing huge opportunities overseas. Following Hong Kong and London, other financial centres of the world are likely to be targeted as centres for expansion.

China: a title of a third of the world?
Coming back to Hong Kong, aside from offices, blue chip, one of the key routes to owner occupation by many institutions and investors has been through strata titles. However, times are changing.” Policy makers in Hong Kong are increasingly aware of the difficulties of an office market with too much fractional ownership and have started to react with the two government land sales in Kowloon East precluding strata in the lease,” says Hart. “Strata ownership is a double-edged sword, as it creates lots of opportunities for smaller investors but can preclude a building from being occupiable by multinational corporations.”

Strata titles are a form of ownership devised for multi-level buildings with horizontal subdivisions and shared areas.

En-bloc translates from French as “the whole thing” typically refers to the purchase of a whole building.

CHINA’S BIG FOUR BANKS’ RECENT OVERSEAS ACQUISITIONS

<table>
<thead>
<tr>
<th>BANK</th>
<th>LOCATION</th>
<th>PROPERTY NAME</th>
<th>PRICE (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICBC</td>
<td>London</td>
<td>60 Victoria St</td>
<td>123,000</td>
</tr>
<tr>
<td>ICBC</td>
<td>Hong Kong</td>
<td>ICBC Centre</td>
<td>244,000</td>
</tr>
<tr>
<td>BOC</td>
<td>London</td>
<td>Cheesegrater</td>
<td>179,000</td>
</tr>
<tr>
<td>BOC</td>
<td>London</td>
<td>Maida Vale</td>
<td>48,000</td>
</tr>
</tbody>
</table>

China’s financial institutions’ expansion into offshore markets is expected to continue, with the relaxation of regulations and the freeing up of the currency providing huge opportunities overseas. Following Hong Kong and London, other financial centres of the world are likely to be targeted as centres for expansion.
MAURING INVESTMENT MARKETS AND NEW SOURCES OF CAPITAL

The Asian growth story sees two distinct investment markets and an increasing number of participants.

The narrative around real estate investment in Asia can be summed up relatively simply: a lot of capital chasing limited stock. While this has led to an increase in capital values across the board, it has also led to increasing outflows of capital towards other regions of the world. Over the next few years, we expect to see a slow maturing of investment markets and a continued emergence of a new wave of institutional capital targeting property, which could have a lasting impact on real estate markets in the region and beyond.

DIFFERENT INVESTMENT MARKETS

When looking at property markets in Asia, there are essentially two different sides to its investment markets. In terms of investment-grade product, the most significant liquidity is in the core markets of Japan, South Korea, Singapore and Hong Kong. Japan continues to be the most active market, with domestic groups competing aggressively for prime real estate, aided by the low cost of debt. In contrast to the more mature regions of North America and Europe, the development market contributes the highest transaction volumes in the region, with the Chinese-development land market the largest sector by far (see Knight Frank’s Prime Development Land Index on pages 75-76).

In terms of sources of capital, REITs remain important players, especially in Japan and Singapore. Otherwise, listed and un-listed funds have also been active — with private equity groups from the US such as Blackstone and Carlyle actively buying in the region. In general, foreign (non-Asian) groups, who were more active pre-GFC, have started to come back to the market as demonstrated by M&G’s recent acquisition of two assets in Japan. In China however, state-owned enterprises remain the key buyers of both development land and income producing assets, with access still proving difficult for foreign groups.

Private wealth continues to be an extremely important source of capital in the real estate markets. Asian HNWIs have traditionally viewed property as a core investment, heavily weighting their portfolios towards bricks-and-mortar. Following the numerous rounds of cooling measures we have seen in the residential markets, an increasing number of private investors have been looking at commercial real estate. The growth in private wealth in Asia is likely to continue unabated, with Knight Frank’s Wealth Report forecasting a 43% growth in HNWIs between 2013 and 2023 — a growth in absolute numbers of 17.474 — higher than any other region in the world. The increasing number of family offices in Asia reflects this growth. These top-tier HNWIs typically take a long-term view to investing, with success often being a core objective. Property either at home or overseas will continue to be high on their agenda.

Over the next five years and beyond, Asian insurance companies and pension funds are set to play an increasingly important role in the real estate landscape. Looking at volumes invested within Asia-Pacific by these institutions (and sovereign wealth funds), we can see that they have been increasingly active over the last two years. This does not account for the growing amount invested outside the region: where core, well-located prime assets in gateway cities continue to attract their attention.

TARGET ALLOCATIONS ARE SIGNIFICANTLY HIGHER AND SOME OF THE BARRIERS TO INVESTING IN REAL ESTATE ARE COMING DOWN

The huge potential for real estate investment from these groups is apparent when we look at the existing vs. target allocations for real estate. Existing allocations typically range from 0% to 5%, with regulatory barriers, a lack of knowledge of the sector and a historic reliance on equities and fixed income investments holding this back. Target allocations are significantly higher and some of the barriers to investing in real estate are coming down. Changing regulations and improved knowledge of the sector are allowing these investors more access to alternative investment classes. It is likely that we will see these groups increase allocations towards levels seen in the west of near to 10%.

Examples can be found in Taiwan and China, where recent regulatory changes are leading to increasing outbound activity. Most notably, the China Insurance Regulatory Commission’s (CIRC) announcement allowing Chinese insurers to go offshore has led to the notable purchases of Lloyd’s Building in London by Ping An Insurance Group for US$4.8bn (see interview page 74) and Canary Wharf Tower by China Life for US$1.3bn (in partnership with Qatar Holdings). Expect Chinese insurers who are now allowed to invest up to 30% of their assets in real estate to become more important players in global markets over the coming years.

With ageing populations in many parts of Asia, pension funds in the region, which hold over US$4trn in assets, are increasingly looking at alternative investments such as

INVESTMENT VOLUMES IN ASIA (US$)

CONTINUED...
real estate as a way of matching future liabilities. Funds across the region are looking at increasing allocations and diversifying into offshore property markets. National Pension Service (NPS) of Korea and Employees Provident Fund (EPF) of Malaysia are very much leading the way. The former recently acquired assets in Europe, Australia, China and Japan while the latter has been active in the UK over the last year.

Depending on the prevailing regulations, these insurance and pension funds will continue to target core, income producing assets in gateway cities. These are long-term investors and will be more and more visible in our global cities around the world.

MEGA-INFRASTRUCTURE PROJECTS IN ASIA

SUNDA STRAIGHT BRIDGE – INDONESIA

The long awaited bridge linking the resource-rich Indonesian island of Sumatra, with its densely populated neighbor Java is one step nearer to fruition. At a potential cost of over US$56 billion, the 35km bridge would be one of the longest bridges in the world.

KUNMING – SINGAPORE RAILWAY

China’s access to Southeast Asia will be made easier once the proposed railway connecting the capital of China’s south-western province, Yunnan and Singapore is completed. The Central Route which is proposed to pass through Laos, Cambodia, Thailand, Malaysia and Singapore aims to bring travel times down to less than 12 hours.

MEGCITY INFRASTRUCTURE – GUANGZHOU, SHENZHEN, HONGKONG

The densely populated and rapidly urbanising Guangzhou-Shenzhen-Hong Kong express link, due for completion in 2017, will create a ‘mega-city’ of over 50 million people within 90 minutes reach of each of the three cities.

MEGA-INFRASTRUCTURE PROJECTS IN ASIA

SUNDA STRAIGHT BRIDGE – INDONESIA

The long awaited bridge linking the resource-rich Indonesian island of Sumatra, with its densely populated neighbor Java is one step nearer to fruition. At a potential cost of over US$56 billion, the 35km bridge would be one of the longest bridges in the world.

KUNMING – SINGAPORE RAILWAY

China’s access to Southeast Asia will be made easier once the proposed railway connecting the capital of China’s south-western province, Yunnan and Singapore is completed. The Central Route which is proposed to pass through Laos, Cambodia, Thailand, Malaysia and Singapore aims to bring travel times down to less than 12 hours.

MEGCITY INFRASTRUCTURE – GUANGZHOU, SHENZHEN, HONGKONG

The densely populated and rapidly urbanising Guangzhou-Shenzhen-Hong Kong express link, due for completion in 2017, will create a ‘mega-city’ of over 50 million people within 90 minutes reach of each of the three cities.

MEGA-INFRASTRUCTURE PROJECTS IN ASIA

SUNDA STRAIGHT BRIDGE – INDONESIA

The long awaited bridge linking the resource-rich Indonesian island of Sumatra, with its densely populated neighbor Java is one step nearer to fruition. At a potential cost of over US$56 billion, the 35km bridge would be one of the longest bridges in the world.

KUNMING – SINGAPORE RAILWAY

China’s access to Southeast Asia will be made easier once the proposed railway connecting the capital of China’s south-western province, Yunnan and Singapore is completed. The Central Route which is proposed to pass through Laos, Cambodia, Thailand, Malaysia and Singapore aims to bring travel times down to less than 12 hours.

MEGCITY INFRASTRUCTURE – GUANGZHOU, SHENZHEN, HONGKONG

The densely populated and rapidly urbanising Guangzhou-Shenzhen-Hong Kong express link, due for completion in 2017, will create a ‘mega-city’ of over 50 million people within 90 minutes reach of each of the three cities.

MEGA-INFRASTRUCTURE PROJECTS IN ASIA

SUNDA STRAIGHT BRIDGE – INDONESIA

The long awaited bridge linking the resource-rich Indonesian island of Sumatra, with its densely populated neighbor Java is one step nearer to fruition. At a potential cost of over US$56 billion, the 35km bridge would be one of the longest bridges in the world.

KUNMING – SINGAPORE RAILWAY

China’s access to Southeast Asia will be made easier once the proposed railway connecting the capital of China’s south-western province, Yunnan and Singapore is completed. The Central Route which is proposed to pass through Laos, Cambodia, Thailand, Malaysia and Singapore aims to bring travel times down to less than 12 hours.

MEGCITY INFRASTRUCTURE – GUANGZHOU, SHENZHEN, HONGKONG

The densely populated and rapidly urbanising Guangzhou-Shenzhen-Hong Kong express link, due for completion in 2017, will create a ‘mega-city’ of over 50 million people within 90 minutes reach of each of the three cities.

CHINESE INSURERS LOOK OFFSHORE

Nicholas Holt talks to Johnny Zhang, Senior Executive Director of Ping An Trust’s Real Estate Investment Department.

INTERVIEW - JOHNNY ZHANG

Ping An Insurance

How does Ping An Insurance view property as an investment class?

Stock market performance has not been very good, especially in the Chinese domestic A-share markets – and yields are low. So over the past two years, as a group, we have been trying to decrease our portfolio in capital markets – in A-share markets. The strategy is to try and increase our investment into alternative investments – real estate, private equity and infrastructure (in order to) increase the yield on the whole portfolio for our life insurance companies.

Currently, what percentage of your portfolio is allocated to property – or as an investment class?

When compared to the China Insurance Regulation Committee (CIRC) regulations, which permit up to 30% of total investment in real estate, we have a low percentage of our total portfolio allocated to property – so there is still a lot of potential.

How far we increase our allocation will partly depend on the government’s attitude and whether we find suitable opportunities that meet our investment criteria. The most recent regulations encouraged insurance companies to diversify their portfolios – not just in capital markets, but also into alternative investments. Over the longer term – over 10-15 years – we could probably reach that (30%) percentage.

What is your view of the Chinese commercial property market at the moment?

The office markets in Beijing and Shanghai are still hot, because global and local companies are still trying to expand into the future. For the retail markets, we are very cautious due to the expansion of e-commerce.

From an investment point of view – the Grade-A office markets in Shanghai and Beijing are quite expensive – you have to spend a lot of money in capital markets, but also into securitisation. Some changes will happen quickly. Continue to watch the speed of the impact of Chinese insurers, will happen slowly; others, such as the impact of pension funds will continue to target core, income producing assets in gateway cities. These are long-term investors and will be more and more visible in our global cities around the world.

What are the key challenges Ping An face in investing in property markets around the world?

We look for yield and controlled risk in a safe market. That is why we prefer a single tenant on long term income lease – quite a bond. You can get stable income for 15-20 years. That is why when the Lloyd’s building came to us – the yield is higher than in Shanghai – we did the deal.

Are you looking at any other markets?

It really depends on the fundamentals of the economy. The US, UK and Germany are our priorities. Australia could be – but only if there is a very good opportunity.

And last year you invested offshore, buying the Lloyd’s Building. Could you tell me a little about what attracted you to this asset and the London market?

A new player in the market – a new player in the market – but are learning step-by-step.

After the Lloyd’s building came to us, we don’t want to lose the deal. We are learning step-by-step. We see the long-term potential, the growth in the aforementioned global cities around the world.

Otherwise, as markets continue to mature, we will slowly see increasing liquidity in developing Asia, improving levels of transparency and higher levels of securitisation. Some changes will happen slowly; others, such as the impact of Chinese insurers, will happen quickly. Continue to watch this space.
Development sites make up by far the largest proportion of investment volumes across Asia and we are witnessing investors and developers of all stripes increasingly look at land development opportunities in their home markets and abroad.

Knight Frank’s Prime Asia Development Land Index derives the price of prime residential (apartment or condominium) and commercial (office) development land in 13 major cities across Asia. It is the first index of its kind to track development land prices across the region.

**Prime Asia Development Land Index**
- **12 Month % Change (June 2013 - June 2014)**
- **June 2012 - June 2014**

---

**Source:** Knight Frank Research

---

**Prime Asian Development Land Indices**
- **Unweighted**

---

**Development Land Price Ranking**
- **Highest Land Price**
- **Lowest Land Price**

---

**Construction Costs for High Rise, Prime Offices**
- **Highest Land Price**
- **Lowest Land Price**

---

*Based on the average value of the prime residential and commercial (office) sites tracked*
The Australian property market has remained strong through tough economic conditions, and continues to punch above its weight.

IN THIS CHAPTER

- Australian office space is dominated by the Sydney market, which accounts for 39% of all metropolitan office space within recognised office precincts.
- New construction will cause the office stock of major CBDs to grow by 7.4% and non-CBD locations by 7.5% over the next five years.
- Tenant demand is in early upswing in Sydney and Melbourne, while Brisbane and Perth are further behind in the cycle.
- Offshore purchasers accounted for 45% of all office transactions (US$9.3bn) in 2013/14 as Australia was a highly contested location for investment.

Larger tenants have shown a clear preference to relocate to new accommodation with recent examples including Woodside (544,000 sq ft), PwC (285,000 sq ft Sydney, 188,000 sq ft Melbourne), KPMG (291,000 sq ft Melbourne) and Leighton (319,000 sq ft North Sydney). Relocating into new accommodation, whether in the CBD or non-CBD market, provides occupiers with strong Green Star and efficiency credentials, larger floor plates and buildings designed to take a higher density of occupation (circa 110-160 sq ft per person), all elements which support the more open and flexible workspaces that are now the norm.

Feasibility for construction of new space has been supported by steady declines in prime yields (particularly for fund through developments with strong pre-commitments) over the past two years. This increase in end value, along with generally competitive construction costs, has allowed this new space to compete strongly for tenants, with rentals often comparative to existing buildings. This trend requires owners of existing assets to compete to retain major tenants against the competition of new space, and this can also draw tenants from different sub-markets (i.e. CBD to non-CBD locations).
The steady pre-commitment of larger tenants to new accommodation has ensured that the next five years will continue to see relatively strong construction levels and within the major markets analysed by Knight Frank, CBD space is projected to grow by 7.4% and non-CBD by 7.3%. However despite strong investment take-out demand supporting feasibility, office developments are now coming under pressure due to the exceptional uplift in residential demand. The clamour to obtain residential development projects is now converting the vast majority of the available development sites from commercial to residential, where planning permission allows, across both CBDs and inner ring suburbs.

**RECYCLING OF STOCK**

In addition, due to the relatively softer leasing market conditions for existing secondary accommodation there is a growing trend to purchase existing secondary accommodation so softer leasing market conditions for new accommodation are expected to see the average age of CBD stock stabilise over the next three years with the weighted average increasing by only six months over the next three years to 28.8 years, with Perth actually reducing its average age base.

This recycling of older stock, along with continued steady new supply is expected to see the average age of CBD stock stabilise over the next three years with the weighted average increasing by only six months over the next three years to 28.8 years, with Perth actually reducing its average age base. The provision of major development sites and the expansion of the CBDs has in many instances been supported by government action. The largest current project is Barangaroo in Sydney which involves the regeneration of 228ha of disused wharves, extending the CBD to the west. The three commercial towers of Barangaroo South, ‘International Towers Sydney’, will contain 2.9m sq ft with pre-commitments from Westpac (646,000sq ft), KPMG (499,000sq ft), Lend Lease (389,000sq ft) and PwC (285,000sq ft). Similar projects include City Link, Perth (a 13.5ha site) and the long running Docklands in Melbourne which now houses 8.2m sq ft of office space with the potential for a further 3.8m sq ft.

This wave of demolition and recycling of significant properties is unheralded.

In other markets, such as North Sydney, there is an unrestricted competitive tension between commercial and residential uses. In North Sydney this is expected to manifest as a concentration of office accommodation to the core of the precinct, with residential development establishing on the edges. Other markets, such as St Kilda Road in Melbourne and Chatswood in Sydney, are already losing the battle to residential and/or medical uses with the office stock in the precincts gradually shrinking.

**Turning Back Time – Average Age of Stock**

Turning back time – average age of stock.

In the last 5 years the office market has been shedding space with the potential for a further 3.8m sq ft.

**Early Upsizing**

Occupier demand for office space has steadied across the Australian markets with vacancies stabilising across most markets and the amount of sub-lease space declining. Melbourne and Sydney in particular are in the initial stages of an upturn in demand. However, weighed by their exposure to the resources sector the Brisbane and Perth markets have yet to see any major improvement in office demand. The Sydney market has the greatest exposure to the financial services sector and thus was the city which fared the worst immediately post the GFC, followed by Melbourne which also has exposure to financial markets and major corporates. In contrast the Brisbane and Perth markets were supported by strong expansion in the resources sector which cushioned these markets from a direct GFC impact. However from late 2012 the fortunes have reversed with Sydney and Melbourne benefiting from slowly recovering financial/corporate demand while weakness in the resources sector has slowed demand in Perth. Brisbane was impacted by both the resources sector weakness and also major contraction of space occupied by the State Government in early 2013.

The rental levels across the Australian office markets are quite diverse, even amongst the CBD markets, and the current average prime net face rentals range from US$42 per sq ft in the Melbourne CBD through to US$71 per sq ft in the Sydney CBD. Melbourne’s rents have traditionally been lower than its main competitors, despite frequently having lower vacancy, largely due to the relatively unlimited amounts of development land surrounding the CBD. However medium term rental growth projections for Melbourne are amongst the strongest of the CBD markets.

Prime effective rental growth has been modest across all major markets as tenants retain the upper hand in most negotiations. Incentives are now an entrenched part of the market with prime incentives lower in the Perth and Canberra markets (18-21%) but higher in Sydney. Melbourne and Brisbane (28 – 33%). Across all markets however, given the expected improvements in occupier demand from late 2014 and into 2015, incentives are at or very close to their expected peak for this cycle. Stronger business conditions are forecast, which will support recovery in the tenant markets through 2015, reducing leasing risk for many investors.

**Growth in Office Stock**

In the last 5 years the office market has been shedding space.

**Total office space within major metropolitan markets**

<table>
<thead>
<tr>
<th>Market</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>10%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>10%</td>
</tr>
<tr>
<td>Brisbane</td>
<td>7.3%</td>
</tr>
<tr>
<td>Perth</td>
<td>7.3%</td>
</tr>
<tr>
<td>Canberra</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

**Growth in Office Stock Historic and Projected**

<table>
<thead>
<tr>
<th>Market</th>
<th>Last 5 Years</th>
<th>Next 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>26.7%</td>
<td>26.4%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>28.7%</td>
<td>28.6%</td>
</tr>
<tr>
<td>Brisbane</td>
<td>26.4%</td>
<td>26.3%</td>
</tr>
<tr>
<td>Perth</td>
<td>27.6%</td>
<td>27.5%</td>
</tr>
<tr>
<td>Canberra</td>
<td>27.4%</td>
<td>27.3%</td>
</tr>
</tbody>
</table>

**WEIGHTED AVERAGE AGE CHANGES OVER THE NEXT 3 YEARS**

<table>
<thead>
<tr>
<th>Market</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>+0.5</td>
</tr>
<tr>
<td>Melbourne</td>
<td>+0.4</td>
</tr>
<tr>
<td>Brisbane</td>
<td>+0.3</td>
</tr>
<tr>
<td>Perth</td>
<td>+0.4</td>
</tr>
<tr>
<td>Canberra</td>
<td>+0.5</td>
</tr>
</tbody>
</table>

**WEIGHTED AVERAGE AGE INCREASES BY 6MTHS IN THE NEXT 3YRS**

<table>
<thead>
<tr>
<th>Market</th>
<th>Weighted Average Age (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>27.7</td>
</tr>
<tr>
<td>Melbourne</td>
<td>32.1</td>
</tr>
<tr>
<td>Brisbane</td>
<td>31.5</td>
</tr>
<tr>
<td>Perth</td>
<td>28.7</td>
</tr>
<tr>
<td>Canberra</td>
<td>31.8</td>
</tr>
</tbody>
</table>

**WEIGHTED AVERAGE AGE INCREASES BY 6MTHS IN THE NEXT 3YRS**

<table>
<thead>
<tr>
<th>Market</th>
<th>Weighted Average Age (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>27.7</td>
</tr>
<tr>
<td>Melbourne</td>
<td>32.1</td>
</tr>
<tr>
<td>Brisbane</td>
<td>31.5</td>
</tr>
<tr>
<td>Perth</td>
<td>28.7</td>
</tr>
<tr>
<td>Canberra</td>
<td>31.8</td>
</tr>
</tbody>
</table>

**WEIGHTED AVERAGE AGE INCREASES BY 6MTHS IN THE NEXT 3YRS**

<table>
<thead>
<tr>
<th>Market</th>
<th>Weighted Average Age (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>27.7</td>
</tr>
<tr>
<td>Melbourne</td>
<td>32.1</td>
</tr>
<tr>
<td>Brisbane</td>
<td>31.5</td>
</tr>
<tr>
<td>Perth</td>
<td>28.7</td>
</tr>
<tr>
<td>Canberra</td>
<td>31.8</td>
</tr>
</tbody>
</table>

**WEIGHTED AVERAGE AGE INCREASES BY 6MTHS IN THE NEXT 3YRS**

<table>
<thead>
<tr>
<th>Market</th>
<th>Weighted Average Age (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>27.7</td>
</tr>
<tr>
<td>Melbourne</td>
<td>32.1</td>
</tr>
<tr>
<td>Brisbane</td>
<td>31.5</td>
</tr>
<tr>
<td>Perth</td>
<td>28.7</td>
</tr>
<tr>
<td>Canberra</td>
<td>31.8</td>
</tr>
</tbody>
</table>

**WEIGHTED AVERAGE AGE INCREASES BY 6MTHS IN THE NEXT 3YRS**

<table>
<thead>
<tr>
<th>Market</th>
<th>Weighted Average Age (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>27.7</td>
</tr>
<tr>
<td>Melbourne</td>
<td>32.1</td>
</tr>
<tr>
<td>Brisbane</td>
<td>31.5</td>
</tr>
<tr>
<td>Perth</td>
<td>28.7</td>
</tr>
<tr>
<td>Canberra</td>
<td>31.8</td>
</tr>
</tbody>
</table>
A WORKING DAY IN SYDNEY

JANE JOSE
URBANIST AND WRITER
CHIEF EXECUTIVE, SYDNEY COMMUNITY FOUNDATION

Think Sydney, think Harbour. Office life in Sydney’s business district is shaped by the sense that the magnificent landscape and harbour is never far away. If there is not a harbour glimpse or awe inspiring panorama from city centre offices, it is only a short walk to the water’s edge. The office day in Sydney for many starts with a ferry ride, a bike ride or a walk. It is a city where office life can keep you fit. Thousands arrive by bus and train but the system is not the London underground or Paris metro with many well located stations so there’s usually a walk involved.

I’ve worked in Sydney since the mid-1990s and in the 21st century office life has become more relaxed. Sydney was an early adopter of sustainability in office tower design with the leading developers and their architects jumping on board the sustainability challenge of designing workplaces flooded with natural daylight, able to recycle water and generate power. The design of more casual open workplaces with long shared tables, stairs between floors, natural materials and colour splash interiors and cafés on tap has made workplace culture friendly. Australian developer Lend Lease led the change. Their Hickson Road Offices, known as 30 the Bond, a new building connected to an old woolstore and built against a sandstone cut down by the wharves set a benchmark for environmental sustainability. The top new office towers in Sydney have harbour views, rooftop decks, staircases connecting floors, all making the new office tower work efficiently yet feel like smaller buildings with a human scale. The best recycle water, generate more power than they need and offer stylish, comfortable gathering places for teamwork that have the informality of working round the kitchen table.

If the sun is shining and it often does, city workers head out at lunch time to run in the botanic gardens; kick balls on the Domain; find a quiet spot in Hyde Park for a sandwich or go west to the foodie strip of indoor-outdoor eateries along the Darling Harbour and Hickson Road wharves, that line the western edge of the city. So what’s my favorite reason for loving office life in Sydney? Walking along the harbour’s edge to my office in the Rocks. Then there’s the rooftop café at the MCA for lunch, great shopping, good coffee everywhere and surprise views in business meetings that lighten your heart – even when it’s a hard day’s work.

Jane Jose has written and informed urban policy for cities across Australia. She brings experience in urban planning, working with government and corporate leaders to her work at the Sydney Community Foundation. Sydney Community Foundation directs philanthropic wealth to people in need, grassroots organisations, and creates change.

Jane Jose’s book Places Women Make will be published by Australian publisher Wakefield Press in 2015. It finds stories in cities and how women have contributed to making great places in Australian cities.

The office day in Sydney for many starts with a ferry ride, a bike ride, or a walk

JANE JOSE
Large scale industrial assets draw offshore investment

The Australian office market is beginning to show many parallels to the office market, with increased investor interest from both local and offshore institutions. The appeal of the office market to offshore funds is due to the high quality office assets available in Sydney with strong yields. There is a new pipeline of prime assets available for sale that will further attract offshore funds to the Australian office market.

In response to increasing investment demand, yields have shown a steady firming trend over the past two years. The majority of office transactions are still transacting below the 5.00% prime yield of 2013.

One major barrier to widespread offshore participation is the absence of long length leases. However, the recent reduction in the spread between 10-year government and prime yields, the potential for further falls in the cost of offshore capital, and the insatiable demand for core assets has brought the spotlight to the Australian office market.

The insatiable demand for core assets across the globe has brought the spotlight to Australia, however there has also been a strong offshore purchasing of value-add, non-CBD and development assets arising from US$5bn for the 2013/14 financial year. This increasing activity comes as the market has shown a steady broadening demand for properties beyond core assets and also a deepening pool of buyers, particularly from offshore locations.

The improving investment market conditions, and associated tightening yields, have been driven by concurrent upswings in demand from AREITs (Australian Real Estate Investment Trusts), offshore funds (both listed and unlisted) and domestic wholesale and superannuation funds. During 2013 and into 2014 the investment market has transformed from one where only core assets were likely to attract investors, to a situation where a number of competitive bids can be expected across the whole gamut of asset types.

Major investment interest has also built outside of the CBD locations with offshore purchasers in many cases more tolerant of a non-CBD location than domestic funds. Local institutions also manage their mandates by co-investing in listed entities with wholesale funds.

Inefficient Fractionalisation of Ownership

Increasing fractionalisation of ownership is a feature of the current market, as the strongly contested core assets are relatively scarce and part ownership has been one of the first entry points for major offshore investors. This has sometimes led some foreign buyers to partner with domestic funds to buy an asset.

Examples include Charter Hall and PSF (Canada) who have jointly purchased the Gaumont 2 development in Brisbane (and value US$104m) and along with another foreign joint venture partner, Telstra Super, have taken equal shares in 300 Murray Street, Perth CBD for a total of US$41m. Mirvac and TIAA-CREF (USA) have also formed an association, with the TIAA General Fund taking a 49% interest in 699 Bourke Street (fully committed to AG2) for 10 years on a fund through basis to a maximum of US$69m. TIAA also purchased 20 Hunter Street in the Sydney CBD for US$90m in late 2013.

THE YIELDS IN PLACE ACROSS COMPETING ASSET MARKETS

The improving investment market conditions, and associated tightening yields, have been driven by concurrent upswings in demand from AREITs (Australian Real Estate Investment Trusts), offshore funds (both listed and unlisted) and domestic wholesale and superannuation funds. During 2013 and into 2014 the investment market has transformed from one where only core assets were likely to attract investors, to a situation where a number of competitive bids can be expected across the whole gamut of asset types – from core to secondary/value-add.

Major investment interest has also built outside of the CBD locations with offshore purchasers in many cases more tolerant of a non-CBD location than domestic funds. Local institutions also manage their mandates by co-investing in listed entities with wholesale funds.

Inefficient Fractionalisation of Ownership

Increasing fractionalisation of ownership is a feature of the current market, as the strongly contested core assets are relatively scarce and part ownership has been one of the first entry points for major offshore investors. This has sometimes led some foreign buyers to partner with domestic funds to buy an asset.

Examples include Charter Hall and PSF (Canada) who have jointly purchased the Gaumont 2 development in Brisbane (and value US$104m) and along with another foreign joint venture partner, Telstra Super, have taken equal shares in 300 Murray Street, Perth CBD for a total of US$41m. Mirvac and TIAA-CREF (USA) have also formed an association, with the TIAA General Fund taking a 49% interest in 699 Bourke Street (fully committed to AG2) for 10 years on a fund through basis to a maximum of US$69m. TIAA also purchased 20 Hunter Street in the Sydney CBD for US$90m in late 2013. These two assets were purchased for core market yields of 6.5% and 6.0% respectively, indicative of the strong demand for core investments and the ability of offshore funds to pay these tight yields.

Yields have shown a steady firming trend over the past two years. However, they remain above the yields in place across competing asset markets.

Local institutions also manage their mandates by co-investing in listed entities with wholesale funds. Where capital recycling is required and given the higher returns have also assisted and attracted offshore funds to Australia. To an extent these higher returns have also helped to also attract a greater level of domestic capital within Australia, despite some diversification purchasing in other markets. Median core prime market yields have tightened by 0.50% to 5.00% basis points across the cycle to date, with downward pressure continuing.

The lowest average Australian yields are within the two markets with the greatest exposure to international capital with Sydney (6.32%) and Melbourne (6.38%) both established, recognised destinations for international investments.

The improving investment market conditions, and associated tightening yields, have been driven by concurrent upswings in demand from AREITs (Australian Real Estate Investment Trusts), offshore funds (both listed and unlisted) and domestic wholesale and superannuation funds. During 2013 and into 2014 the investment market has transformed from one where only core assets were likely to attract investors, to a situation where a number of competitive bids can be expected across the whole gamut of asset types – from core to secondary/value-add.

Major investment interest has also built outside of the CBD locations with offshore purchasers in many cases more tolerant of a non-CBD location than domestic funds. Local institutions also manage their mandates by co-investing in listed entities with wholesale funds.

Inefficient Fractionalisation of Ownership

Increasing fractionalisation of ownership is a feature of the current market, as the strongly contested core assets are relatively scarce and part ownership has been one of the first entry points for major offshore investors. This has sometimes led some foreign buyers to partner with domestic funds to buy an asset.

Examples include Charter Hall and PSF (Canada) who have jointly purchased the Gaumont 2 development in Brisbane (and value US$104m) and along with another foreign joint venture partner, Telstra Super, have taken equal shares in 300 Murray Street, Perth CBD for a total of US$41m. Mirvac and TIAA-CREF (USA) have also formed an association, with the TIAA General Fund taking a 49% interest in 699 Bourke Street (fully committed to AG2) for 10 years on a fund through basis to a maximum of US$69m. TIAA also purchased 20 Hunter Street in the Sydney CBD for US$90m in late 2013. These two assets were purchased for core market yields of 6.5% and 6.0% respectively, indicative of the strong demand for core investments and the ability of offshore funds to pay these tight yields.

Yields have shown a steady firming trend over the past two years. However, they remain above the yields in place across competing asset markets.

Local institutions also manage their mandates by co-investing in listed entities with wholesale funds. Where capital recycling is required and given the higher returns have also assisted and attracted offshore funds to Australia. To an extent these higher returns have also helped to also attract a greater level of domestic capital within Australia, despite some diversification purchasing in other markets. Median core prime market yields have tightened by 0.50% to 5.00% basis points across the cycle to date, with downward pressure continuing.

The lowest average Australian yields are within the two markets with the greatest exposure to international capital with Sydney (6.32%) and Melbourne (6.38%) both established, recognised destinations for international investments.

The improving investment market conditions, and associated tightening yields, have been driven by concurrent upswings in demand from AREITs (Australian Real Estate Investment Trusts), offshore funds (both listed and unlisted) and domestic wholesale and superannuation funds. During 2013 and into 2014 the investment market has transformed from one where only core assets were likely to attract investors, to a situation where a number of competitive bids can be expected across the whole gamut of asset types – from core to secondary/value-add.

Major investment interest has also built outside of the CBD locations with offshore purchasers in many cases more tolerant of a non-CBD location than domestic funds. Local institutions also manage their mandates by co-investing in listed entities with wholesale funds.

Inefficient Fractionalisation of Ownership

Increasing fractionalisation of ownership is a feature of the current market, as the strongly contested core assets are relatively scarce and part ownership has been one of the first entry points for major offshore investors. This has sometimes led some foreign buyers to partner with domestic funds to buy an asset.

Examples include Charter Hall and PSF (Canada) who have jointly purchased the Gaumont 2 development in Brisbane (and value US$104m) and along with another foreign joint venture partner, Telstra Super, have taken equal shares in 300 Murray Street, Perth CBD for a total of US$41m. Mirvac and TIAA-CREF (USA) have also formed an association, with the TIAA General Fund taking a 49% interest in 699 Bourke Street (fully committed to AG2) for 10 years on a fund through basis to a maximum of US$69m. TIAA also purchased 20 Hunter Street in the Sydney CBD for US$90m in late 2013. These two assets were purchased for core market yields of 6.5% and 6.0% respectively, indicative of the strong demand for core investments and the ability of offshore funds to pay these tight yields.

Yields have shown a steady firming trend over the past two years. However, they remain above the yields in place across competing asset markets.

Local institutions also manage their mandates by co-investing in listed entities with wholesale funds. Where capital recycling is required and given the higher returns have also assisted and attracted offshore funds to Australia. To an extent these higher returns have also helped to also attract a greater level of domestic capital within Australia, despite some diversification purchasing in other markets. Median core prime market yields have tightened by 0.50% to 5.00% basis points across the cycle to date, with downward pressure continuing.

The lowest average Australian yields are within the two markets with the greatest exposure to international capital with Sydney (6.32%) and Melbourne (6.38%) both established, recognised destinations for international investments.

The improving investment market conditions, and associated tightening yields, have been driven by concurrent upswings in demand from AREITs (Australian Real Estate Investment Trusts), offshore funds (both listed and unlisted) and domestic wholesale and superannuation funds. During 2013 and into 2014 the investment market has transformed from one where only core assets were likely to attract investors, to a situation where a number of competitive bids can be expected across the whole gamut of asset types – from core to secondary/value-add.

Major investment interest has also built outside of the CBD locations with offshore purchasers in many cases more tolerant of a non-CBD location than domestic funds. Local institutions also manage their mandates by co-investing in listed entities with wholesale funds.
LARGEST BUILDINGS UNDER CONSTRUCTION & POPULATION GROWTH

LOCATION OF SALES

AUSTRALIAN PRIME YIELDS

PURCHASER PROFILE

TOP OFFICE SALES 2013/14

AUSTRALIAN CBDs

WHITE COLLAR EMPLOYMENT

AUSTRALIAN PRIME YIELDS COMPARED WITH REGIONAL NEIGHBOURS, PRIME MARKET YIELD (LOCAL MARKET DEFINITION)

MAJOR CBD MARKETS

PRIME YIELD SPREADS TO INDEXED BONDS

OFFSHORE PURCHASER

Wholesale + Retail Trade

Information Media & Telecoms

Finance & Insurance Services

Agriculture, Mining + Utilities

Professional, Scientific and Technical Services

Public Administration

Manufacturing, Construction, Transport & warehousing

Accommodation & Food Services

Education, Healthcare & social Assistance

Other

A

B

C

D

E

F

G

H

I

J

1.1m sq ft

1.0m sq ft

0.9m sq ft

0.8m sq ft

0.7m sq ft

0.6m sq ft

0.5m sq ft

0.4m sq ft

0.3m sq ft

0.2m sq ft

0.1m sq ft

0.0m sq ft

100%

90%

80%

70%

60%

50%

40%

30%

20%

10%

0%

AGRICULTURE, MINE & UTILITIES

PROFESSIONAL, SCIENTIFIC & TECH

FINANCE & INS

MANUFACTURING, CONSTRUCTION

EDUCATION, HEALTHCARE & ASSISTANCE

PUBLIC ADMINISTRATION

OTHER

590,000 sq ft

590,000 sq ft

180 Ann St

1 William St

567 Collins St

177-199 Pacific Highway

100 Miller St

52 Martin Pl

275 Kent St (50%)

200 George St

260-300 Elizabeth St

3 Collins Square

12%

13.7%

10.2%

12%

12.6%

12%

10.5%

16%

5%

1.1%
The world’s leading cities have entered a new real estate cycle – Knight Frank’s Global Cities Prime Office Capital Value Index to grow by 14% over the next five years.

**Building the Grand Paris Express**

US$41.9bn of rail investment

**Hong Kong** home to the world’s most expensive office skyscrapers.

Capital value of:

US$6,330 per sq ft

22 hectares of wharves to be redeveloped at Barangaroo

22%

**New York**

28%

**Sydney**

22%

**Singapore**

25%

**London**

16%

**Mumbai**

15%

**Madrid**

29%

**Tokyo**

13%

**San Francisco**

36%

**México City**

11%

**Madrid**

29%

Rent growth forecast over the next five years

Source: Knight Frank Research / Newmark Grubb Knight Frank

400,000 new residents in Houston since 2010
### European Prime Office Capital Values Index

Based on a weighted average of prime office capital values in 18 major markets.

<table>
<thead>
<tr>
<th>Year</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>Sydney</th>
<th>Shanghai</th>
<th>Tokyo</th>
<th>Mumbai</th>
<th>New York</th>
<th>San Francisco</th>
<th>Washington</th>
<th>Frankfurt</th>
<th>Madrid</th>
<th>Mexico City</th>
<th>London</th>
<th>Paris</th>
<th>Frankfurt</th>
<th>Madrid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>2007</td>
<td>114.7</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
<td>110.3</td>
</tr>
<tr>
<td>2008</td>
<td>126.1</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
<td>116.9</td>
</tr>
<tr>
<td>2009</td>
<td>130.3</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
</tr>
<tr>
<td>2010</td>
<td>133.1</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
<td>117.0</td>
</tr>
<tr>
<td>2011</td>
<td>135.3</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
<td>119.0</td>
</tr>
<tr>
<td>2012</td>
<td>136.5</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
<td>121.0</td>
</tr>
<tr>
<td>2013</td>
<td>137.3</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
<td>123.0</td>
</tr>
<tr>
<td>2014</td>
<td>137.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
<td>125.0</td>
</tr>
<tr>
<td>2015</td>
<td>138.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
<td>127.0</td>
</tr>
<tr>
<td>2016</td>
<td>139.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
<td>129.0</td>
</tr>
</tbody>
</table>

### Prime Office Rent Ranking - 2014

<table>
<thead>
<tr>
<th>City</th>
<th>Ranking in 2013</th>
<th>Ranking in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Sydney</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Shanghai</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Tokyo</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Mumbai</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>New York</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>San Francisco</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Washington</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Madrid</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Mexico City</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>London</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Paris</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Madrid</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

### Prime Office Rents Indices (2006 = 100)

**Note**: Based on nominal and year end rents in local currencies, except Mexico City, which is in US dollars.

### European Commercial Property Investment Volumes (US$bn)

Source: Knight Frank/Real Capital Analytics

### Australian Major Metropolitan Office Stock - Recognised Precincts

Source: Knight Frank, Newmark Grubb Knight Frank

### European Prime Office Capital Values Index

Based on a weighted average of prime office capital values in 18 major markets.

Source: Knight Frank Research, Newmark Grubb Knight Frank

### Source:

- European Prime Office Capital Values Index: Knight Frank Research
- Prime Office Rents Indices: Knight Frank
- European Commercial Property Investment Volumes: Knight Frank/Real Capital Analytics
- Australian Major Metropolitan Office Stock: Knight Frank, Newmark Grubb Knight Frank
Many of the new districts emerging around the traditional CBDs have developed as vibrant and edgy places to live, and often appeal to young graduates starting out on their career. However, as the areas gain popularity, prices rise and often the young graduates struggle to remain in the area.

Knight Frank has compiled a Cost of Living Index for young graduates in the districts surrounding the CBD in the 20 global cities listed below. We have used variables including graduate starting salary, cost of rented accommodation and utility bills as well as the cost of a pint of beer, a coffee and groceries.

We have found that young graduates in Frankfurt have the most disposable income, with around 60% of their net salary left at the end of each month. However, in Hong Kong, young graduates wishing to live close to the city centre are likely to find themselves turning to their parents for support or taking on debt merely to survive.

The four ingredients which set Knight Frank apart are our independence, our global network, and our commercial and residential platforms.

Through our US alliance with Newmark Grubb Knight Frank we have grown to a group of over 12,500 property professionals, with more than 355 offices around the world, our global capability allows us access to wealth, properties and occupiers in 52 countries.

Just as important as reach is depth. In every country we are active in we aim to provide a range of services, predominantly covering Capital Markets, Office Agency and Tenant Representation, Valuations, and Residential. We deliver a range of professional consultancy services which are supported by our dedicated market research teams.

Knight Frank’s track record of trust and integrity means we are becoming increasingly recognised as the advisor of choice in the global real estate market. Together with our independence, nous have the advice and ability to deliver seamlessly on both the commercial and residential front, we are ourselves apart in the global market place.

For many of our clients, Knight Frank is a lifelong experience, a fact exemplified by two thirds of our business being repeat clients. We focus on giving the best advice and putting long term relationships before short term wins, fully understanding client motivations, needs and behaviour.

We put smart technology to use to produce outstanding market intelligence. It means we can anticipate and respond to market trends worldwide with relative ease, providing informative research and advice to exploit properties and areas to their full potential.

The combination of our people, network, research and technology has helped us gain our enviable track record and that’s why clients come back to us for their personal and professional property requirements. Strengthening partnerships, committed to uncompromising standards; our clients deserve nothing less.
CONTRIBUTORS

GLOBAL CITIES 2015
BY KNIGHT FRANK

COMMISSIONED BY
JOHN SNOW, HEAD OF COMMERCIAL

EDITOR
JAMES ROBERTS, HEAD OF COMMERCIAL RESEARCH

PROJECT STRATEGY
LIAM BAILEY, GLOBAL HEAD OF RESEARCH

MARKETING STRATEGY
DIANA O’KEEFE, GROUP HEAD OF MARKETING AND COMMUNICATIONS

MARKETING MANAGEMENT
MARK KOLCULAR, COMMERCIAL MARKETING MANAGER

PRESS
JOHN WILLIAMS, HEAD OF PR

PUBLISHED ON BEHALF OF KNIGHT FRANK BY
RACONTEUR

DESIGN, ILLUSTRATION AND INFOGRAPHICS BY
THE SURGERY

PRINT BY
PUREPRINT GROUP

WITH THANKS TO:
DTAC HOUSE, FUJITSU, GOOGLE, INNOCENT, MICROSOFT AMSTERDAM,
ORO NEGRO, PINTEREST, PONS & HUOT, REED SMITH AND SPLUNK,
FOR PROVIDING PHOTOS OF THEIR OFFICES
ON PAGES 29-30

CAVEATS

This report is published for general information only and not to be relied upon in any way.
Although high standards have been used in the preparation of the information, analyses, news and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document.

As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects.

All figures quoted for 2014 (unless stated otherwise) are year-end estimates formulated in July 2014 based on available data. They constitute forecasts and our caveat below on forecasts applies.

FORECAST CAVEAT:
Forecasting is an inherently uncertain activity and subject to unforeseen changes. Although high standards have been used in the preparation of this information, analyses, news and projections presented in this forecast, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this forecast. As a general forecast, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

COPYRIGHT:
© Knight Frank LLP 2015
Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP.