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Rosemary Feenan
+44 (0)20 7399 5166
Rosemary.Feenan@eu.joneslanglasalle.com

Robin Goodchild
+44 (0)20 7852 4390
Robin.Goodchild@lasalle.com

Jeffrey Havsy
+1 312 228 2443
Jeffrey.Havsy@lasalle.com

Jeremy Kelly
+44 (0)20 7399 5713
Jeremy.Kelly@eu.joneslanglasalle.com

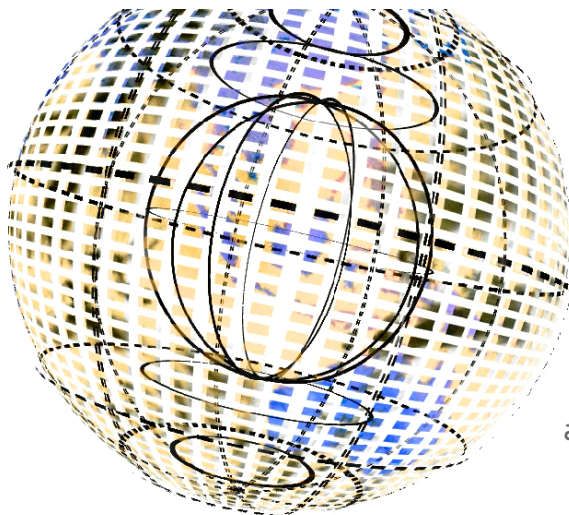
Timothy Bellman
+852 2846 5278
Timothy.Bellman@ap.joneslanglasalle.com

Camilla Bastoni
+44 (0)20 7399 5542
Camilla.Bastoni@eu.joneslanglasalle.com

Rising Urban Stars – Uncovering Future Winners

1. A New Perspective on City Winners

“First-mover advantage” is a term that will increasingly resonate in the real estate community. We predict that the property market will see new kinds of player; occupiers and investors keen to capture the energy and potential of Rising Urban Stars. As the world urbanises at a pace unequalled in recent history, evidence is already emerging of growing interest in cities that would have been “unconventional” only five years ago – cities where untapped potential and attractive performance prospects are being uncovered. As yet, only a handful of investors, developers and occupiers have tuned into the new dynamics of these emerging winners, but others will need to widen their radar to catch the pulse of these new century cities.



changing city
fortunes

next
generation
of rising
stars

ahead of
the curve

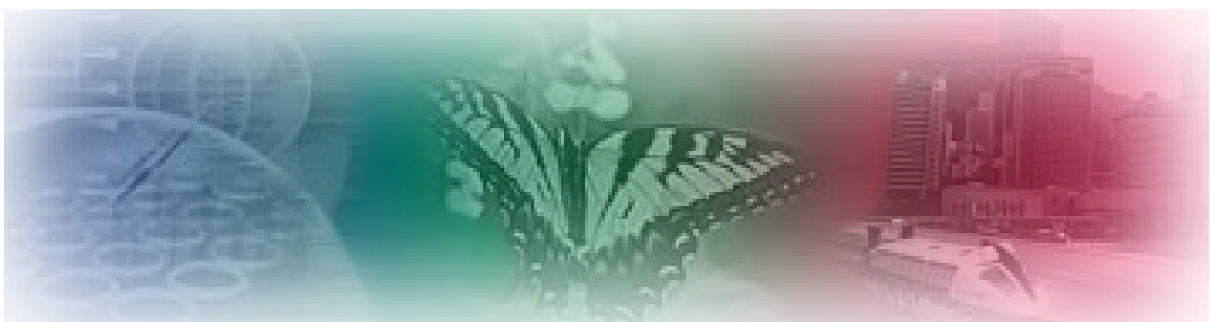
Our World Winning Cities research programme has been dedicated to building the data and developing the advanced methodologies needed to be able to help predict the world's next generation of rising urban stars.

In this paper we describe our typology of rising urban stars and profile some of the cities we believe will be likely to

attract active interest from the real estate market in the near future. We have identified 24 potential city winners; selected because they exemplify one or more of the key drivers of future city success, and because they represent a broad cross-section of cities in terms of size, function and maturity. Some of the cities are already well known, are growing rapidly and boast active real estate markets; many others are not currently in the consciousness of international real estate occupiers and investors. We believe they all will be in the near future.

Our main conclusions are:

- We believe this will be the “Asian Century” and barring political unrest and/or pandemics, China and India will be an influential source of rising urban stars. We have highlighted eight cities in China and three in India that will be of increasing interest to international real estate occupiers and investors.
- Technology will boost the status of several mid-sized cities, such as Austin, Raleigh-Durham and Helsinki, resulting in increased demand for state-of-the-art facilities. They will be joined by a growing set of technology cities in transition and in developing countries, which offer low cost alternatives for global companies seeking to outsource - Bangalore is the best current example. The quality of the real estate stock in all these cities will be transformed as investor interest increases.
- Issues surrounding urban sustainability and quality of life will rise up the agenda, and increasingly influence corporate location decisions. Nordic, Canadian and Australian cities, such as Copenhagen and Calgary are among the best placed to offer the advantages of a sustainable development model, combining economic growth and a high quality of life. Alternative models for urban sustainability, such as in Porto Alegre in Brazil, will be closely watched.
- Political and economic integration and geographically expanding trading blocs will enhance prospects for cities in Central Europe and Latin America. We believe that Tallinn and Budapest are best placed to benefit from EU accession, whilst Santiago would reap dividends from an enlarged NAFTA.
- Cities will increase efforts to improve their leisure and cultural offer. Barcelona has a head start – its cutting edge socio-cultural environment supported by strong governance and branding will be key assets. The “leisure offer” will further boost the status of cities and emerging city-regions such as Cape Town and South East Queensland.



2. The World Winning Cities Research Programme

In 2002 Jones Lang LaSalle and LaSalle Investment Management launched the **World Winning Cities** research programme - a multi-year quest to identify the essence of contemporary city competitiveness with a view to predicting the potential winning cities of the future. The focus of the research is on trends that impact the business, economic and socio-cultural landscape and how they are coalescing to create the rising urban stars of the next decade. The programme is assessing the contribution of real estate to sustainable competitive advantage and the implications for occupiers, investors, developers and city governments.

Phase One: City Winners of the Past Decade

During 2002 Phase One of the programme looked at recent history to identify the winning cities over the previous decade. This analysis was undertaken to throw light on the likely “winning formulae” for future city success, and to set benchmarks against which to measure future city performance. Our analysis covered 100 city economies and real estate markets worldwide covering the period 1991-2001¹. We were particularly interested in identifying the **Rising Urban Stars**, those cities which had created a compelling cocktail of attractions which will earn them a place in the future roll call of world cities.

Our analysis showed that the strongest relative physical growth was in smaller metropolitan areas of less than two million people. Three cities stood out – **Dubai, Dublin and Las Vegas**. Each has a unique combination of drivers and triggers, but nonetheless common themes were evident. All had created an attractive business-operating environment in terms of regulation, taxation, labour flexibility and infrastructure, which had led to high levels of inward investment and in-migration. A proactive city government together with a dynamic leisure and tourism industry have also helped to establish their high profile on the international stage.

The programme highlighted that “winning” has different meanings for the different real estate players - investors, occupiers, developers, city strategists and local communities. For most cross-border real estate investors, rising urban stars such as Dubai, Dublin and Las Vegas are not yet on their radar screens due to low liquidity levels and/or limiting supply constraints. A “winning city” for a real estate investor is typically defined narrowly in terms of real estate returns, market transparency and liquidity. In contrast, for corporate occupiers “winning” is increasingly based on uncovering low cost well-educated workforces or untapped consumer markets - which tend to be in cities with low real estate liquidity and/or with an as yet unproven economic track record. Cities that are winners for occupiers may not be winners for investors, and vice-versa. This disconnect is already leading to demand/supply tensions in some cities and suggests questions around the future delivery of real estate in cities where occupier and investor interests are not in harmony.

Phase Two: Uncovering Future Winners

In Phase Two of the World Winning Cities programme, we have developed a framework for identifying future “city winners” that can accommodate divergent stakeholder interests. With the benefit of our proprietary “Mercator” Database², we are currently analysing cities on a broad range of long-term drivers and shorter-term indicators, covering demographic, economic, business, governance, social and cultural issues. These indicators are woven with real estate measures to enable an assessment of a city’s economic and real estate potential.

This Paper, **Rising Urban Stars, Uncovering Future Winners** is the first output from Phase Two of the programme.

¹ Details of this analysis can be found in two papers:

World Winning Cities, Paper 1, November 2002; Property Futures, Volume 2, 2002, Jones Lang LaSalle

² The Mercator database tracks key performance indicators for 125 metropolitan area worldwide, with partial coverage of a further 375 cities.

3. Future Rising Urban Stars

What are the criteria for the future success of cities? Is the next generation of rising urban stars yet on the radar screen of investors, developers or corporate occupiers? To start to answer these questions, based on the key drivers of city success, we have identified a generic list of 24 potential city winners from across all five continents, ensuring that they reflect the broad diversity of cities in terms of size, economic maturity and real estate market characteristics. These 24 cities have been selected because they exemplify a wider set of cities that benefit from one or more key drivers of city success and we believe may be “uncovered” as the rising urban stars of the next decade. Although the drivers are complex and diverse, we have identified 3 broad themes that resonate with the developing images of our rising urban stars - technology, environment and economy. These are not meant to be mutually exclusive, they illustrate our thinking on a possible typology for future winning cities.

Technology

Austin	Helsinki	Raleigh-Durham	Technology Rich
Bangalore Budapest	Dalian San José	Suzhou Tallinn	Rising Technology

Environment

Barcelona	Cape Town	SE Queensland	Resort/Urban Hip
Calgary	Copenhagen	Porto Alegre	Urban Sustainable

Economy

Beijing Delhi	Guangzhou/Shenzhen Mumbai	Santiago Shanghai	Rising Mega Cities
Chongqing	Xian		New Frontiers



3.1. Technology – Still a Competitive Advantage

'Technology Rich'

Despite the technology shakeout of the last few years, we believe that technological richness is re-asserting itself as a key competitive advantage for both mature and developing city economies. During the 1990s we saw the emergence of "technology-rich" cities, and our analysis picked up the strong economic and real estate performances of city-regions such as the San Francisco Bay Area, Boston and Stockholm, which have been at the cutting edge of technological developments. The technology hubs in North America and the Nordic region score amongst the highest worldwide on almost every measure of technological progress. We have identified three smaller cities in these two regions that best illustrate the characteristics of "winning cities" driven by technology. These cities combine the strengths of high value knowledge intensive industry linked to a strong research and educational infrastructure, and offering a high quality of life to retain and attract highly educated knowledge workers.

Helsinki

In the Nordic region, Helsinki will consolidate its position as a world leading technology hub. The city's technological and physical infrastructure is amongst the best worldwide, providing a strong platform to build on its commercial links with emerging markets of western Russia and the Baltics. In recent years, Helsinki's real estate stock has been extensively upgraded to accommodate high-tech requirements and international investor interest will increase in a market traditionally dominated by domestic players.



Austin

In the USA, Austin (Texas) will gain importance as a technology hub due to its ability to generate and attract knowledge workers from around the world. Austin is a cultural centre of south-western USA and is the state capital of Texas. The city has a large university population, which provides both cheap labour and an ability to remain at the "cutting edge". The city's strategy is to improve the urban environment by linking high-tech development to quality of life and "smart-growth". Mainly built in the 1990s, the city's real estate stock is of a high quality and whilst the market is currently oversupplied, the city's "smart growth" policy should constrain longer-term supply, and provide a good occupier and investor location over the longer-run.





Raleigh-Durham

Raleigh-Durham (North Carolina) ranks amongst the top biotechnology regions in the USA. Local companies have developed strong ties with the three major research universities, producing a dynamic mix of knowledge, talent and entrepreneurialism. The quality of the real estate stock is high, largely comprising state-of-the-art research facilities and suburban offices. Although still comparatively small, the investment market is becoming more liquid.



Key to table/symbols

 Population (to nearest 100,000)	 GDP Per capita (USD)	 Real Estate Transparency (1=high, 5=low)	 Prime Office Rent (USD/m ² /pa)	 Current Real Estate Interest
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'Rising Technology'

An ability to commercialise innovation activities will play a key role in the continued development of knowledge-driven cities, and the world's established technology hubs have a good head start. However, competition from technology hubs in transition and developing economies will intensify, as multinationals seek to outsource routine and increasingly non-routine IT functions to lower cost offshore locations. Technology hubs will emerge in cities that can provide a pool of well-educated labour with good technical skills, supported by a reliable infrastructure and a business-friendly climate:

Bangalore

Bangalore, the "Silicon Valley" of India is arguably becoming the most high profile technology hub in the developing world. This southern Indian city is having notable success in attracting large offshore facilities of multinationals in software services and contact centres, which will act as a catalyst for indigenous growth. The city is moving from an IT back-office location to a fully fledged IT hub with cutting edge research combined with low value added services. The influx of multinational companies, looking for custom designed independent campus buildings, will continue to transform the local real estate stock. The environment for direct investment will improve, leading to an active institutional investment market.



Tallinn

Technology hubs will emerge in Central Europe, notably in those cities with high levels of technical education and a favourable business environment. Tallinn in Estonia is rapidly becoming part of the Nordic technology cluster and has strong links with both Helsinki and Stockholm. It is also developing as an important tourist location. Tallinn is a small city and the supply of high quality real estate is currently limited, but substantial land is available for development. International developers and investors have so far focused on retail, but there are likely to be growing opportunities in logistics.



Budapest

Budapest is creating one of the most attractive business operating environments in Central Europe, and is particularly well placed to benefit from EU accession in 2004. The city will move increasingly into high-value activities and is developing as a regional R&D centre. Budapest has seen high levels of new construction in recent years across all real estate sectors. Cross border investors are already active, and a domestic institutional investment market is starting to emerge.



Dalian^a & Suzhou^b

China has a long tradition of scientific and technical endeavour, and both Beijing and Shanghai host major research and technical institutes, with large number of researchers and science graduates. But significantly a number of second tier Chinese cities will develop as high-tech clusters. Dalian in north-east China is emerging as an important knowledge centre, with high levels of FDI in electronics, bioengineering and environmental protection. Suzhou, near Shanghai, is emerging as a major high-tech manufacturing hub and several major industrial parks have been developed. Much of the impetus has been due to the technology transfer of manufacturing processes from Taiwan. The overall quality of commercial real estate in both cities is poor, and there are opportunities to develop further higher quality space for multinationals.



San José

In Central America, Costa Rica has the local region's most stable and favourable business environments, and its capital San José has already seen strong growth in high tech activities. The initial trigger was the opening of Intel's microchip plant in 1998, and several other multinationals have since followed. The real estate market is currently small and undeveloped, but the combination of high-tech activities and tourism are expected to boost real estate activity over the medium term.



3.2. Environment – The New Driver of Business

'Resort/Urban Hip'

The quality of the urban environment will become a more important determinant of city competitiveness, particularly in mature cities. Cities will be making substantial efforts to improve their urban landscapes and their cultural and entertainment offer, recognising that they are key ingredients to retain and attract footloose well-educated knowledge workers, as well as stimulating tourism. We have seen how the "leisure factor" has contributed to the success of cities such as Las Vegas and Dubai, and several cities with expanding leisure activities, underpinned by strong city governance and branding, will feature amongst the future rising urban stars:

South East Queensland

South East Queensland, (embracing Brisbane, Gold Coast City and the Sunshine Coast) will be Australia's fastest growing region, benefiting from "sun belt migration" and its status as a tourist destination of global significance. All commercial real estate sectors are strong, and there will be increasing opportunities for back-office functions.



Cape Town

Cape Town has seen strong growth in tourism, and is developing as a conference destination. The city also has expanding media, film and IT sectors, and will increasingly compete with and complement cities in India and the Philippines as a low cost location for international contact centre activity, with the added attraction of being in a favourable time zone. Recent real estate investment activity in Cape Town's CBD has provided evidence that the rejuvenation of the central area is beginning to bear fruit. Real estate costs are low; the residential market is strong and there are growing opportunities for contact centres.



Barcelona

Barcelona has developed a high international profile, with a strong image of vibrancy and vitality. Its cutting-edge socio-cultural environment is resulting in in-migration of young professionals, which will be a key asset over the coming decade. The city has an effective and dynamic city government and high infrastructure investment. The city's real estate stock is still evolving, and despite high construction activity much of the stock is sub-standard. International developers and investors have been active for several years, and Barcelona will continue to be a favoured location for cross-border investors.



'Urban Sustainable'

Environmental factors currently score low for companies relocating their facilities, but issues of urban sustainability are likely rise up the agenda of corporate location decision-making over the next decade. Public awareness of environment and social issues will result in increasing pressure for government regulation and will encourage changes in corporate behaviour. Canadian, Nordic and Australian cities are amongst the best placed to offer the advantages of environmental and social sustainability. However, issues of sustainable development are also gaining in profile in many developing countries, most recently in Latin America, with evidence that this is filtering through to the way cities are governed and branded.

Copenhagen

Copenhagen is considered to be one of the world's most environmentally friendly cities, and has taken the lead position in environment protection. It has a strong environmental technology sector and the presence of the European Environment Agency. The city has a very well developed infrastructure, and the new road-rail link with southern Sweden has extended the city's reach and will boost the city's status. Environmental issues have been reflected in the growth of "green" buildings. Supply opportunities are high, with substantial land available for development. Investors have been mainly domestic or Nordic, but international investors are expected to become more active.



Calgary

Calgary scores amongst the highest worldwide in terms of environmental factors. The city is committed to balancing strong economic growth with sustainable development, and an explicit policy of multi-culturalism contributes to social sustainability. The real estate market is already mature, with a high level of institutional ownership. Suburban offices, retail and logistics are expected to show the fastest expansion.



Porto Alegre

Porto Alegre, the largest city in southern Brazil, epitomises the debate on sustainability in developing cities. This city has acquired international recognition through hosting the 2003 World Social Forum, a group that challenges mainstream economic thinking. Urban economists are closely watching this city due to its innovative urban planning system that involves local neighbourhoods in the allocation of municipal funds. This system has resulted in substantial improvements in infrastructure and public services. The quality of the commercial real estate is still relatively poor, but we believe the city has potential as a strategic hub for the Mercosur region³. Porto Alegre is just one of several second-tier Brazilian cities such as Salvador, Fortaleza, Curitiba and Florianopolis, which are likely to attract active interest from real estate players in the near future.



³ Common market embracing Argentina, Brazil, Paraguay and Uruguay. Bolivia and Chile are associate members.

3.3. Economic Drivers – The Backbone of Growth

‘Rising Mega Cities’

Whilst environmental issues are expected to rise up the agenda particularly in advanced economies, in most emerging economies the key drivers will continue to relate to traditional economic forces - critical mass and cost factors. Rapid urbanisation is giving rise to “mega cities”, with populations of more than 10 million people, and it is no surprise that a number of the cities highlighted in this paper are in China and India. These two countries will account for a significant proportion of new urbanisation over the next decade, and they offer considerable opportunities for global companies from their potential consumer base and abundant labour supply:

Shanghai^a, Beijing^b & Pearl River Delta (Guangzhou^c, Shenzhen^d)

In China three mega cities will continue to be the focus of interest for real estate players. Shanghai, Beijing and the Pearl River Delta region (comprising Guangzhou, Shenzhen and several other expanding cities) are currently amongst the most dynamic city regions in the world, and have established positions as China’s main commercial hubs. The development of these city regions is a priority of the national government, which is reflected in infrastructure investment and high levels of FDI. All three city-regions have seen significant real estate construction during the 1990s, which has led to some oversupply, exacerbated by the Asian crisis of the late 1990s. Market transparency in these cities is still low by international standards, but is expected to improve.



Mumbai^e & Delhi^f

In India, the commercial and administrative capitals Mumbai and Delhi (respectively) are both developing dynamic business environments. Access to a large pool of labour with good technical skills has resulted in the establishment of back-office and contact centres. Both cities have potential for high value activities, with a degree of originality in the fields of technology and intellectual research. Mumbai also has the international cachet of being home to “Bollywood”. Nonetheless, these two cities will face increasing competition from India’s second tier cities, not only from Bangalore, but also Chennai, Hyderabad and Pune. The quality of the real estate stock in both Mumbai and Delhi is generally poor, notably in the central business districts, which combined with fragmented ownerships will continue to constrain real estate investment. However, growth in demand for back-offices and contact centres will result in continued strong growth in suburban real estate development, and investment opportunities will increase.



Santiago

Amongst Latin America’s largest cities, Santiago provides some of the most favourable prospects for longer-term success. Chile has become the region’s most stable and open economy and potential membership of an enlarged NAFTA would act as a trigger for sustained economic growth, boosting real estate occupier demand. Moreover, a progressive system of private pensions has created a large amount of domestic capital that is starting to be invested in real estate.



'New Frontiers'

Real estate players are also expected to focus more on opportunities in "new frontier" cities such as China's second-tier cities, not only along its coastal regions (such as Dalian and Suzhou, as covered on Page 6), but also increasingly on inland cities. China's national government's "Go-West" policy to develop inland regions through infrastructure investment and economic liberalisation is expected to increase opportunities in western China:

Chongqing^a & Xian^b

Chongqing and Xian are amongst the best placed to benefit from China's "Go West" policy. Both cities are large strategically located hubs that are the foci of regional economic development. Commercial real estate in both cities is still very undeveloped, particularly so in Xian where there are still no international "Grade A" office buildings. Real estate demand is expected to rise sharply, as these cities emerge as prominent business and cultural centres for inland China.



The stimulus for growth in a number of emerging cities is the high levels of FDI from an overseas population who are returning to invest in their "home" economy. This has been a significant factor in Chinese and Indian cities such as Guangzhou and Bangalore. We have also seen how the "Diaspora Effect" has contributed to the strong economic growth of Dublin during the 1990s.

The rapid economic growth of cities in developing countries such as China and India is likely to see the emergence of new global flows of real estate capital over the coming decade. These regions will not only attract capital, but significantly they are likely to become important sources of real estate investment as their contribution to the global economy rises.

4. Developing Predictive Methodologies

Competition between cities for global capital, multi-national corporations and knowledge workers will intensify over the next decade. Cities that have historically competed on a range of attributes such as size, wealth and centrality will find that issues of culture, the living environment, city “vibe”, branding, environment and social sustainability are becoming more important to achieve success.

We will see rising urban stars competing more vigorously with the established World Cities for jobs, tourism and global influence. The current contest to host the 2012 Olympic Games epitomises the growing intensity of city competition, which is likely to see New York, London and Paris battling with cities such as Madrid, Moscow and Leipzig - hoping to use the Olympics event to maintain or attain World City status. Much of this activity is about creating a brand: city marketing is becoming more important, and branding campaigns, trade missions, major infrastructure projects and the securing of prestigious cultural and sporting events are becoming key components of city strategies; strategies that will depend ultimately on **real estate** to deliver their promise.

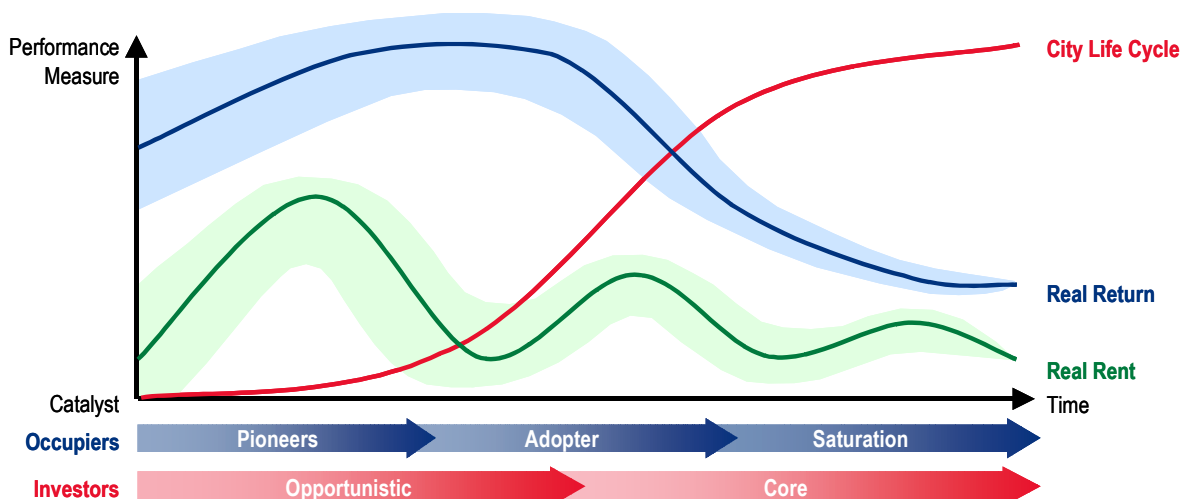
There are many cities across the globe that have the ingredients of success and are creating armouries of attractions to propel them to World City status. In this paper we have identified some examples of the potential future rising urban stars. Not all these cities will ultimately be winners and not all will pass the requirements of the diversity of real estate players. Most will be on the radar screens of occupiers, but investors and developers need to be particularly careful about supply side issues, influenced not only by the local regulatory environment but also by the stage in a city’s evolution - “City Life Cycles”.

City Life Cycles

Cities are increasingly being marketed as products and it may be appropriate to analyze their economic and real estate market development in terms of a product life-cycle – a “City Life-Cycle” (see diagram below). Following a catalyst, which may be technological innovation, infrastructure or regulatory improvements, other things being equal a city may be expected to go through three or more stages of development: early adoption, growth, saturation and possibly decline. The demand for real estate will increase throughout the City Life Cycle but will expand fastest in the growth phase.

Occupiers will find that real rents will likely peak sooner, during the early adoption phase before a supply response to the increase in demand develops. Investors looking for opportunistic returns will do better to focus on cities in the early adoption phase. As the city progresses through the City Life-Cycle, the reduced volatility of returns but at a lower level will likely prove more attractive to core investors.

City Life Cycle – First Mover Advantage for Occupiers and Investors?



The World Winning Cities programme will continue to develop predictive methodologies. Our multivariate analyses of the key city drivers and real estate indicators will provide systematic predictions and enable tailor-made analysis of city prospects and assess the implications for real estate according to the particular interests of our occupier, investor and developer clients.

Subsequent phases will reveal other rising urban stars and explore evidence of new clusters and connectivity between cities. Equally important the research will also seek to identify those cities in danger of losing status. We will apply our approach to test the robustness of the established Winning World Cities to determine whether they will remain “winners” in the face of increasing global competition. We are also assessing the contribution of real estate to sustainable competitive advantage, with ongoing programmes on a global basis on real estate market transparency, liquidity and supply constraints.

Whilst a truly global real estate market is still some way off, real estate players will increasingly need a detailed understanding of city dynamics and best practice from across the world in order to be “ahead of the curve”. Our World Winning Cities programme aims to provide these insights.

Definitions and Sources

Population: Urban Agglomeration population (2000), United Nations World Urbanisation Prospects, 2001. Local definitions and sources used for Raleigh-Durham and SE Queensland.

GDP/Capita: Based on national GDP Capita (Source: EIU, 2003). Adjusted to account for differences between national and local GDP/Capita (state, province or metro area), and based on various local sources.

Real Estate Transparency: Score that takes into account five key measures of transparency at a national level – Investment performance indices, major market fundamentals, financials, governance and regulation. 1 = most transparent markets; 5 = least transparent markets. Source: Jones Lang LaSalle and LaSalle Investment Management, May 2003.

Prime Office Rents: Represents the top open market gross face rent (according to local conventions) that could be expected for a notional office unit of the highest quality and specification in the best location in the city (as at Q1 2003) expressed in USD/m²/pa.

Real Estate information on the Cape Town market was provided by Rode and Associates CC.