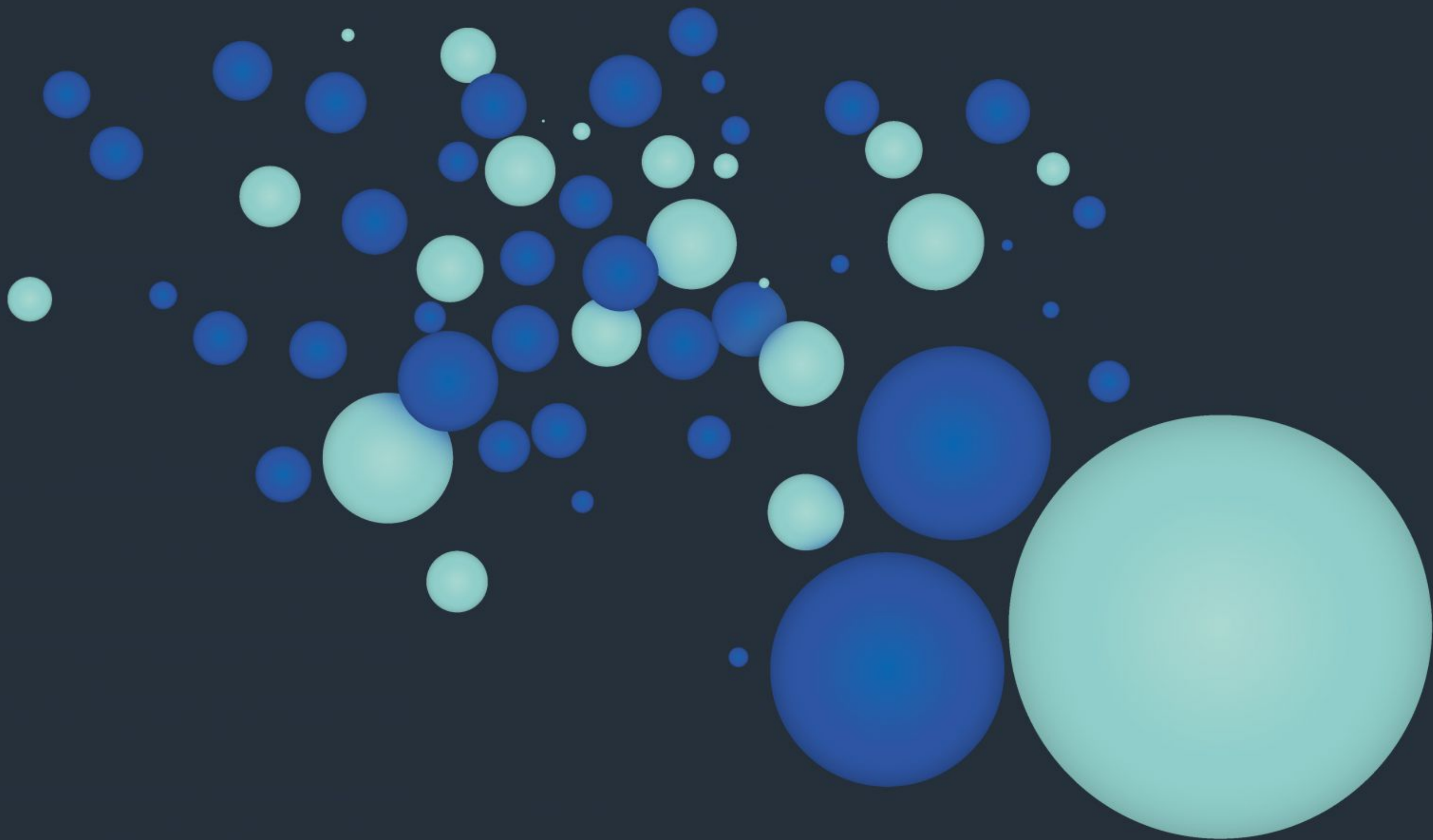
THINK Global: Cities

Picking winning cities across the globe for growth and diversif cation

TH Real Estate



Data generating art

This image is an abstract representation of Fig.1, illustrating the global change in population growth from 2010-2030.

Introduction

Increasingly complex market dynamics and evolving investor requirements mean we are looking at longer-term drivers of real estate performance more and more. Megatrends — notably urbanisation, rising middle classes, ageing population, technology, and the shift of economic power from the West — are having a major impact on the built environment, and will have significant implications for demand on real estate. While economic cycles will continue to determine short–term performance of real estate, there is a risk that focusing on these alone will conceal potential longer-term impacts on value as megatrends play out. Understanding long-term structural trends will be key to preserving value and unlocking growth. Identifying cities that are defensive in light of these megatrends, for core strategies at least, is key to constructing a sustainable portfolio (although that's not to say that from the ground and asset up, we shouldn't be looking to exploit these trends). This is not as simple as only targeting global gateway cities – which is the 'strategy' of many international investors – but instead about identifying the factors that make a great city.

The largest cities will offer the greatest breadth of opportunities and have liquidity in their favour, but it is the demographic and genetic make-up of a city which makes it great. We favour young, resilient, growing cities that have the infrastructure and political framework in place to successfully absorb all the people that want to live there. Cities are attractive for different reasons, and therefore we resist producing rankings of city attractiveness. We prefer to look at the combination of factors that make a city attractive, and adopt an appropriate stock sourcing or asset management strategy. We select cities based on their long-term demand fundamentals. Of course, they all behave differently through market cycles and, at any point in time - based on pricing or supply - some will look more attractive than others. Therefore, producing rankings will be misleading to those taking a longer-term view. This report explores the changing hierarchy of global cities and some of the personality qualities we look for in a city.

Too much economic and real estate advice is given at country level, which means interesting locations can get missed due to perceived national level risk, and vice versa. Our global strategic advice is now centred on cities, not countries, meaning we can give investors more clarity on what a portfolio might look like. This approach is consistent with the way occupiers think about their requirements and representation. We have adopted an innovative, two-pronged approach to our top-down analysis, capturing both structural megatrends and tactical real estate fundamentals, to identify 'future-proof' cities.

Alice Breheny
Global Head of Research

People, people, people

Real estate is about the interaction of people and places. Therefore, we need to understand people to identify the right places to invest. This includes the movement of people, the behaviour of people, and how they interact with the built environment. So in designing long-term, sustainable strategies, we start with demographics.

Winning cities will be those that have the ability to attract and retain people. They will enjoy growing populations and improving wealth. Successful cities will be productive, generating better-than-average output or retail sales per capita.

Broadly speaking, in the developed world we expect to see a greater share of global output being generated by a smaller number of cities over time. Naturally, these are the cities that core real estate investment strategies should be focused on. In developing economies, we may see the increasing importance of Tier 2 cities, and the list of investment targets growing accordingly.

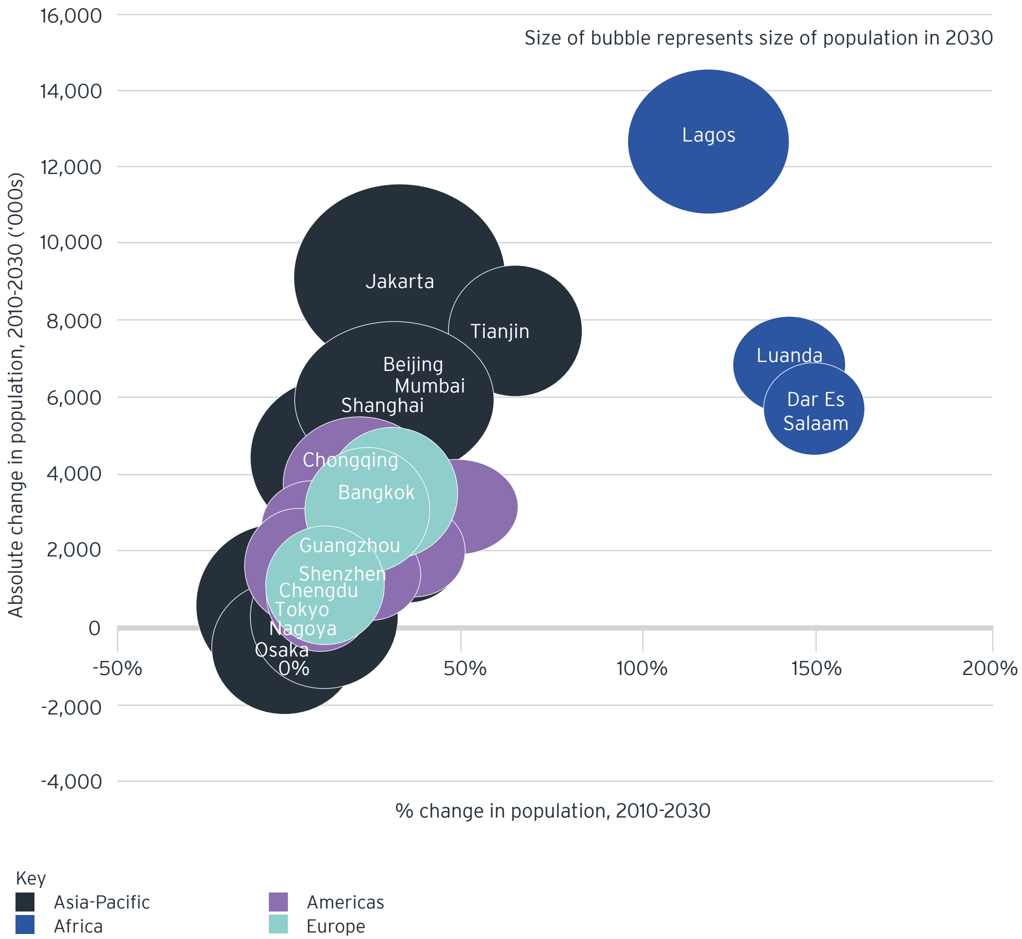
The global economic hierarchy is changing rapidly, with emerging Asian cities jostling with established cities in the West for premier league status. Cities in the US and Europe need to avoid being complacent in light of the intensifying competition from the East.

Rapid urbanisation is mostly associated with developing economies, and it is the least urbanised nations where we expect to see the fastest growth in city populations. There are cities in Africa and Asia that will see their populations grow by more than five million over the coming decade. In these economies, people are lured by financial opportunity and believe they need to be in a city for economic survival.

In the developed world, rural-to-urban migration curtailed a long time ago, though some cities continue to grow at pace. Here, urbanisation is about thriving economically, rather than surviving. These cities need to appeal to the increasingly mobile and global talent base.

We understand that rapid growth does not necessarily lead to economic success. Density needs to mean productivity and community, rather than pollution and congestion. So we are mindful when selecting cities that they are progressive in their thinking towards infrastructure and environmental sustainability, embracing growth.

Fig.1: Population growth



Source: Oxford Economics, Q3 2016

City DNA

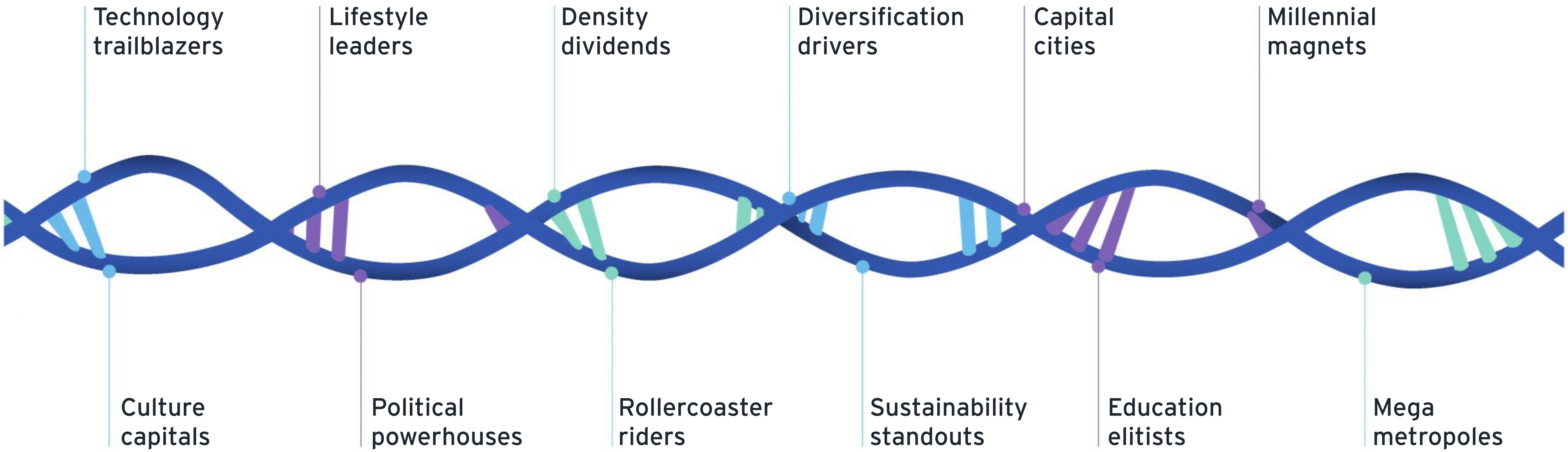
What drives a city to success is not necessarily clear. In some cases, it is about scale and the depth of employment opportunities, where new urbanites are prepared to sacrif ce space and air quality for the associated f nancial gain. In other cities, it is the quality of life or climate that attracts and retains people. Some cities have a unique ability to attract talent owing to their rich history and heritage.

Every city is unique, and so the strategy for investing in each of them also needs to be unique. Focusing on a small number of cities allows us to understand them intimately, and make local level acquisition and asset management recommendations that ref ect that city's individual personality.

The attraction of some cities for investors lies in their burgeoning middle classes, and therefore focusing on the retail sector will help to capitalise on that growth. In 'rollercoaster riders' or 'cyclical cities', investors need to be agile enough to take advantage of f uctuations in pricing and focus on highly-liquid off ces. 'Culture capitals' attract different people to 'technology trailblazers', and so need a different approach to investment.

The well-versed benef ts of sector and geographical diversif cation are further enhanced by ensuring a good mix of city personality.

Fig.2: City DNA - every city has a unique personality



City DNA

Fig.3: A range of global cities by personality type

Source: TH Real Estate, 2016

Technology trailblazers: Lighting the way for tech giants

Austin

Austin was America's fastest-growing city in 2015 with more than 150 people arriving every day. It is economically strong, with job growth continuing to outstrip population growth, and unemployment is under 4%. Techies are attracted by the high levels of venture capital, affordable accommodation, and the burgeoning restaurant and music scene. Most notably, it plays host to 'South by Southwest' (SXSW), an annual conglomerate of f lm, interactive media, music festivals and conferences. As tech hubs in New York, San Francisco and Boston become increasingly expensive, Austin is emerging as the leading alternative in the US.

Auckland

Auckland is emerging as the front-runner for Asia-Pacif c's leading tech hub, combining cutting-edge innovation with a hard-to-match quality of life. Its relatively easy access to the Australian East coast and burgeoning population – due to expand by 43% to 2.2 million by 2020 – also act in the city's favour. With a recently announced plan to foster a new tech hub in the North, and a progressive partnership with Microsoft's CityNext project helping the city's transport services cope with increasing demand, the future looks bright.

Hangzhou

As the capital of several ancient Chinese dynasties, Hangzhou is shaping up to be a high-tech hub and bastion of entrepreneurship – a symbol of China's transition to technology-powered growth. As the home of the e-commerce giant 'Alibaba', the city has fostered a strong community of start-ups and created thousands of internet millionaires. This has been spurred on by the rise of China's middle class - a tech-savvy generation with huge collective spending power.

Source: Oxford Economics, 2016

Tomorrow's World cities

Our cities approach is about core, defensive investing, as well as long-term investing, so we need to be on the look-out for the core markets of the future. We have identified a significant number of cities across the globe, which may not be obvious targets for core investors today, but whose long-term demand story cannot be ignored. Risk-adverse investors will be deterred by the compromised liquidity, transparency and income security in some of the fastest-growing cities. However, these measures will likely improve over time and, at some point in the not too distant future, the potential reward could start to outweigh the risk.

We believe these cities should be monitored carefully for improving fundamentals. In the short term, opportunities to mitigate local risk and access these markets sooner, rather than later, should be pursued. This might be through working with the appropriate local partner or by targeting tenants with a track record of operating in these markets.

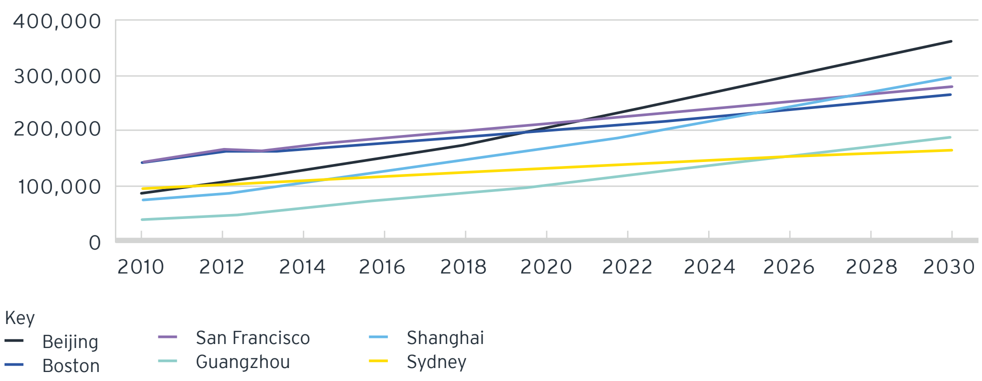
Emerging cities, particularly in Asia, are often top targets for occupiers who are looking to take advantage of their rapidly-growing middle class or cheap, highly-educated labour, and naturally opportunities will exist for investors and developers to satisfy their real estate requirements.

Asian cities typically dwarf their European peers, and few US metros can compete in terms of population. Asia will see its share of global output and retail sales increase markedly over the next couple of decades. Beijing is expected to overtake San Francisco as soon as 2020, in terms of total financial and business services output, while Shanghai is predicted to overtake Boston in 2026. Asia already accounts for six of the top-10 retail markets globally, and by 2030, China alone will make up 11 of the top 20; others include Jakarta, Buenos Aires and Istanbul.

So, while institutional investment markets in Asia are comparatively small, they should start to close the gap on the consumer and economic opportunities that exist.

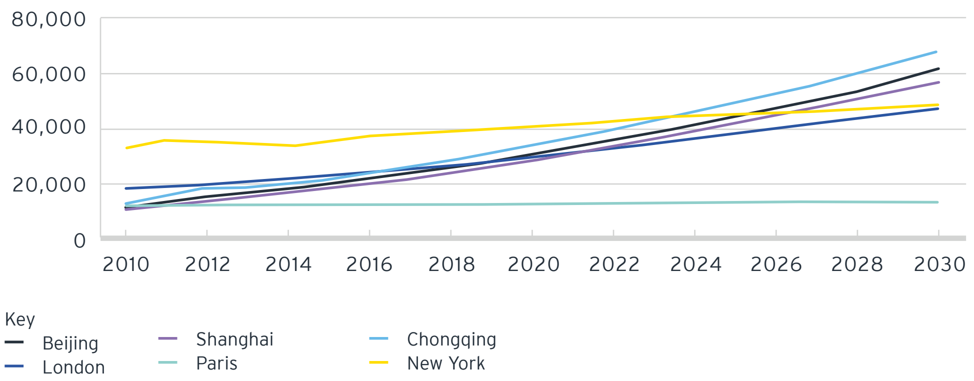
Growth cities tend to offer greater diversification benefits to real estate investors, taking them into new geographies, and being underpinned by structural rather than cyclical drivers of growth. They should also enhance returns through better-than-average growth, but also through a structural repricing as they become more liquid and transparent.

Fig.4: Financial and business services GDP ($m)



Source: Oxford Economics, Q3 2016

Fig.5: Fashion and footwear retail sales ($m)



Source: Oxford Economics, Q3 2016

US cities: Safe haven for global investors

Despite the lacklustre global economic environment, US economic growth remains solid. Since the official end of 'The Great Recession' seven years ago in June 2009, US GDP has grown by over $4.0tn to $18.4tn, as of Q2 2016. Over the same period, US population has grown by 17 million, and the number of jobs has grown by over 12 million. The dynamic nature of the US economy is best exemplified by the nation's largest cities and metropolitan areas, where the majority of job and population growth is occurring. We believe the US real estate market is in a transformational period of growth that is being driven by favourable long-term economic, demographic and business trends. These trends, which are generational in nature, will continue to direct a disproportionate share of future employment and population growth to top US cities and metropolitan areas.

The US is a highly-transparent market. There are standardised transactional processes, a stringent regulatory and legal framework, well-established performance measurement standards, and readily available data. All of these are associated with stronger investor and real estate investment activity. Foreign investment in the US totalled $95bn in 2015, and a January 2016 survey by the Association of Foreign Investors in Real Estate found that 64% planned to increase US property investments in 2016. Investment stability and security were primary reasons for the survey respondents' strong interest in US real estate. Other likely factors include stronger economic growth prospects, diversification opportunities, higher absolute yields, and the high degree of transactional liquidity. We believe that an investment strategy targeted at top US cities is warranted in a global capital markets environment, characterised by low absolute yields and negative sovereign bond yields.

"The US' recent economic growth has been concentrated in top cities and metropolitan areas which are home to global industry leaders in technology, finance, media, education, and the medical sciences. These 'innovation centres' attract the youngest and brightest employees, establishing a self-sustaining base of knowledge-based growth."

Randy Giraldo
Managing Director, US

US cities: Young, growing and highly educated

The five gateway cities in the US – New York, Washington DC, Chicago, Los Angeles, and San Francisco – have earned their titles due to the strong interest from international investors. Attributes such as depth of market, economic diversity, vibrant economies, and a large and growing base of businesses and population are part of their global appeal. Each has unique attributes that add to their appeal, and secure their long-term competitive positions as global leaders in finance, entertainment, government, and technology. These leading industry positions, in turn, attract the most dynamic companies, and the youngest and brightest workers from the US and across the globe. The constant influx of the newly-employed and job seekers contributes to their vibrancy, diversity and growth, along with generating steady demand for retail goods, services and housing.

Other US cities share many of these same attributes. Over 85% of the US population live in a 'metropolitan statistical area'. Of the 382 metropolitan statistical areas - which consist of a city core and adjacent counties that are socially and economically integrated - 64 have populations of one million or more. Like gateway markets, these larger metropolitan areas have sizeable amounts of office, retail, warehouse and rental housing stock, along with diversified economies and large, growing bases of businesses and population. Some are global industry leaders, as in the case of San Jose (technology) and Houston (energy). Others are industry leaders within the US, or globally in areas such as biotechnology (San Diego), technology (Seattle), education (Cambridge), medical technology (Minneapolis) and tourism (Miami). As with gateway cities, city cores and the surrounding suburbs are experiencing strong population and employment growth, and account for an increasing share of US GDP.

Quantifiable measures, which help us identify metropolitan areas that will continue to be key points of growth in the US economy in the future, include population growth, growth of younger working-age cohorts, and educational attainment.

In addition to overall population growth, it is the growth of key age groups that will strengthen a city's long-term growth and competitive position. Specifically, the growth of 'Millennials' - those that are just entering the workforce and beginning their working careers - is a key indicator of a city's ability to attract industries that are the engines of today's growth: science, technology, finance, media, entertainment, and the like. The growth and maturation of Millennials, which number some 45 million, is a key demographic trend driving US and metropolitan area growth, and one that will continue for an extended period in the future.

Fig.6: Projected population growth, 2016-2021

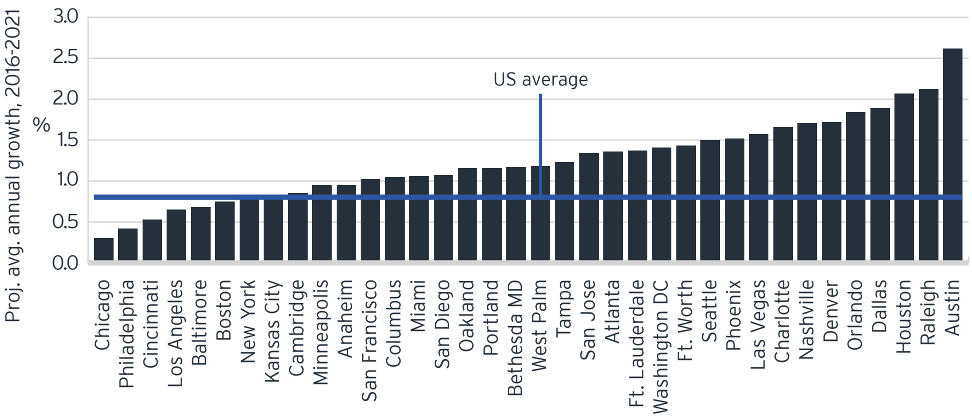
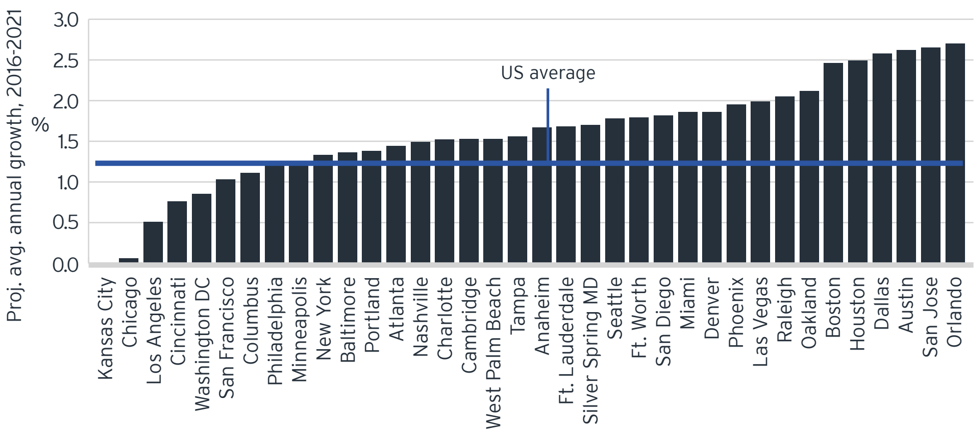


Fig.7: Projected growth of Millennials, 2016-2021



Source: Esri, 2016
Note: Population aged 25-44.

US cities: 'Innovation centres'

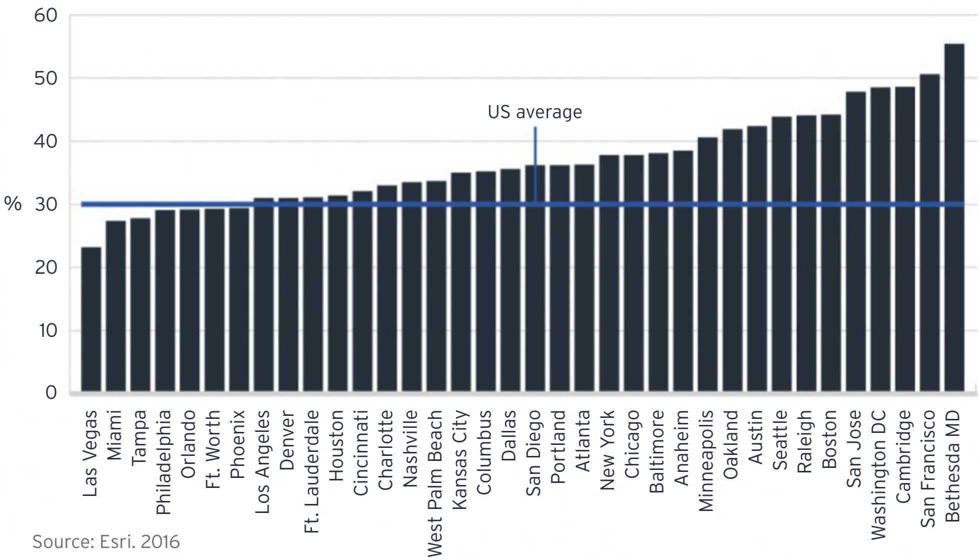
Educational attainment and household incomes are key variables that also indicate vibrancy and diversity. The strong relationship between these two variables has been demonstrated by the US Census Bureau, which determined that college graduates earn twice as much as high school graduates during their working careers. Greater earnings power supports greater spending power, and therefore generates greater economic vitality. Higher levels of educational attainment also serve as a magnet for more college graduates, as these top metropolitan areas have historically attracted a disproportionate share of this demographic.

Research has found that 'human capital', as exemplif ed by educational attainment, is an excellent predictor of a metro area's economic prosperity. Consequently, top US cities and metropolitan areas are 'innovation centres' where industries at the forefront of economic growth are concentrated. The concentration of these leading industries also attracts signif cant amounts of venture capital investment and funding for medical research from public and private institutions. The engines of growth include the higher pay scales of these industries, as well as higher economic multiplier effects from associated spending and investment.

Leading US cities and metropolitan areas are also top destinations for international and domestic tourists, with visitor spending boosting demand for hotels, retail goods, food and entertainment. One obvious benef t from the growth of tourism is the growing internationalisation of the US retail market, as the size and dynamism of top metropolitan markets has attracted numerous international retailers, which have established national networks of stores. Similarly, the inf ux of international tourists visiting top US tourist destinations, like Hawaii, Las Vegas, New York and Florida, has provided a long-term boost to these local economies and property markets.

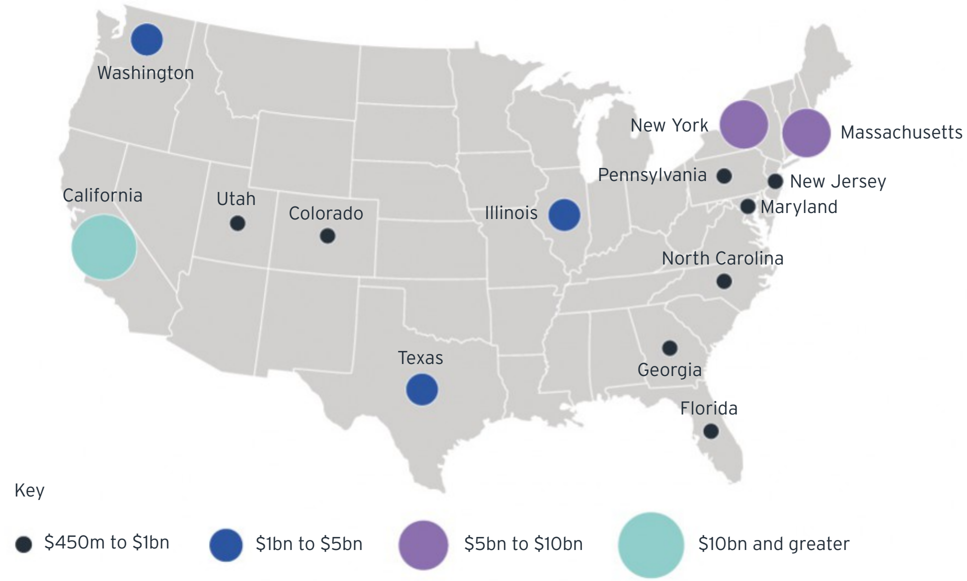
New direct foreign investment in the US totalled $420bn in 2015, an increase of 68% from 2014, with the totals including acquisitions, investments in existing businesses, and establishment of new US businesses. Commercial real estate accounts for just a small portion of this total. The benef ts of globalisation to the US economy will continue to accrue over the long term, given higher expected absolute rates of investment return, the high degree of transparency, the ongoing popularity of US entertainment and culture, and the US' safe haven appeal to global investors.

Fig.8: Educational attainment (% with college or graduate degrees)



Source: Esri. 2016

Fig.9: Top US venture capital locations



Source: PricewaterhouseCoopers/National Venture Capital Association Moneytree ™ Report, 2015

European cities: The culture capitals

There is a risk that focusing on real estate market cycles could mask long-term erosion of values in some locations, as they are negatively impacted by demographic trends, technology or environmental changes. Ageing populations across Europe are certainly creating attractive niche strategies for real estate investors. However, for investors in the mainstream sectors, we advocate sticking to youthful locations, which ought to be more productive and faster growing. Ageing locations will eventually become less economically viable and, ultimately, not sensible destinations for real estate capital (outside those niche strategies). In Germany, for example, where the population is declining, we focus only on f ve cities that are enjoying solid population growth.

The shift of economic power to the East is something that investors in Europe need to be mindful of, particularly in the off ce sector. For example, while we do not envisage London or Paris seeing their position in the global economic hierarchy seriously compromised by the shift of economic gravity, there are many locations that cannot afford to be complacent, as global corporates will seek to take advantage of highly-educated, young talent in rapidly growing cities in the East.

In light of this shift of economic power, and the increasingly mobile, global workforce, we focus on those European cities that have the ability to attract global talent – through their heritage, culture or quality of life for example - and will, therefore, always be top targets for global corporates.

Europe has an abundance of cultural cities and lifestyle leaders, boasting a rich heritage. Their charm will ensure they continue to attract both talent and tourists. The historical nature of many of Europe's cities plays a key role in attracting people to live, work and shop, but restrictive planning legislation means that supply is fairly inelastic compared with other regions in the world.

> European cities have many benef ts available over rural areas, such as additional employment and leisure opportunities. Productivity is higher, innovation abounds and populations are younger, more aff uent and with a higher level of discretionary spending, even after living costs. As a result, the best cities in Europe will grow exponentially with a continually increasing demand for real estate.

Andrew Rich
Director

European cities: The diversification drivers

Europe is the smart destination for investors seeking diversification; cities across the region all have their own local drivers of demand, unique cultural characteristics and behave differently through market cycles. Investors with people on-the-ground, who are able to execute a pan-European strategy, will benefit from geographical diversification in terms of lowering volatility. However, we do recommend looking beyond the financial capitals to enjoy these benefits. These cities are closely correlated with each other, and with other gateway cities across the globe.

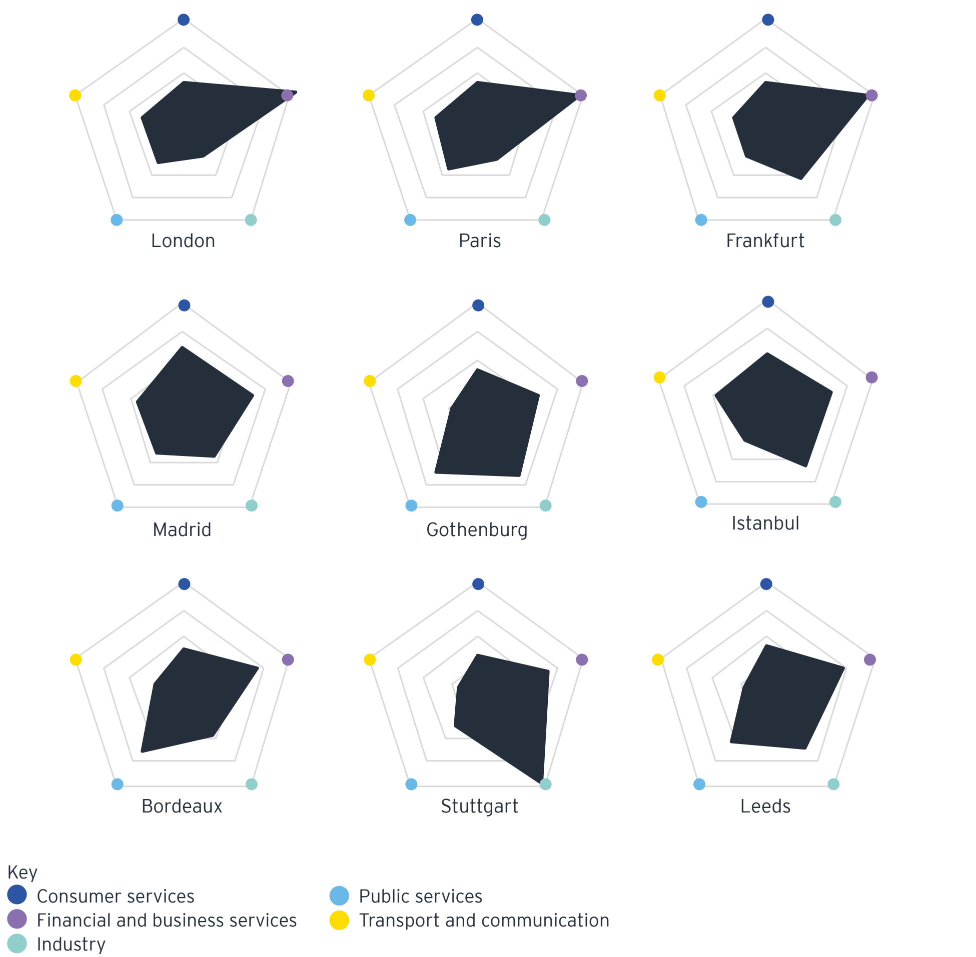
For the short term, we focus on those cities that exhibit fewer late cycle symptoms, and offer better value in terms of yield and superior potential for rental growth. Across the region as a whole, this would point us to leading cities in Southern Europe, but also towards more ‘interesting’ opportunities and micro-locations in Northern European cities.

However, we will not focus too much on the cycle and instead continue to seek selective exposure to those locations that we are confident will emerge strongly from future cycles. This is where megatrends become so important. You need to invest in places that will benefit from the influence of urbanisation, youthful populations, rising middle classes and technology. We recognise that rural-to-urban migration in Europe ended a long time ago, and where cities are growing their populations, it is about choice. As such, our focus will be on those cities where people want to live and work.

With cities in Europe typically being much smaller than in North America or Asia, we have a target list that is a little longer than for the other regions, in order to gain true diversification benefits. We have identified around 40 cities across Europe, that are productive, affluent, young, environmentally sustainable and, most importantly, growing. These cities, over the longer term, should account for an increasing share of the region’s output, benefit from structural growth in demand and be smart destinations for long-term real estate investment capital.

The European winning cities strategy is most appropriate for core investors, particularly those seeking representation in offices, retail or logistics, but we recognise there are some more niche strategies that are also interesting. The term ‘niche’ is often mistaken for ‘risky’, but in fact some of the more niche sectors and strategies are underpinned by sound structural demographic trends. So they should enjoy a longer-term improvement in transparency and liquidity, and therefore pricing. The challenge comes in finding scalable opportunities in the sector, and in many cases identifying the right operating partner. These challenges aside (and they are by no means easily surmountable), niche sectors look very attractive and can sometimes be the most appropriate way to get exposure to a demographically-thriving city.

Fig.10: Financial capitals highly correlated (share of GDP by industry group)



Source: Oxford Economics, Q3 2016

Asia-Pacif c cities: The epicentre of Tomorrow's World global cities

The world's economic weight continues to lean favourably towards Asia-Pacif c. From just 28% in the early 2000s, the region's share of world output (in purchasing power parity terms) now stands at 39%, and is projected to reach 44% by 2025. The rise of the middle income class is one decisive megatrend underlying this secular shift in economic power from West to East. Over the past decade, the consumer market – measured by private consumption – has expanded by 50% across the region and is likely to increase by a similar rate in the coming ten years. The interplay of reforms, urbanisation and the expanding services sector across many regional markets will continue to drive consumerism, notably in China, India and some emerging Asian economies such as Thailand, Indonesia and Vietnam.

Today, Asia-Pacif c's global footprint is led by some of the region's most interconnected, vibrant and resilient world cities, many of which are highly-populated and sizeable global f nancial centres, key manufacturing and transport hubs, tourist hotspots or innovation powerhouses. With about three-quarters of the world's population projected to be living in cities by 2050, many more Asia-Pacif c cities will rank among Tomorrow's World top urban economic success stories. By 2030, 11 of the biggest 25 cities in the world (by output) will reside in the region; Asia-Pacif c cities will also account for 46 of the top 50 cities, with the largest changes in household wealth occurring between 2010 and 2030 (source: McKinsey, 2015). Many rapidly developing secondary cities in Asia-Pacif c today will complement existing core markets, to provide institutional investors with a deeper and broader universe of good quality investable assets for Tomorrow's World's investment landscape.

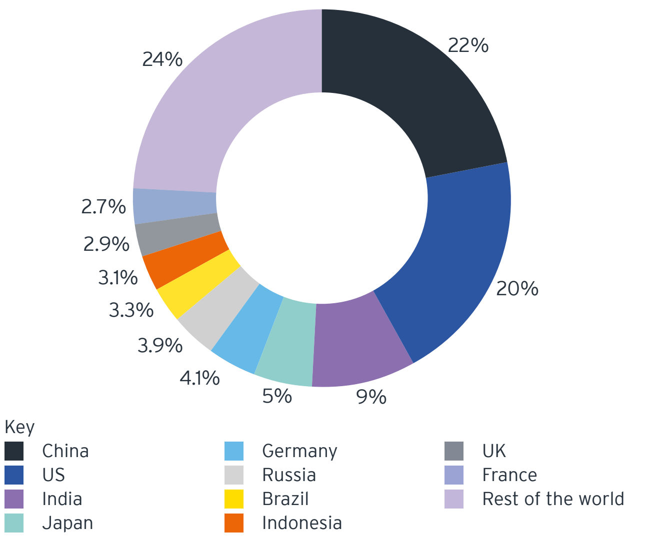
"The region's stellar growth over the past decades has been concentrated on a few key core cities, many of which are already among the world's biggest, most globally competitive and resilient. Many more will rise to the fore in the coming decade, providing investors with even greater opportunities to tap into Asia-Pacif c's growing economic dominance."

Chris Reilly
Managing Director, Asia-Pacif c

Asia-Pacific cities: Resilient today, with more to come

In the coming decades, the world's urban landscape will continue to evolve, and Asia-Pacific will be at the epicentre of this decisive shift. Many regional economies and city states are already among the world's most vibrant and interconnected, with strong rule of law, stable political environment and enduring economic policies. Singapore, Japan and Hong Kong, for instance, are frequently ranked as among the most competitive economies globally. Many regional economies are also among the world's largest: Japan, South Korea and Australia are Organisation for Economic Co-operation and Development (OECD) countries, ranked 4th, 13th and 19th respectively by GDP (purchasing power parity terms), according to the International Monetary Fund (IMF). By the same measure, China's $20.8tn economy is the world's biggest, ahead of India (3rd) and Indonesia (8th) among regional economies.

Fig.11: Asia-Pacific holds four spots among the top-10 biggest global economies (% share of world)

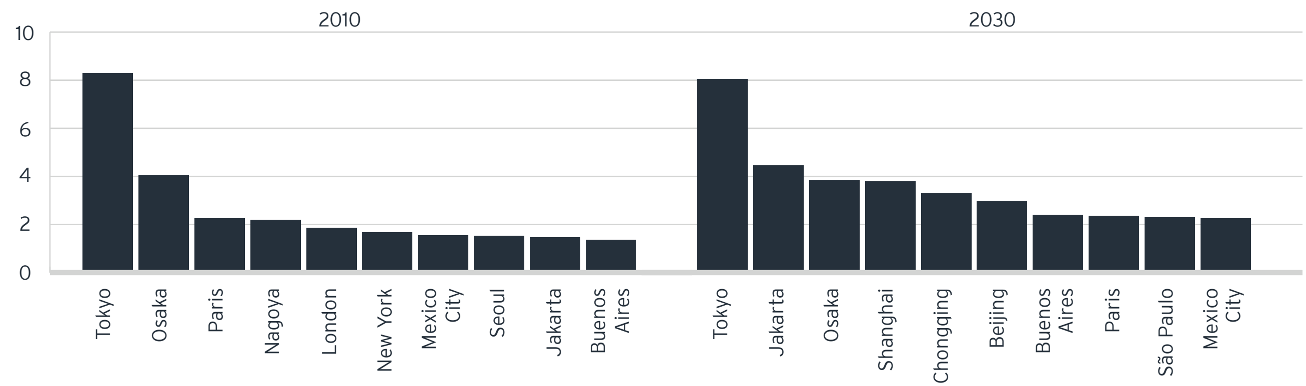


Source: Oxford Economics, 2016

The economic rise of Asia-Pacific has, for many years, been concentrated on a few key global cities, spearheaded by Tokyo and Seoul, two of the largest and most densely-populated metropolitan areas in the world. Both cities also rank among the highest tech, backed by some of the most innovative global companies such as Naver, Rakuten, LG Household & Health Care and Amorepacific (according to Forbes, 2016). Alongside Tokyo, both Hong Kong and Singapore are also ranked among the world's top financial centres. Both city states, together with Seoul, are rated among the leading top-10 most sustainable (Arcadis Sustainable Cities Index 2015) and business-friendly (World Bank, 2016) cities globally. Some Asia-Pacific cities also offer the best quality of living: Melbourne, Adelaide, Perth and Auckland are ranked by the Economist Intelligence Unit (EIU) among the top-10 most liveable cities in 2016.

Many of the region's resilient cities today will remain highly viable, and tomorrow's standout cities – Singapore, Hong Kong, Tokyo, Sydney, Taipei, Seoul and Melbourne - will stay among the top-20 most competitive global cities in 2025, according to EIU/Citigroup. However, many others will rise up the global rankings in the coming decade, particularly fast-growing Chinese cities benefiting from strong urban migration and wealth creation. By 2030, Suzhou, Chongqing and Jakarta will replace Osaka, Nagoya and Seoul among the biggest Asia-Pacific cities by economic output. Over the same period, Asia-Pacific cities will account for the top-six spots globally, with the highest number of middle income ($35,000-$70,000 annual) households: Tokyo, Jakarta, Osaka, Shanghai, Chongqing and Beijing.

Fig.12: Six of the top-10 spots with largest number of middle income households (million)



Source: Oxford Economics, 2016

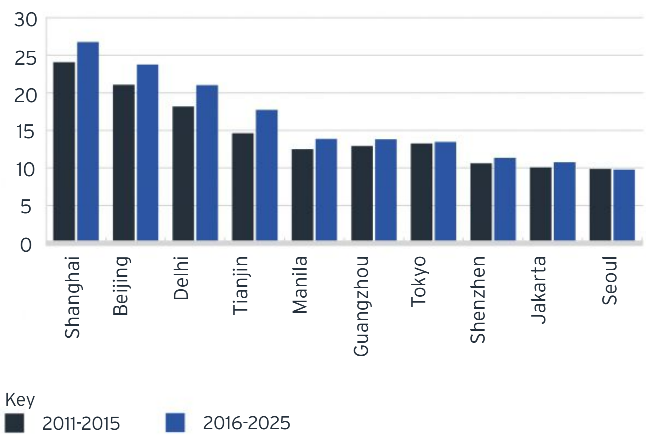
Asia-Pacific cities: Opportunities in diversity

There are common threads running through some of the most prominent and resilient Asia-Pacific cities of today and tomorrow – safe and clean, with excellent hard (infrastructure) and soft (highly-educated workforce) connectivity. Yet there are key differentiating features: some are tourist driven (Bangkok and Sapporo), others are tech dominated (Seoul and Shenzhen) and many are key global business centres (Tokyo, Seoul, Sydney, Hong Kong and Singapore). More than ever, cities are the lifeblood of the global economy and increasingly determine the wealth of nations. Asia-Pacific cities provide the core fundamentals and also the diversity for global institutional investors looking through cycles and strategies.

Key drivers of global growth

By virtue of their economic and population size, many Asia-Pacif c cities will be the key drivers of global growth in the coming decades, underlined by the shift in economic inf uence from West to East, particularly the rise of China and India. We believe that investors will do well to tap into the long-term secular attractiveness of regional cities.

Fig.13: The big are becoming bigger (population, million)

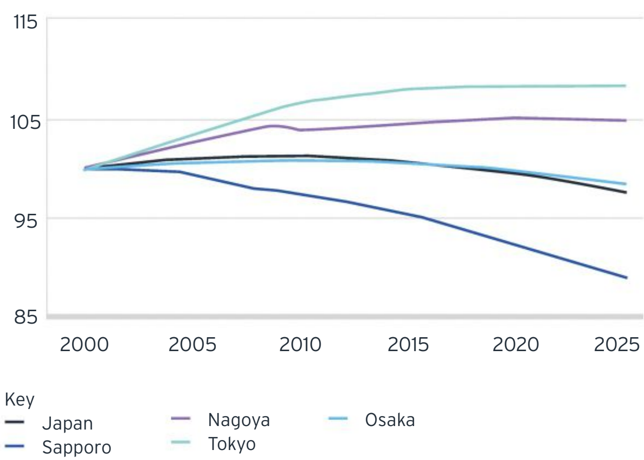


Source: Oxford Economics, 2016

Cities grow faster

Many Asia-Pacif c cities will continue to yield a net positive demographic dividend in the coming years. Workers typically move into cities offering better job prospects, wages, and a higher standard and quality of living. Many gateway regional cities will continue to expand geographical boundaries, output and population size.

Fig.14: A strong case for Tokyo (population, 2000 = 100)

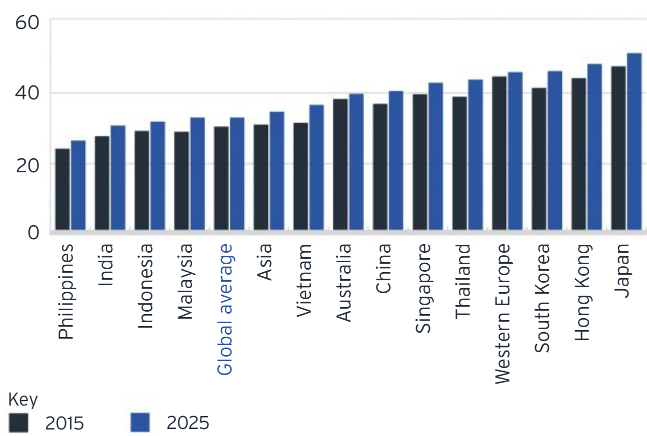


Source: Oxford Economics, 2016

Youthful by western standards

Although ageing, the median age of many Asia-Pacif c economies are also more youthful than the West, providing stronger tailwinds to productivity, growth and consumerism. Structural reforms on labour markets and immigration will also underpin the longer-term demographic attractiveness of many Asia-Pacif c cities in the coming decades.

Fig.15: Workforce productivity (median age, years)



Source: Oxford Economics, 2016

Conclusion

It is difficult to make succinct conclusions when talking about global cities. To the contrary, it is more appropriate at this stage to dive deeper into each of the regions and get to know each city intimately. This is what we are doing at TH Real Estate. We believe that investors who are fortunate to have the pick of the globe should make allocations to cities rather than countries, and strive to future-proof their portfolios and capitalise on global demographic trends. All three regions bring something a little different to a portfolio, and the ability to access the best cities in each of them should optimise both performance and the benefits of diversification.

The US arguably offers the best transparency, and mature cities here are considered safe-haven destinations for investors. Europe is naturally less homogenous than the US, and so transparency, liquidity and maturity levels vary across the region. However, the diversification benefits and mix of city personality will compensate for this. Asian cities offer unrivalled structural growth and, while we recognise the higher risk profile and challenges in accessing opportunities, this region ought to have a greater presence in global portfolios than it typically does.

In Europe, where cities are smaller, we are looking across many economies on behalf of core investors. Therefore our target list for this region is comparatively larger than the rest of the world – with 40 locations to be exact. In the US and Asia-Pacific, you need a smaller list of cities to access a similar volume of economic output. In the US and Europe, we expect our target list of cities to remain fairly static: the cities are mature and we are unlikely to see marked changes in the inter-regional hierarchy of them (be it population size, GDP or size of the investible universe). The list could even shrink a little, as we see a greater share of output being generated by a smaller number of winning cities. We recognise there are more progressive cities within these regions that need to be monitored for improving fundamentals. In Asia, core investors - for the short term at least - are likely to be focused on the gateway cities which account for a greater share of GDP than their populations might suggest. However, the strongest economic and demographic growth is expected to come from Tier 2 cities. Over the medium term, we expect to see less concentration of economic output, and our target list might expand to reflect this.

While we advocate targeting winning cities across the globe to get access to the best opportunities and to maximise the benefits of geographical diversification, we believe you can still achieve diversification within any one region by understanding the unique drivers of each city, by looking beyond gateway cities and ensuring a mix of city personalities.

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