



Global Cities in an Era of Change

An International Real Estate Symposium

Sponsored by
Harvard Design School
The Counselors of Real Estate
Royal Institution of Chartered Surveyors

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Harvard University

How Can Cities of the World Compete for Capital and Economic Vitality?

*A summary of the first international real estate symposium of its kind,
sponsored by Harvard Design School, The Counselors of Real Estate, and
The Royal Institution of Chartered Surveyors.*

For three days in early September, they came to conquer the world, or perhaps more appropriately, to help the world conquer itself.

An international lineup of academicians, urban planners, and real estate practitioners converged on Harvard University to dissect the urban animal to its core and determine where cities will be headed in the brave new world. The real estate symposium, *Global Cities in an Era of Change*, also sought to identify the world's premier growth areas and to offer insights into what elements are required to ensure a city's success and overcome mounting challenges such as overcrowding, poverty, and pollution.

Attendees came "to find out how cities are moving forward," said speaker Angus McIntosh of London's King Sturge. The Counselors of

Real Estate (CRE), the Harvard Design School, and the Royal Institute of Chartered Surveyors (RICS) sponsored the symposium. Nearly three years in the making, symposium steering committee Chairman George Lovejoy, CRE, said the groups strived to present no less than "the consummate symposium on international real estate."

"We're enthusiastic about the capacity," Lovejoy said in opening the first of six panel discussions that focused on everything from identifying what makes a city global and how urban spaces are being designed in the 21st century to the influence of cross-border capital on developing nations. Impacts of migration, pollution, poverty—and even prosperity—on cities were also examined, while many weighed what fallout the World Trade Center attacks and other terrorism might have on the global expansion of cities.

"The terrorism threat is a serious threat," insisted Pepperdine University professor Joel Kotkin, who delivered the conference's keynote address and was among the most vocal in exposing the struggles faced by the modern city. Others disagreed with Kotkin's notion that the September 11th incidents will lead companies and others to shy away from the central city. Dame Judith Mayhew of the London Development Agency countered that European cities have coped with terrorism for decades, maintaining Americans will also strengthen their resolve.

Such interaction among speakers and audience members was common throughout the conference, engendering spirited debate about whether the urban model can survive given the mounting pressures of modern society. Among the most confident that it will endure was New York City developer Daniel Rose, CRE, who recalled that cities at the turn of the 20th century were deemed doomed because observers felt waste from ubiquitous horses would limit their growth. "The horses are gone, but New York and London are still there," Rose said. In a latter-day example, New York City's crime problem was also considered unsolvable, but Rose noted great strides have been made in that regard in recent years.

Rose also delivered the message that inhabitants of a city must act locally to keep problems from overwhelming a metropolis. He and others, such as speaker Bowen "Buzz" McCoy, said a level of per-

sonal involvement with schools and the underprivileged can ensure a city will remain relevant and livable into the future, stressing that, "it's not the amount of the check, it's the amount of time" donated.

In a similar vein, speakers called for greater reliance on sustainable design and rational urban planning in the development and operation of cities to protect dwindling natural resources. Indeed, one of the greatest threats facing cities worldwide, according to some at the conference, is the lack of water, among the most critical of all human needs. "Water is a very serious issue everywhere," said speaker Brett McCarthy of UBS Warburg. Almost as much as oil, water is among the most valuable resources in the Middle East, South Bank University professor Ali Parsa added, so much so that it has created constant conflict. McCarthy said private investment may soon enter the water utility business in an effort to capitalize on the need for better systems.

To no great surprise, the issue of capital influence on global expansion was a major topic throughout the conference, with a host of experts on hand to help decipher which markets are garnering the greatest interest and what elements are required to make a city popular among investors. Along with real estate users, such as PepsiCo, audience members heard from investment bankers, real estate developers, and economists who offered their insights on the cities they find most appealing and the factors influencing capital decisions.

PepsiCo, for example, has made substantial inroads into Istanbul, and company official Ken O'Gara offered reasons for entering that market and the steps taken to ensure it was a secure and fruitful initiative. But while PepsiCo was willing to put its capital there, real estate developer Hines Interests of Texas opted against doing so after taking a long look, representative Lee Timmins told the audience.

"For me, they are at the wrong end of the real estate clock, and it doesn't make sense for us to be there today," said Timmins, explaining his firm's capital typically has an eight-year investment horizon, whereas PepsiCo as a user has a longer view of the market. Others, such as real estate advisor Will McIntosh, said it has been difficult to get investors comfortable with the notion of put-

ting their capital overseas, especially in developing countries.

"It's a real dilemma as real estate money managers are trying to invest internationally," said McIntosh of AIG Global. Conservative investors "look at you like you've got three heads."

Another aspect of the conference was the role that foreign governments can play to encourage private investment. Political upheaval, corruption, and an uneven legal system are among the leading reasons certain cities fail to pass muster, many of the speakers reported. Hines recently opted against buying an office building in Bombay, India, largely because tenant's rights are especially strong and legal recourse was deemed too risky, Timmins said. In Moscow and Paris, meanwhile, stringent land use laws have also been difficult for Hines to get comfortable with, he said.

Investor Jeremy Newsum praised politicians in Liverpool, England, for adopting a pro-business stance that provides the struggling city its best opportunity yet to emerge from the malaise enveloping it since World War II. "It is absolutely critical for any city that there be a good fusion of business and politics," said Newsum, a notion seconded by no less than Governor Edward G. Rendell of Pennsylvania, who outlined his efforts to overhaul Philadelphia as mayor of that struggling metropolis in the 1990s. Rendell said that strict attention to business interests enabled him to lure capital back to the mid-Atlantic metropolis.

Rendell was among several veteran city officials and planners who added to the heft of expertise at the conference. Mayhew provided an outline of London governmental efforts to address a 43% child poverty rate and mounting city health problems, while San Diego planner Peter J. Hall described how that California city has engaged for more than a quarter-century in a battle to bring back a community decimated by suburban flight in the 1970s. The initiative has yielded a seven-to-one ratio in private investment versus public financial input, Hall said.

The conference also relied on private sector input as well, with practitioners on hand who have traveled the world over to develop, acquire, or finance commercial real estate projects of every scope imaginable. London investment banker Paul Rivlin of Deutsche Bank delivered an in-depth look at

how the European market is responding to global interest, while Warburg's McCarthy detailed why institutional capital is changing the formula for real estate investment in all corners of the earth. Australia, he said, is becoming a leading international financier, as are pension funds in Germany, the Netherlands, and the United States.

Australian real estate investment funds now comprise fully 7% of the country's equity market, compared to 1% for most countries, McCarthy said. Of the 7%, 24% is invested in U.S. real estate. Australians have developed a sudden appetite for real estate opportunities in North America, as witnessed by one such fund's current commitment to buy a downtown office building in Boston for \$400 per square foot. In his presentation on "The Global City Today," McCarthy predicted institutional capital would become a prime driver of investment in undeveloped countries in the coming years, primarily to garner higher yields. Countries such as Germany and the Netherlands are already amassing funds to search the globe for opportunities, McCarthy said.

Investment strategies of all stripes were presented to the audience, with Lehman Brothers investment banker George Von Liphart bullish on buying non-performing loan pools as an efficient way to jump into a foreign market and get up to speed on the area encompassing the loans. Soros principal Richard Georgi reported sale/leaseback opportunities may be on the rise in Europe as corporations seek to raise quick cash. One overriding message among the investors and advisors was the invaluable need to find a competent, trustworthy local partner in an untapped market.

"You have to rely on local people on the ground that you have some sort of cultural affinity with," said Charles Wurtzbech, an investor who spoke at the Cross Border Capital Flows presentation. Devlin said that even that arrangement might be inadequate, advising foreign investors to "keep your money in your pocket."

"I don't believe in the global real estate industry," Devlin said. "You cannot run a successful real estate business from New York" focusing on international markets.

Ironically, Rose said one of the problems cities often encounter is a myopic outlook that prevents locals from investing. When his New York firm

attempted to develop One Financial Center in Boston in the early 1970s, Rose said he could find no Boston bankers willing to finance the deal, forcing him to turn to New York lenders to back the project.

"It's fascinating to realize that the building boom in Boston was done with outside talent and outside capital," said Rose. That observation was shared by Hugh Kelly, CRE, who said "we tend to get close to our own markets."

"When we get very close, we tend to see a lot of the warts," Kelly said. "We see all the reasons not to do things and we don't see the reasons to actually step into action."

As for assessing specific cities throughout the world, leaders included the universal locations that immediately come to mind, such as Paris, Tokyo, and London. Such meccas were labeled "super-globals" by Newsum, but speakers also offered surprisingly solid praise of such cities as Moscow, Athens, and Berlin, while Georgi said Soros is even bullish on fiscally troubled Brazil and just closed a deal in volatile Buenos Aires, which Soros had abandoned in 1999.

Hines Interests has done several projects in Moscow, although Timmins said a leading reason for the improvement in that Russian city is a willingness among domestic players to invest in their own country. Bolstered by that self-confidence, Russia has begun to attract multi-national corporations, a key factor in where Hines opts to put its capital.

Berlin garnered particular interest, with both Devlin and Soros predicting the city has a solid chance of emerging from its current state of chaos, which includes insolvent banks, falling rents and a large amount of vacant office space under construction. "It's at the bottom right now," acknowledged Devlin, but "if I had to pick a city for a medium-term prospect, I think Berlin is a great place to go and will be a fantastic financial center when it is developed."

Placing Berlin at the top of his list, Georgi also bucked other speakers by voicing support for Tokyo. "It is the center of everything in Japan," he said, while acknowledging that the city's office market is in trouble at present, with 70 million square feet currently coming on line. Athens made

several lists, partly because it recently joined the monetary union and because interest rates have settled down after several years in the mid-20% range.

Overall, the "Global Cities in an Era of Change" symposium fueled the sort of discussion The Counselors of Real Estate, the Harvard Design School, and The Royal Institution of Chartered Surveyors (RICS) sought when they began planning the program nearly three years ago. Lovejoy praised former CRE President Jonathan A. Avery and CRE executive vice president Mary Fleischmann for helping to initiate the program, which was launched after the three traveled to England in 1999 to meet with RICS.

"We were seeking to better serve our members and add global capacity through alliance with compatible organizations," Lovejoy said, adding he believes that mission has been accomplished with the Global Cities program. The addition of Harvard Design School bolstered the union, said Lovejoy, with its educational and research capabilities.

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THE GLOBAL CITY TODAY

Panelists:

Frank Duffy, DRGW

Mark Steinitz, UBS Warburg

Dr. Ali Parsa, Southbank University

Moderator/Coordinator:

Angus McIntosh, King Sturge

Big corporations, institutional capital, strategic alliances, and agility cited as the key influences in today's Global Cities

Cities are a many splendored thing, offering an international variety as widespread as the people who occupy them, but to economist Angus McIntosh, one distinct element is beginning to inure itself in the fabric of urban centers everywhere.

"If you go somewhere like Shanghai, you will find Starbucks and Kentucky Fried Chicken on most corners," the head of research for London-

based King Sturge said during a presentation at the Global Cities in an Era of Change symposium. "The design of buildings in cities is being dictated to us by some of these major global corporations."

In the panel presentation, "The Global City Today," McIntosh joined other economists and real estate professionals to outline the factors influencing metropolitan areas and the ways different cities are responding to the challenges. Among those speaking were Brett McCarthy of UBS Warburg, architect Frank Duffy of DEGW North America, and Dr. Ali Parsa of South Bank University.

The panelists voiced concerns that multinationals are over-influencing cultures worldwide. "These global corporations have tremendous impact on politics and politicians of every shade, of every color," said McIntosh. In the case of McDonald's entering eastern Europe, he remarked that, "the Cold War of tanks is being taken over by the hot war of hamburgers."

How that situation will play out is unclear, but McIntosh said there is little doubt globalization is making its mark on cities in other ways as well. In one recent study, it was revealed that leasing of office space in global European cities such as London, Paris, and even Frankfurt is booming, recently reaching a four-year high despite an overall economic downturn in other parts of the continent. "There is something going on there in terms of city consolidations and cities dominating regions," McIntosh said. "It's quite prevalent."

Beyond corporate finance, developed nations are sending institutional capital into third-world economies, said Warburg's McCarthy, a real estate analyst who tracks global capital flow. According to McCarthy, countries with aging populations are investing retirement funds into developing nations to finance infrastructure improvements. Especially in light of flagging equity markets, pension funds, and other sources of institutional capital are looking for higher-yielding investments, and McCarthy said Third World investment offers that opportunity.

"Clearly the capital is flowing into infrastructure, and this will have an impact going forward," he said. "The synergies are there and the matching (of capital to projects) is happening."

Two Australian funds have recently been formed to invest in toll roads, for example, including one that owns such thoroughfares in the United Kingdom, Canada, Spain, and Portugal. Another is gearing up to invest in airports. China is lobbying private capital to build 7,000 kilometers of railway and is now willing to provide legal protections to attract bidders for the \$40 billion undertaking. Such assurances will be critical if countries want to be successful, McCarthy added. "It's a two-way street," he said. "You have to provide the conditions to make it attractive to investors."

Such has been the challenge in the United Arab Emirates, the federation of seven empires in the Middle East that is a major player in worldwide oil production. Parsa detailed a study on how the UAE has worked to become a global economy similar to that seen in Singapore. Parsa noted that both were former British colonies that only recently gained their independence, but said Singapore has taken greater strides to incorporate itself in the global economy, offering outsiders clear legal and regulatory protections and ensuring that its citizens are aware of the country's goals to be a dominant regional powerhouse.

In the UAE city of Dubai, officials have come a long way in a short time to become an international trading center, Parsa said. After not even being recognized 10 years ago as a regional transportation hub, Dubai today is linked by 78 airlines to 125 other cities, and has 12 million passengers traveling through the city's airport annually. On the down side, Parsa said there are strict federal laws, a lack of legal precedence and a time-consuming approval process throughout the UAE. If the country is to become a truly global region, Parsa said such cities as Abu Dhabi, Dubai and Sharjah must be more adaptable to outsiders, increase their business focus and be willing to work more closely together. "For the UAE as a whole, there is a strong need for inter-emirate and regional synergies," Parsa said.

The panel closed out with a speech by Duffy on what makes for an intelligent city, a topic which he admitted is difficult to pin down. Duffy noted that in the modern age, for example, a city needs the physical infrastructure such as fiber optics and bandwidth to compete in the technological world and to attract an educated workforce. In that regard, he said, "an intelligent city is one

that has the ability to make changes over time," such as accommodating new growth engines.

Beyond that element, however, Duffy said a city needs a spiritual willingness to change, with its inhabitants eager to take on new ideas and cultures that will broaden their horizons even further. "Diversity, we believe, increases the agility of cities and provides the basis of flexibility in the context of rapid change," he said.

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STRATEGIES FOR MANAGING URBAN GROWTH AND REVITALIZATION

Panelists:

Dame Judith Mayhew,
Corporation of the City of London
Gov. Edward Rendell of Pennsylvania, former Mayor,
Philadelphia
Peter Hall, San Diego Center City Redevelopment

Commission/Moderator:

Nicolas Retsinas, Joint Center for Housing Studies,
Harvard

Commentator:

Bowen "Buzz" McCoy, CRE, Buzz McCoy Associates

Coordinator:

Richard Peiser, Harvard Design School

Urban Revitalization Challenges Major Cities -- Capital And Cooperation Required

Governor Edward G. Rendell stressed the importance of infrastructure at the Global Cities in an Era of Change symposium. Lauded as "America's Mayor" for revitalizing Philadelphia in the 1990s, Rendell explained the city had to right itself through infrastructure improvements and other changes before the private sector would return.

"The free market is not anxious to put capital in most American cities until it feels they have turned the corner," Rendell said. "We need to create a nurturing environment and a good physical environment (for companies)."

Governor Rendell spoke at the "Strategies for Managing Urban Growth and Revitalization" panel. The panel was moderated by Nicolas Retsinas, assistant U.S. housing secretary under President Clinton, and also included Dame Judith

Mayhew of the Corporation of the City of London and San Diego planner Peter Hall.

During Rendell's tenure from 1992 through 1999, Philadelphia increased convention space and opened new hotels to bolster tourism, while also helping traditional businesses. In one instance, a clothing manufacturer wanted to build a new plant, but required a cleanup of the parcel in advance. Rendell's administration ensured it was accomplished.

Equally important to physical upgrades is providing a stable revenue climate, Rendell added, maintaining Philadelphia lost 250,000 jobs in the years prior to his election partly because of 19 tax increases over an 11-year period. While acknowledging some political shrapnel in backing business tax abatements and focusing on the financial center, Rendell insisted such attention is critical.

"You can't shy away from the downtown," he said, adding the city is now embarking upon an extensive neighborhood improvement initiative fueled by a healthy budget. By the time he left office, Philadelphia had converted a \$250 million shortfall into eight straight years of revenue surplus.

Rendell praised current efforts to foster life sciences research, and cited a migration among empty nesters and the young back into downtown Philadelphia, with commercial buildings being renovated for residential use. "One of the great roles going forward is to be a place where we can mingle with each other," Rendell said of improving cities.

Judith Mayhew discussed the ambitious London Plan. Concerned over increasing poverty and strains on housing, schools and public transportation, the mayor of the United Kingdom epicenter recently issued a forward-thinking document known as the London Plan. The initiative calls on the restoration of brownfields sites, upgrades to sewer and water systems and increased transit options to accommodate 700,000 people expected to pour into the city of 7.4 million during the next 13 years.

"It is, simply, London's way of managing urban growth and revitalization," Mayhew said of the London Plan. By current estimates, London will need another 25,000 homes and 130 schools in the

next decade. Electrical networks will also have to be modernized to support London's place as a hub for telecommunications activity, Mayhew added.

A cornerstone of the London Plan is sustainable development to reduce environmental waste and efficiently use scarce resources. The effort is also aimed at "soft issues" such as better health care, education and expanded recreational activities. "Here as well, the Plan envisages growth and development of a full range of amenities to support and enhance the lifestyle as London grows," Mayhew said.

Back in the United States, San Diego has been engaged in a long-term initiative to overhaul its downtown. Hall, who joined the Centre City Development Corp (CCDC) in 1995, outlined its creation in 1975 as an effort of the San Diego business community to save a dying downtown. The CCDC's purview was a 1,500-acre swath where it worked to leverage public funds for enhanced private investment, a common theme at the Global Cities conference.

"Government action equaled public reaction," Hall said of the \$445 million in public bonds issued to prime the pump, including \$100 million for infrastructure improvements. After 27 years, the CCDC area has yielded more than 6,000 residential units, 4.7 million square feet of commercial space and 4,555 hotel rooms. San Diego is now garnering \$55 million annually in tax revenue from the new development.

Hall acknowledged it has not been an easy road, with political clout in San Diego often misaligned with the CCDC's vision. Not only are residential issues more of concern to the city's councilors, who represent specific districts, Hall said term limits make it harder for them to adopt a forward-thinking stance. As a result, "land use policies in our region have taken on the context of a full-contact sport," Hall said.

London has encountered a similar problem, said Mayhew, with a decentralized power structure making it difficult for resources to be directed to long-term needs. The London Development Agency, for example, would like to raise municipal bonds, but currently is not allowed. It is an issue that must be resolved, according to Mayhew, in order to prepare London for the 21st century. "The

city and the hinterlands are mutually dependent and we can't deprive one or the other," she said.

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ECONOMIC AND WORKPLACE DRIVING FORCES

Panelists:

Mahlon Apgar, CRE, The Boston Consulting Group
Will McIntosh, AIG Global Real Estate Investment Corp.
Ken O'Gara, Pepsico
Lee Timmons, Hines Partners

Moderator/Coordinator:

John McMahan, CRE, Centerprise

*Tracking Multi-Nationals Influences
Real Estate Decision Making*

It is spelled the same as always, but the concept of "location" is rapidly evolving worldwide, according to panelists at the Global Cities in an Era of Change international real estate symposium. Technology, globalization and other forces are "changing the paradigm" of where companies are expanding, said speaker Mahlon "Sandy" Apgar, CRE, whose Boston Consulting Group (BCG) helps firms find space internationally.

"Redefining the factors of location ... is an important challenge," Apgar said during the "Economic and Workplace Driving Forces" panel during the event. Unfortunately, he added, neither business schools, real estate educators "nor much of the theory and practice have yet grasped the magnitude of these changes."

Most of the 23 companies BCG is assisting internationally are industrial-era operations, which still seek inexpensive land, low-cost labor and bountiful natural resources. But the needs of BCG's information-related clients are dramatically divergent, said Apgar. While also labor-conscious, such players require an educated workforce, and depend on high-bandwidth and other telecommunications capabilities more so than physical infrastructure.

"When they cross that threshold (to the information age), you literally can look at the globe in terms of fundamental labor economics, but they are not defined any more by concentrations of traditional location criteria," said Apgar. "You're no

longer moving the workers to work, you are moving the work to the workers.”

Moderator John McMahan concurred, noting cities deemed knowledge centers have fared well, with one recent survey listing Helsinki, Stockholm, and Copenhagen as popular targets for foreign investment. Cisco Systems recently tabbed Amsterdam for its European headquarters, while Amazon.com has been active in the Netherlands as well. “The message seems to be that there are some new cities, new players in this game, and some of them are coming on very strong,” said McMahan, executive director of the Center for Real Estate Enterprise Management, a California-based think tank, and who is also a member of The Counselors of Real Estate (CRE).

Panelists detailed why companies have moved into certain areas, and which cities are likely to garner capital interest going forward. Joining Apgar and McMahan were Kenneth O’Gara of PepsiCo, Hines Organization principal Lee Timmins, and AIG Global Investments Managing Director Will McIntosh.

PepsiCo has three real estate needs, said O’Gara, those being manufacturing, distribution and office space. Each has five or six unique criteria, he explained, with geography and a city’s physical makeup important for distribution. An active port allows product to be shipped via barge, while office space must be close to core businesses, such as local bottlers. PepsiCo is currently developing its largest manufacturing facility in Ireland’s County Cork, one that will produce concentrate for North America and Europe. A favorable tax agreement, good labor force and centralized location led PepsiCo to make the \$100 million investment, according to O’Gara.

“What we do in a city depends upon what the city provides to us,” said O’Gara, adding PepsiCo sees its primary growth coming overseas, which presently represents just 20% of its revenues.

AIG pays close attention to which countries multinational companies are entering, said McIntosh. Not only does it indicate stability, AIG’s investment group aims to develop facilities for such companies. “A great deal of the research we do involves studying what the end users are looking for, and trying to make sure we’re in those markets ready to provide the kind of product they want,” said

McIntosh. “If we do that and do that well, we’re going to produce the returns our clients are looking for.”

In the decade since becoming an overseas developer, Texas-based Hines has also reacted more to market demand than its own development strengths, Timmins said, making it important to track multi-nationals. Known at home for office and retail, two of Hines’ earliest international ventures involved a residential component, while the developer has also completed several industrial projects in Mexico. “That’s a real departure for us,” said Timmins. Hines currently has 50 projects in 19 foreign cities.

Hines is also influenced by demographics and the strength of a city’s real estate market, said Timmins, chiefly because its funds generally have an eight-year horizon. “If vacancy rates are above 20%, we’re probably not going there,” said Timmins. “If vacancy rates are maybe 10 or 12 or 15% and falling fast, that is a market that will look very good to us.”

Investor appetite is key, said McIntosh, with capital often fearful of emerging markets. It can be frustrating, he said, explaining investors prefer established markets such as the United Kingdom, Germany, France, and Spain. But such capital incorrectly expects higher returns overseas, even in stable climates. “They don’t want to go to the countries where we can get them the risk premiums that they want for their international investing,” said McIntosh. “It’s a real dilemma.”

Both Timmins and McMahan defended investment in emerging markets, but acknowledged potential complications. In Moscow, a Hines plan to develop housing and sell to the U.S. government hit a snag when Russia became upset at the Clinton administration. Russia blocked the ownership transfer, leading to a summit showdown between Clinton and Russian leaders. “If you told me in 1992 I’d be dealing with a residential project in Moscow that was on the agenda for the summit, I would have said you are crazy,” Timmins remarked. “But that is the type of political issue we encounter in all of these countries.”

In the future, Hines plans to limit its exposure mainly to markets where it is already active. “The goal is to be deeper and deeper into the countries in which we are currently operational, to do more

projects followed by more projects, and to have a long-term horizon," Timmins said.

AIG is bullish on Asia and ultimately hopes to expand into Latin America. At present, however, McIntosh said Mexico is the only Latin American country "we can get excited about," citing its improved credit rating, the ability to do dollar-denominated leases and the positive impact of the North American Free Trade Alliance.

PepsiCo favors Latin America, said O'Gara, with Brazil and Argentina seen as possible suppliers of juices for its Tropicana line. McIntosh said the demographics of 175 million people make Brazil a long-term gem, but stressed that economic woes make it too unstable at present. "There's just too much uncertainty among my investors," said McIntosh. "But we think it's going to be a big market going forth and we want to be there."

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INNOVATIONS IN INFRASTRUCTURE

Panelists:

Peter Head, Faber Maunsel & AECOM

Joel Kotkin, Pepperdine University

Peter Lewis, CRE, MIT

Commentator:

Bowen "Buzz" McCoy, CRE, Buzz McCoy Associates

Moderator:

Barry Gilbertson, CRE, PricewaterhouseCoopers, CRE

Urban Population Surge Demands Attention To Economic, Environmental, And Transportation Issues

With the worldwide urban population growing by 180,000 daily, cities must stretch threadbare resources even further in the new millennium, stressed one panelist at the Global Cities in an Era of Change symposium. Experts in the "Making Cities Work" segment of the program offered ways municipalities can overcome that challenging dilemma.

"The answer is by supplying the right fabric," said moderator Barry G. Gilbertson, CRE. The PricewaterhouseCoopers principal "set the scene" by stating that 1.3 billion people live on fragile

lands which cannot support them, fueling migration that will wedge two-thirds of the world's population into cities within 50 years. "Think of that in terms of the demand it places on energy and water," said Gilbertson. "Also think of what it is going to do for housing, and can we do anything sustainable with housing?"

So-called sustainable development, a topic raised throughout the conference, garnered particular attention by the "Making Cities Work" speakers, which included Pepperdine University professor Joel Kotkin, Massachusetts Institute of Technology Real Estate Director Peter Lewis and British planning consultant Peter Head.

Representing the Greater London Authority Sustainability Commission, Head detailed London's efforts to improve housing, transportation, health and education without overwhelming city resources. "Sustainable development needs to balance the Triple Bottom Line," he said, covering economic, environmental and social issues. While some feel a tradeoff is inevitable, Head disagreed. There is "a way of getting the three going together and creating win, win, wins," he said. "I'm quite radical in that sense, but I actually believe it's possible through very innovative approaches."

The cost is certainly daunting, with Head reporting London will require \$110 billion pounds to accommodate growth over the next 15 years. Sixty percent is needed for public transportation investment, Head estimated, especially as population increases and rising costs for motorists add ridership. "The system is greatly overloaded and needs new capacity," Head explained.

In admitting past undertakings have failed, Head claimed the public and private sectors can effectively share in the upside by uniting resources. Office rents abutting a recent extension of London's Jubilee Line grew 14% above the norm, Head noted, while property values also rose disproportionately. If investors can enjoy a project's fruit, Head predicted they will buttress public investment. In London, he said a \$50 billion public commitment should yield a \$60 billion infusion of private capital.

"The great challenge in the issue of private/public sector benefits going in partnership is to try and get the risk/reward balance right," Head remarked, with private enterprise motivated by a return on

equity, design and construction revenues from delivering the product and opportunities for entrepreneurial development in the upgraded area.

A common mistake for public/private partnerships is drawing up the contract before establishing performance requirements, according to Head. "You've got to have those targeted and fixed from the start," he said, outlining a three-step process that begins by forging a strategy "to deliver safety and value for money within a sustainability development framework." After setting performance goals, the next step is to contract it out to the necessary disciplines, and then to deliver the project.

"My experience is that if one follows that simple process from start to finish, you do get success, and almost invariably it's never done, which is very frustrating," Head lamented.

Despite past struggles, panelists vowed the effort must continue, with Head adamant that public transportation be addressed. "Governments worldwide do not still seem to understand the relevance and the connection between investment in public transport in dense cities and the benefits that can come from it," he said. "The only country that really understands it is France ... which is why Paris really does work very well."

In his presentation, Lewis said institutions can assist host cities via investment in both the physical and social environment. "The city of Cambridge is inextricably linked to MIT and Harvard," said Lewis, estimating MIT has pumped \$28 million into sewage and roadway improvements near the campus, built several hundred affordable housing units and features community education and tutoring programs.

"We're really trying to give something back," said Lewis, with the school contributing \$18 million in taxes and fees to Cambridge in 2001. Greater Boston has been economically enhanced by more than 50 colleges and universities, Lewis opined, noting MIT's Cambridge First program has generated \$38 million in goods and services revenue for local businesses. Universities contribute "on technology, health care and financial services," Lewis added, while acceding they also drive up housing costs, use city resources and exacerbate density. In recognition, MIT pays a special fee for its tax-exempt property and to offset services such as police and fire response.

Schools create jobs, Lewis continued, with MIT-related businesses employing 125,000 in Massachusetts alone. Those firms contribute \$10 billion in income and sales of \$53 billion, said Lewis, citing homegrown giants founded by MIT graduates such as Digital, Raytheon and Gillette. "An educated workforce is increasingly important in the shift from an agricultural economy to a manufacturing economy to a service-based economy," he said.

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KEYNOTE ADDRESS

BY JOEL KOTKIN, PEPPERDINE UNIVERSITY

Terrorism, Global Migration, And Digital Revolution Cited As Key Challenges Facing Today's And Tomorrow's Cities

Joel Kotkin insists he is not "anti-city," but the Pepperdine University professor does forecast trouble ahead as the metropolitan model proceeds into the 21st century.

"I see a lot of scary trends," Kotkin said during his keynote address at the Global Cities in an Era of Change international real estate symposium. "There are many things to be concerned about."

Kotkin detailed three challenges cities face: terrorism, global migration, and the digital revolution. His view on terrorism was especially disconcerting, with Kotkin insisting the September 11th, 2001, attacks are prompting companies and residents to consider suburban relocation.

"People who had decided, 'I can live in New York or I want to live in New York' are now choosing to be elsewhere," Kotkin said. "I think you are going to see more of that."

Kotkin cited examples where employees, including senior management, have begged out of their urban offices, and noted that even with 13 million square feet destroyed or damaged in the World Trade Center attacks, the vacancy rate in Manhattan has risen. Those staying face higher occupancy costs, Kotkin said, with the insurance

system particularly unsettled. Several trophy properties are technically in default due to a lack of terrorism insurance, he said, adding that workers compensation rates are rising in urban markets.

Some in the crowd disagreed, including Brookings Institute fellow Anthony Downs, who acknowledged a deconcentration movement but cited alternative reasons. "I don't think terrorism is a key factor," said Downs, a notion seconded by others. Kotkin remained firm, predicting more attacks might worsen conditions in cities worldwide.

"I'm not trying to scare people, but let's think of this as an issue because it is an issue," Kotkin said, adding, "I think there is an extreme possibility for [another terrorist attack] to happen."

Even without that influence, Kotkin said a stream of people are fleeing the urban lifestyle. In California, he said, whites are moving to the outer limits of the suburbs or even into the countryside. Upwardly mobile, educated minorities are enhancing the trend, with only the poorest residents left behind, said Kotkin.

"The vast amount of America's growth is happening in the suburbs," Kotkin said, while estimating that 30 to 50% of the population in Amsterdam, Marseilles and Paris are immigrants, often from poor countries such as Iraq and Turkey. In the Netherlands, 28% of the Dutch have reached the highest level of education, Kotkin said, while just 4% of Turkish and Moroccan immigrants had attained that level of degree.

"Rotterdam has decayed, and the white, middle-class people have moved to the suburbs," said Kotkin. Although immigration-legal and otherwise is up sharply in the United States, Kotkin said the issue will be more daunting for Europe. "Their economy lacks the kind of dynamism we have to absorb immigrants," he said, with the overseas welfare system likely to be further burdened.

On the third challenge, Kotkin did say certain cities, including Boston, New York and London, have a leg up in attracting knowledge workers in the new millennium. But communities must remain vigilant to keep IT workers stimulated, said Kotkin, who overall sees virtuality leading to further dispersion of the public.

"The vast majority (of IT workers) don't want to live in the center city," he said. "The job growth continues to be . . . in lower density areas."

Kotkin concurred that some downtowns have seen inward migration, largely empty nesters and recent college graduates. But middle class families are key to a city's survival, Kotkin stressed, and claimed those fueling that trend are often simply going through "a phase." In one study of the latest New York City boom, 82% of the emigrants were 35 or less, only 57% were married and just 10% had children. "For the most part, [living in the city] is just something that people do between when they go to college and when they grow up," Kotkin said.

FRIDAY, SEPTEMBER 6, 2002

CROSS BORDER CAPITAL FLOWS

Panelists:

Ivo DeWit, ING Real Estate

George Von Liphant, Lehman Brothers

Richard Georgi, Soros Real Estate Partners

Paul Rivlin, Deutsche Bank

Coordinators:

Karen Sieracki, KASPAR Associates

Hugh Kelly, CRE, NYU Graduate Real Estate School

International Real Estate Investment Track Record Shaky

As a well traveled principal with Soros Real Estate Partners, Richard Georgi has homes on three continents and a watch sporting 22 time zones, moderator Hugh Kelly noted at a panel presentation here during the Global Cities in an Era of Change symposium. But while entrenched in the cross-border real estate industry, Georgi cautions that the infancy of the movement and a shaky world economy make for a challenging business pursuit.

"There is a very limited track record of successful international real estate investment," said Georgi, explaining his company pitches clients on buying property in foreign markets "with great care and humility." Georgi calls the expansion of such activity "inevitable," but said Soros is treading lightly at present.

"It's a very challenging time to identify places where one can invest with conviction," Georgi said. "There's so much uncertainty and so much dampened growth prospects, it's really difficult to see where in the world there are great pockets of growth."

Georgi's remarks came during the "Cross Border Capital Flows" panel, one seeking to explore "the who, what, when, where, how and why of moving money across borders," Kelly told the audience during the three-day event at Harvard University.

Other speakers concurred that market conditions are difficult universally. Yet even as cities such as London, San Francisco and Tokyo face erosion of rental rates and vacancy increases, capital continues to chase deals, with foreign sources often displaying more optimism than domestic funds. In London, there is "dysfunctionality between the letting market and the investment markets," said panelist Karen Sieracki, of KASPAR Associates, Ltd., an expert in European real estate, who said properties in the United Kingdom continue to attract investor ardor even though leasing is off sharply. Most buying in 2002 has been from overseas, said Sieracki, a point underscored by Paul Rivlin, the managing director for Deutsche Bank in London. Rivlin noted domestic property companies are divesting assets.

"The ones you would expect to know best about what the markets have in store are significant net sellers," said Rivlin. "That says to me that buyers must be buying pretty near the top of the market."

Such overheating could lead to a pricing bubble, Rivlin and several colleagues said, with Georgi maintaining that over-aggressive capital is already driving up values in the United States. "We saw this before in 1987 to 1989, exactly the same phenomena where the underlying occupancy dynamics in the property market in the United States are actually pretty weak," Georgi said. In markets such as Jacksonville, Fla and Oklahoma City, Georgi said effective rents have fallen to zero after accounting for commissions and concessions.

"You're basically giving away the space just to cover your operating expenses," said Georgi. "That we haven't seen for a decade."

Other speakers were less dismal. Henderson Global Investors Managing Director Charles

Wurtzebach said the relative stability of real estate is driving capital in that direction. Aging populations of North America, Europe, and Asia are also prompting pension funds to pursue yield through real estate to support their growing list of beneficiaries, Wurtzebach added. "I don't really believe that in the next three years there's any big crisis that's looming," he said. "When you look at the underlying economy, I think fundamentally we're in fairly decent shape."

A critical element of investing globally is having the proper approach and infrastructure, panelists also advised. Along with tax and currency issues, local culture, property rights regulations, and the varying legal systems also offer potential challenges. In one ongoing situation, Lehman Brothers is among a consortium buying the first non-performing loan pool ever in China, but after having won the bid last November, the group is still awaiting approval from the Chinese government.

Not only is the approval process unclear, panelist and Lehman Brothers principal George Von Liphart said he discovered the Chinese government has little control over the provinces, making it hard to evaluate loans secured by property outside the major cities. The same uncertainty applies in Japan, he said, where "the rules change if the results aren't to the liking of the policy makers."

"They seem to find a way of moving the goal line every period to accommodate their larger policy concerns," said Von Liphart, calling that tendency "definitely pronounced in Asia." But as long as one proceeds with caution, they should be fine, Von Liphart asserted, with Lehman a major investor in Asia. Liquidity is not a problem, Von Liphart said, noting the firm recently securitized and sold two residential portfolios and two non-performing loan pools in Thailand. "You can basically exit just about anything through the capital markets," Von Liphart said.

No matter what experience a global investor has, it is imperative to connect with a local partner, panelists stressed repeatedly. In fact, many cited it as the leading requirement when pursuing a peripatetic investment strategy, including Ivo De Wit of ING Real Estate.

ING always seeks to join a local company when entering a given region, De Wit said. In the United States, Dutch-based ING has forged a solid rela-

tionship with Clarion Partners, through which they have acquired properties throughout the country.

"Our main goal is to keep it local," said De Wit, with ING favoring firms possessing a similar culture and appetite for investment-quality properties. "It's also looking at what they can add to your own organization, what are the strengths of these organizations and which is the knowledge that they can contribute to your own organization," De Wit said.

FRIDAY, SEPTEMBER 6, 2002

THE FUTURE VISION

Panelists:

Anthony Downs, CRE, Brookings Institution
Alex Krieger, Harvard Design School
Jeremy Newsum, The Grosvenor Office
Daniel Rose, CRE, Rose Associates
Bowen "Buzz" McCoy, CRE, Buzz McCoy Associates

Can Cities Cope? 60 Million People Streaming Into Urban Areas Annually

If Brookings Institute Senior Fellow Anthony Downs is right, one product seems a surefire investment in the 21st century: bumper stickers.

"It is my opinion that congestion is an inescapable part of living in a large and growing metropolis region anywhere in the world," Downs proclaimed during the Global Cities in an Era of Change symposium. "It cannot be eliminated."

Speaking on a program segment entitled "The Future Vision," Downs and other planning and real estate experts closed out the conference offering views of how cities will be cast in the new millennium, identifying challenges ahead and steps communities can take to ensure a place in the global economy. Other speakers included Harvard Urban Planning and Design chairman Alex Krieger, international real estate investor Jeremy Newsum of The Grosvenor Office of London, and U.S. real estate icon Daniel Rose, of Rose Associates in New York, who ended the program with a stirring defense of the modern city.

Downs warned that globalization will lead to an endless stream of automobiles, trucks and buses, fueled partly by humankind's thirst for self-mobility, and compounded by urban sprawl creeping endlessly outward. Political and fiscal pressures will make sufficient roadways and alternative transit options unattainable, said Downs, with the condition so acute that private toll roads may become an increasing, albeit inadequate, reality.

Author of the 1992 tome *Stuck in Traffic*, Downs said the inventory of vehicles has accelerated faster in percentage terms than the population. Between 1980 and 2000, total vehicle count rose from 380 million to 752 million, accounting for a compound annual growth rate of 3.5%. The human population in that time increased by 1.6 billion, or a compound annual rate of 1.6%. Although the United States continues to dominate in vehicle usage, Downs predicted the problem will worsen in developing countries, many of which lack the infrastructure to meet the rising tide of tailgaters.

Program moderator Bowen "Buzz" McCoy, CRE, of Buzz McCoy Associates in Los Angeles, seconded Downs's view that the third world is ill-equipped to handle the automotive age, and doing little to prepare for it, citing a China trip where he saw massive skyscrapers being developed with only a few dozen parking spaces. "They are building for the bicycle economy, and the buildings are going to still be there when they all have cars," Bowen said. "What's going to happen then, God only knows."

Public transportation is not the answer, said Downs, with usage actually tracking downward. In the U.S., only 4.7% of the working population takes public transit, and Downs said that figure drops to 3.5% when one factors out New York City, where 30% of the nation's transit riding occurs. "Congestion will happen no matter what anti-congestion tactics are adopted because of the rising population and rising incomes in all cities," Downs said. "Get used to driving in congestion."

But automobile use will not be the only excess global cities must cope with, Krieger advised in his remarks. The sheer expansion of the urban jungle puts into question how the world will be able to handle such concentrations, said Krieger, with 60 million people streaming into cities annually, representing a 20-fold increase of urban dwellers in less than a century. By 2050, there will be five bil-

lion people in cities, Krieger said. "The numbers are so extreme, they are hard to penetrate," he said, noting that in eight years, London will not be in the top 30 cities in population.

"That's just astounding," said Krieger, warning it is critical for planners and public officials to prepare for the onslaught and solve issues such as sharing limited resources, providing adequate housing and caring for an aging population.

As a global traveler working for private real estate investor Grosvenor, Newsum offered opinions on cities he enjoys and the elements critical to success. Most importantly, Newsum said, are intangibles that give a metropolis influence on other areas, both at home and internationally. While each city has the typical matrix of trade, education and work opportunities, Newsum maintained that "cities need to be emotional places" to stand out.

"You can examine statistics to the Nth degree, but still not get at the essence of what a city really is," Newsum said. "In the end, I do believe they need a heart and a soul and a character."

Equally impassioned for the city model was developer Daniel Rose, chairman of New York-based Rose Associates and member of The Counselors of Real Estate (CRE). Rose disputed theories that terrorism and other fears are diminishing the role of cities, assailing the notion that wealth and influence are abandoning urban centers en masse. Rose also derided opinions that technology will lead to decentralization.

"We have to take the negative forecasts of our social scientists with a grain of salt," said Rose, countering one quote offered earlier in the program from Herodotus that "human prosperity does not abide long in the same place" with his own from Aristotle that states "men first come to the city for safety. They stay on to earn a living and settle there permanently to live the good life."

"I think there always will be those of us who choose to live the good life in London, in Paris, in New York, and those of us are the ones to whom I would like to think the conference has addressed," said Rose, adding he believes Aristotle was "smarter and more accurate" than Herodotus.