



**T**HERE is a paradigm shift taking place if you did not notice. This has influenced lifestyles, which in turn have led to changes in the run of the mill. The norm and conventional way things were once done are pretty much bowing out, welcoming a newness that has also found its way into the real estate scene across the globe.

The root cause behind these changes according to a report on "Global Cities by Frank Knight", are said to basically stem from:

- ▶ the era of low to negative interest rates which has reduced investors' expectations on what constitutes an acceptable return;
- ▶ the avalanche of technological innovation which has seen over 60% of Earth's citizens owning a smartphone; and
- ▶ our current "innovation economy" where supply is not keeping pace with demand in both commercial and residential real estate, causing tech and creative firms to rely on pre-let deals to accommodate growth while their young employees struggle to find affordable homes.

In a nutshell, the report informs of the rising of technology firms and creative workers around the globe that are attracting talents and high-value professionals at the top of the recruitment wanted list, hence inciting the rapid growth of "global cities".

### RISE OF GLOBAL CITIES

States the report: "The urban economy is increasingly people-centric. Whether a city is driven by finance, aerospace, commodities, defence or manufacturing, the most important asset is a large pool of educated and creative workers." In this new era, these creative talents of the new age workforce are considered highly-prized commodity. And global cities are expected to thrive or sink on their ability to attract this key demographic. This in turn, has caused real estate to increasingly become a business that seeks to build an environment that attracts and retains such people, something that is already taking place around the globe.

To slowly take us into this newness of things, let us first look at

# Era of change PART 1

> Global transition causing shift in lifestyle trends, transforming mindsets and habits, changing property temperaments

some terminology which has become quite the rage where property is concerned. We have been hearing a lot of terms and catchy phrases such as "live-work-play environments", "mixed-use developments and integrated spaces", as well as "buildings with beds" among other modern day buzzwords. Scrutinise these phrases of the times and notice how they all point toward lifestyles.

With that, let us first explore the catchy phrases and fascinating terminology associated with the sprouting of such cities across the globe.

### 'LIVE-WORK-PLAY' ENVIRONMENTS

Some consider a ubiquitous phrase deemed founded simply by the root of the very demand for a "live-work-play" (LWP) lifestyle. Apparently, it was not coined up by developers or those in urban planning, and has increasingly become a standard by which "mixed-use" developments are measured. The concept has been known to have some link with "Maslow's hierarchy of needs" - much of which today's generation feel that a more apt name would be "live-work-play-eat-shop" (LWPES).

### 'MIXED-USE' DEVELOPMENTS

There are a variety of descriptions to mixed-use developments. However, a more generic depiction would be "a pedestrian-friendly urban development that consists of a mix of residential, commercial, cultural, institutional/industrial



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spaces that blend, and physically and functionally integrate. The concept also known as "integrated developments" can be accomplished via a building, a housing area/district/community, or even a township/city.

### 'BUILDINGS WITH BEDS'

Considering the demographic shift that is leaning towards the:

- ▶ younger workforce comprising millennials who lead quick-paced lifestyles and are almost always on-the-go, interacting with a global pool of networks;
- ▶ not forgetting the international influx of foreign/global higher education students;
- ▶ plus senior living and healthcare as there is a large ageing population that is growing - according to UN projections, a 12% increase in the number of

people above age 75 between 2015 and 2020; and

- ▶ an increase in the number of global jet-setters including those who travel for work and leisure - IATA forecasts suggesting global passenger numbers rising around 5% per year for the next five years.

With modernisation and a society that is "pressed for time" and more "connected" on-line than in reality - mobile work spaces and inner-city living are moving also

towards "buildings with beds" - homes that offer a roof over one's head that basically provide a place to sleep. Demographics are said to favour investment in housing for people at the beginning and end of their adult life. "Residential investment is moving into the private, rented sector as demographics and globalisation support demand for hotels, student housing, senior living and healthcare," reported an article by Knight Frank head of data analytics Mark Clacy-Jones.

### EXEMPLAR CITIES

Along with changes in technology that has affected the way companies are born and how they function, thus the evolution of society, hence, flux in lifestyles, the way the masses engage, network and integrate. With this mega shift, property investors - landlords and leasers across the real estate spectrum must be "in the know" about where "creation" is taking place and limit their exposure to where there is "destruction". [creation - areas and regions generating hype activity that are drawing the pool of today's talents and businesses; destruction - areas and regions that are inflexible, refuse to advance with the evolved times, including cities that prefer to remain with the "old" unaccommodating ways of doing things]

Citing an excerpt from an article by James Roberts called Super Cities - "The industries that drive the modern Global City are not dependent on machinery or commodities, but people, delivering economic flexibility ... The most flexible cities command the highest real estate rents and lowest yields, and that will continue as they cope best with rapid change.

With the current trend established founded on - speed and agility, fluid and motile - the common challenge for landlords according to Roberts is how to assess firms (tenants) that do not even have a three-year record of existence but are clearly "the future". The answer he says, is that both landlord and tenant need to approach real estate deals with flexibility - "The landlord giving ground on lease terms and financial track records, and the tenant, compensating the landlord for the increased risk via a higher rent".

### EMERGING MARKET CITIES

With the rapid changes that have been taking place and the constant

global evolution among the masses, Roberts reminds that countries once booming just a few years ago due to rising commodity prices are now adapting to slower growth. Those that were dismissed as "busted flushes in 2009 due to high exposure to financial services", and adapted to changes in technology adopting fresh innovation in the their businesses, are now thriving as innovation centres. Such "emerging market cities" are those that have repositioned themselves away from manufacturing and moved toward creative services, many of which present "a new challenge to the western global cities". A perfect example would have to be Shanghai, claims Roberts, "now seeing rapid expansion of its tech and creative services".

While emerging markets develop into global cities, they adapt to win over the right talents and high-skilled workers for the workforce by spreading "benefits". These include improving job security and the quality of life to attract and retain the right demographic of younger generation talents, who have already become central to the economy of a country.

### THE GLOBAL MARKET CYCLE

According to Knight Frank head of commercial research Dr Lee Elliott, there are mixed signals market observers have picked up eight years post the financial crisis. These include:

- ▶ the complex intersection of the economic cycle locked in a rhythm of low growth;
- ▶ the business cycle which is highly variable evident in corporate cautiousness and selective investment by businesses which has fuelled demand in global real estate markets;
- ▶ a property cycle relating to real estate supply and demand; and
- ▶ a property cycle relating to capital flows and their impact on pricing.

"On the whole, there is confusion and uncertainty in the market with so much change taking place. However, there seems to be a drive in rental growth as the cycle moves forward. This appeals to global real estate investors who are already attracted to the relative out-performance of real estate assets in a low interest rate and low yielding economic environment." Elliott states in his article. His overall view: "There is road to run in 2017".

On the whole, lifestyles are changing, quick is getting quicker, markets are exciting in areas that attract the key demographic of creatively skilled talent deemed "highly-prized commodity". Where there is this pool of people, there is population growth which leads to the mushrooming of global cities. Infrastructure also has a role to play where global cities are concerned as "they act as the lines that join up the real estate dots" reads an article in the Knight Frank report. And with the lifestyle of the modern millennial, living in an all-comprehensive "cubicle within a tower - live-work-play/mixed-use development/buildings with beds" isn't such a fantasy anymore as all one's wants and needs are basically a "screen-touch and hop, skip and jump" away.

Follow our column next week with more insights on global cities and lifestyle trends altering the real estate industry.

### FORECAST POPULATION GROWTH IN GLOBAL CITIES 2015 TO 2020

Source: The United Nations

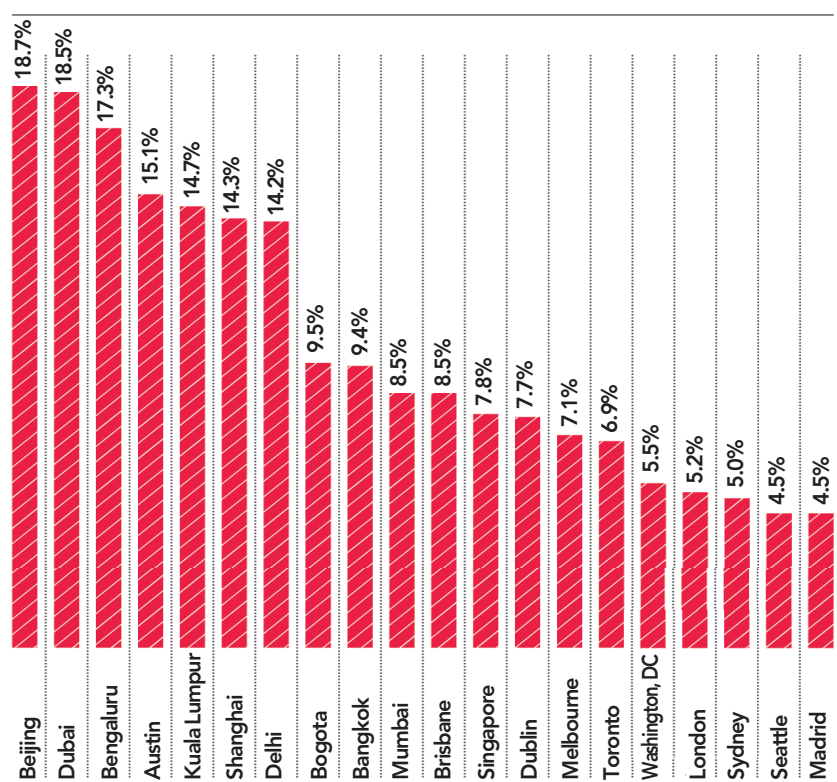


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