

# The St Bride's World Cities

Real Estate Investment in World Class Cities



# The World Cities Index 2015

## What makes a great city?

What do you think makes a great city? If you were thinking of living there you might say beautiful buildings, visionary governance, great culture, world-class sport, clement weather, smooth-running transport system, safe streets and decent coffee. If you were thinking about doing business there you might say talented workers, strong institutions, globally integrated markets, transparency and a decent airport. If you are thinking of investing there you might say all of the above.

The St Bride's World Cities Index, now in its fifth year, considers all of these factors to define a list of 20 cities which offer sophisticated, investable real estate markets and all those desirable traits that incubate occupier demand over the long-term.

In our increasingly globalised and urbanising world, it is cities that fire the engines of growth and prosperity; we recommend that investors not only diversify their real estate investment portfolios internationally, but do so by focussing on a defined list of world class cities. The 20 St Bride's World Cities should be your starting point.

The only change to our list from last year is the entrance of Frankfurt at the expense of Geneva. It is notable too that Los Angeles and San Francisco have lost ground in the rankings (having been 8th and 9th last year respectively) despite hosting thriving markets in a recovering US economy. Whilst still very much core constituents of the list, our model this year includes an additional dataset relating to natural disaster risk (taken from Swiss Re's CATNET) which has adversely affected their scores, both being heavily exposed to earthquakes.

### The 20 St Bride's World Cities

Rank	City	Score
1	London	100.00
2	New York	98.44
3	Tokyo	92.86
4	Hong Kong	90.92
5	Paris	90.18
6	Singapore	89.67
7	Chicago	84.18
8	Toronto	84.00
9	Sydney	83.75
10	Munich	81.88
11	Amsterdam	81.80
12	Stockholm	81.75
13	Melbourne	81.49
14	Frankfurt	81.35
15	Boston	80.18
16	Seoul	80.01
17	San Francisco	79.47
18	Washington D.C.	77.72
19	Los Angeles	77.67
20	Vancouver	77.22

Source: St Bride's Managers (underlying sources available on request)

Scores are rebased to the Number One ranked city, London.

# Investing Globally

Investors should broaden their horizons for real estate investment

Over the last few years we have seen real estate investors spread their wings and gain exposure to overseas markets. We are particularly used to the idea in the UK; London received more overseas investment than any other global property market in 2014. We have seen Asian and Middle Eastern investors allocating money overseas and US investors, opportunity funds in particular, have ventured over to Europe for some very large acquisitions during the GFC recovery. But on the whole institutional investors in the UK shy away from a global exposure to property. Two-thirds of a typical equity portfolio will be allocated to overseas markets so why not property? The typical answers are complexity, currency-risk and tax. Our targeted World Cities approach mitigates the first of these, a simple hedging exercise the second and, we believe, the following list makes a case that overwhelms the third:

- **Diversification:** local property markets exhibit a low correlation to one another. This makes for more stable returns through the cycles.
- **Out-performance:** timing your entry into uncorrelated markets and adopting best practice asset-management strategies in less sophisticated markets can enhance performance.
- **Occupier Alignment:** the basis for sound property investment is good quality and growing rental streams. As business becomes more globally integrated the landlord who understands an occupier's needs on a global basis will be best placed to provide desirable space.
- **Access Growth:** within a balanced portfolio there is a place for some markets with a higher risk and return profile. The UK is a developed economy with lower population and economic growth than some parts of the Americas and Asia.
- **Choice:** why constrain yourself to competitive domestic markets? We would encourage you to gain exposure to more choice and opportunity.

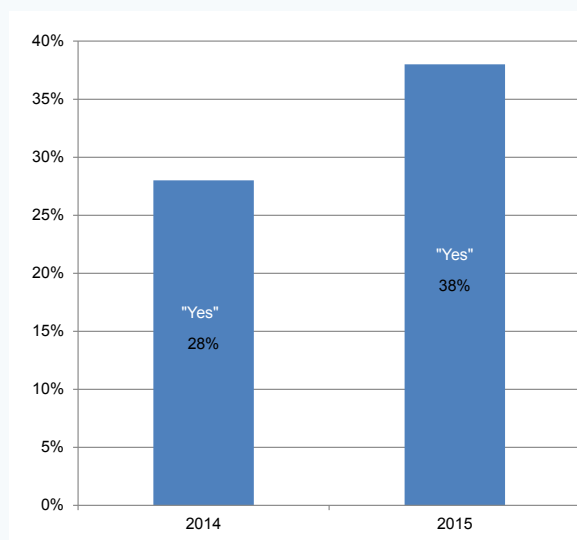
## Direct Commercial Real Estate Investment - Largest Markets

	Volumes 2014 \$US Billions
USA	269.1
UK	106.5
Germany	46.3
Japan	43.4
France	33.1
Australia	26.9
China	19.2
Canada	19.1
Sweden	16.3
South Korea	10.6
Spain	9.8
The Netherlands	9.3

Source: Jones Lang LaSalle, January 2015

The world is a big place, why restrict yourself to one market?

## Investor Intentions: "Will you invest outside your own region this year?"



Source: CBRE Investor Intentions Survey, April 2015

We see this trend continuing over the next 5 to 10 years as institutional real estate allocations grow and domestic markets become saturated by investors with investment rationale more complex than return expectations.

## Constructing the Index

### The Research

The St Bride's World Cities Investment Model identifies those cities which offer attractive real estate investment markets from a risk-management perspective. By aggregating a variety of primary and secondary sources we have been able to generate a ranking of the 100 cities we fed into our model. To pick out the top twenty may seem an arbitrary cut-off point but we believe the list of twenty offers adequate diversity whilst remaining focussed.

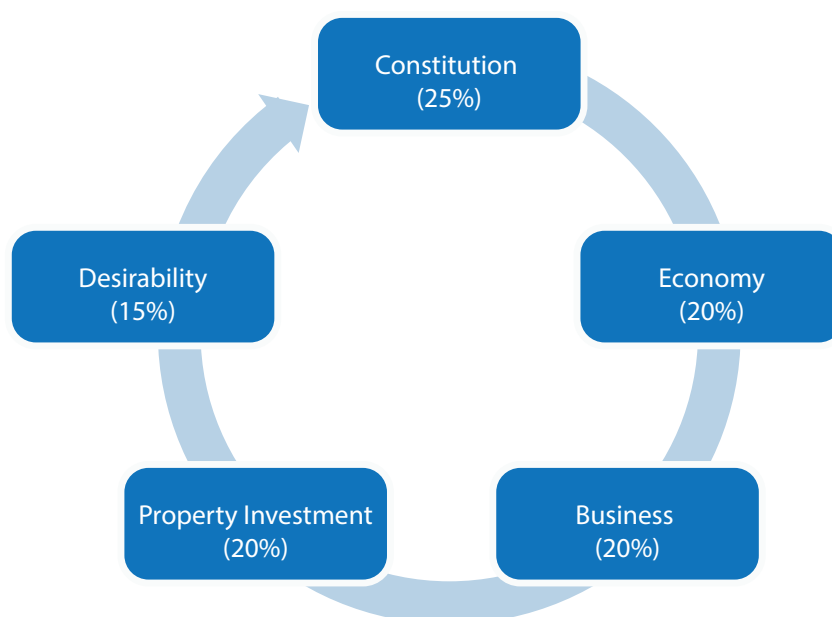
It is important to note that this is not a timing tool. We are not suggesting that any or all of these cities is the best place to invest *now*, rather the model takes a long-term view and tells you that each is a structurally sound place to invest for the long-term.

### Methodology

The model is based around five themes which are weighted and blended to give a full picture of the city in question:

- **Constitution:** a measure of institutional robustness, openness and the operation of legal rights;
- **Economy:** this theme incorporates indicators which prize the size, stability and global integration of each city economy;
- **Business:** the ability to do business, raise capital and innovate;
- **Property Investment:** a reflection of the attractiveness and accessibility of the property investment market;
- **Desirability:** a number of softer indicators that build a picture of how desirable a city is to live and work in.

Each of these themes is made up of a number of indicators which can be weighted according to an individual investor's particular bias. Given the predominantly institutional, risk-averse nature of our clients, our base case weightings reward a strong constitution and a large, stable economy. Hence our weightings are as follows:



# The Index

## Indicators

There is now a multitude of indices and rankings which measure global cities on a vast array of measures. Drawing from this diverse range of sources, both absolute and indexed, we normalised the respective data points to feed into our model. We have chosen indicators which are both up-to-date and periodically updated, giving us consistency from one iteration of the St Bride’s World Cities Index to the next.

Example indicators for "Constitution" theme

Measuring	Source	Indicator
Rule of Law	World Justice Project	Rule of Law Index
Effectiveness of Institutions	World Economic Forum	Global Competiveness Report
Property Rights	Heritage Foundation	Economic Freedom Index
Openness to Trade	International Chamber of Commerce	Open Markets Index

Full source references are available on request



## What can we learn from the results?

### Tough at the top

Over the 5 years we have conducted our World Cities research we have seen little movement in the top five cities and indeed London and New York are consistently clear of the chasing pack. In a sense this is not surprising; the course of history that led these great cities to be dominant cannot deviate far in the space of 5 short years. That said, the great metropolises of Damascus, Athens, Rome and Istanbul would once have topped this list – the alpha cities should not rest on their laurels! For example Shanghai was let down only by the robustness of its rule of law and the transparency of transactions, scoring well on most other measures. Equally we have seen Washington D.C. gradually lose ground in the rankings, overly reliant on demand from the US Government rather than the multiplicity of New York's occupiers.

### The robustness of Europe

Whilst Europe's economy has limped its way out of the rubble of the GFC, the structural appeal of its best cities endure. This index does not give clues on market timing, but the inherent attractiveness of investing in Paris, Amsterdam, Stockholm, Frankfurt and Munich has remained, with each scoring highly despite the economic malaise of the last few years.

### Look out for new entrants

We have seen only a marginal change in the index from last year but the top twenty list hides some strong risers. Copenhagen sits in a tantalising 22nd place scoring particularly well in Constitution and Desirability. Equally Seattle has seen a sharp rise in the rankings. The strengthening magnetic force of its large corporate occupiers and reputation for technology and innovation (not to mention the form of the Seattle Seahawks in the NFL) has made it a viable alternative to San Francisco for both occupiers and investors.

Looking at the top four cities under each theme, we see the dominance of London and New York. Interestingly Oslo and Auckland scored highly under our constitutional theme, demonstrating the robust governance and rule of law in Norway and New Zealand respectively. But both cities fell down as a result of their relatively low scores in Economy, Business and Property Investment. Shanghai performed well on Economy (6th) but its scores for Constitution and Desirability left it outside our top twenty.

Theme	Top Ranked City	Second Ranked City	Third Ranked City	Fourth Ranked City
<b>Constitution</b>	Singapore	Hong Kong	Oslo	Auckland
<b>Economy</b>	Tokyo	New York	London	Paris
<b>Business</b>	New York	London	Tokyo	Paris
<b>Property Investment</b>	London	New York	Paris	Hong Kong
<b>Desirability</b>	Singapore	London	Sydney	Toronto

The universe of 100 cities we analysed was defined by reference to Jones Lang LaSalle's ranking of cities by commercial property investment volumes in 2014.



## Conclusions

There is a danger that an aggregation of existing city-based rankings becomes a self-fulfilling exercise. Recommending investment in those markets which already enjoy the diverse advantages of “alpha cities” simply reinforces the status quo. In other words, the more money that pours into the best cities, the more able they are to consolidate their advantages. For that reason we see little threat to the likes of London and New York at the top of the rankings.

Further, it may well be that an index of “growth cities” or “future stars” would return an entirely different set of results and very possibly more juicy returns. But investment is about finding an acceptable balance of risk and reward. For institutional investors in the UK looking to expand and diversify their exposure to overseas property, we believe each of the twenty cities defined by our index would make an acceptable first step. The process of investing will be relatively straight forward, your rights as a landlord will be upheld and you will find characteristics that will deliver consistent occupier demand through cycles. Of course, finding a cracker of a deal is the next step, but knowing where to look is a good start.

DESTINATION

TIME

SCORE

NEW YORK

1 2 0 0

L A

LONDON

1 2 0 5

L A

PARIS

1 2 1 0

O M

SYDNEY

1 2 1 0

B O

HONG KONG

1 2 1 5

O M

FRANKFURT

1 2 2 0

B O

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