



## US remains role model for innovation

The US will continue to dominate the world in the area of innovation, despite economic advances by China and other emerging powerhouses, keynote speaker **Kjell Nordstrom** told the ULI trends conference in Amsterdam. Speaking on the theme 'Can Europe remain competitive in the new Global Economy?', he said the US had a 'remarkable ability' to attract talent, nurture it and subsequently export it. 'Everyone wants to go to Harvard or Stanford University; it is not for nothing that Stanford is called the Nobel Prize factory.'



Nordstrom, who is professor of economics at the Stockholm School of Economics and co-author of two bestsellers 'Funky Business' and 'Karaoke Capitalism', said that this magnet function was helped by easy integration into US society and an open and democratic societal structure. 'Anyone, whatever their ethnic background, can become an American within two-four years. The same cannot be said of most countries in Europe where immigrants do not become fully assimilated even after years of living there,' he noted.

The US ability to capture and nurture talent meant it would continue to exert influence in all fields of research and innovation. Nordstrom said that ultimately, this meant that the US owned the critical means of production. 'You can't make people creative or innovative; the only thing you can do as a country or company is bring people that are good on board.'

While Europe was 'not good' at immigration and integration, it had a shared advantage with the US over other economic heavyweights such as China, Russia and Middle Eastern countries, Nordstrom said. 'The one competitive advantage we have is that we are open, liberal, democratic societies with a free press. The Chinese can do everything - produce cars, mobile phones and huge infrastructure projects. But they lack an open, democratic society and it is only open and democratic societies that can handle the forces of creative destruction, or innovation.'

Pointing to European companies such as Finnish mobile phone maker Nokia, once a high-tech pioneer and darling of technology stock investors but now struggling to keep up with the competition, Nordstrom said companies had to reinvent themselves continuously in order to stay afloat. 'In the current cycle, companies have to face up to the fact that they have to innovate continuously, and that those innovations will not last for long.'

One side-effect of the huge advances in globalisation and information technology over the past 65 years, he said, was that companies copied each other on a large scale. 'But the capitalist machine rewards originality, not sameness,' he warned. 'Sameness drives out all the profits; we need to build institutions that can continuously create.'

On the subject of cities, Nordstrom said their increasing political influence would lead to the rebirth of the city state, replacing the outmoded nation state concept. He predicted that cities like London, Paris and Moscow would 'decouple' from the rest of their countries in due course, creating their own institutions and forming their own international links. 'Cities create so much value, they control the value added,' he said. Increased urbanisation would also boost their position, he said, pointing to statistics which predict that 60-65% of the world population will be living in urban areas by 2020, rising to 75-80% by 2040. 'We are facing the complete and final breakdown of the nation state,' he said.



## Non-traditional sources of capital set to grow

Non-traditional sources of capital for real estate investment will grow in the coming years as traditional ones such as banks come under further deleveraging and regulatory pressure, a ULI trends conference in Amsterdam heard.

John Forbes, real estate funds partner at PricewaterhouseCoopers, said that sovereign wealth funds (SWFs) from Asia and the Middle East will become a growing source of new capital and a lasting force to be reckoned with. 'They are driven by raw material wealth and that will continue,' he said.

One effect of their increased activity in Europe will be that the already short supply of core real estate assets is likely to dwindle even further, he said. 'Sovereign players such as the National Pension Service of Korea take core assets out of the market to hold as long-term investments, not to trade,' Forbes said. This will lead to investment capital 'drifting into other things', he noted. The challenge, he said, is to create more core real estate product.

On a broader note, Forbes said that world trade patterns in the coming two decades will see China overtake the US as the world's biggest economy by 2030 'and this will pile the money on SWFs', he said. Private investment from Asia will also increase. Forbes pointed to a PwC report published on Thursday which forecasts that Singapore will overtake Zurich and London as the world hub for private banking in the next two years.

In Europe, the barrage of regulatory change facing banks and insurers will lead to a 'prolonged period of uncertainty' for the real estate sector, Forbes said. The upcoming Basel III bank regulations and the Solvency II rules affecting insurers will 'dramatically change' the way these institutions treat real estate debt, he said. Signs that the introduction of the Solvency II regime may be delayed by a year to 2014 will add to the uncertainty in the industry. Moreover, banks still have to work through a huge amount of legacy loans and this will stifle any new lending to real estate, he said. 'A huge amount of capital is going to be sucked into existing assets, not into the creation of new real estate,' Forbes said.

## Pace of change forces retail rethink

The rapid pace of change and the unpredictability of new trends in the retail industry are forcing landlords to rethink their business models. That was one of the key conclusions of a panel devoted to winning strategies in a changing retail landscape held at the annual ULI trends conference in Amsterdam.



'We have to understand the world is changing and we need to engage with retailers and customers and try out a lot of things before something works. And even then, it may be innovative for only a short time,' noted **Glenn Aaronson, CEO of Multi Corporation**.

The sheer quantity and speed of information available today mean consumers and industry alike face an unprecedented challenge to make choices about what to digest and how, he added. 'We have to feel more comfortable with uncertainty and being more unsettled. We need to take that on as a challenge day after day.'

Online retailing is also making major inroads, the panellists agreed. Indeed, an impromptu poll held during the session indicated that the majority of attendees believe that online purchases will increase significantly in the next couple of years to over 40% of the total. The percentage of purchases influenced by internet could be as much as 75%, Aaronson estimated.

Multi-channel retailing is also taking off, noted **Josip Kardun, deputy managing director of development at Hamburg-based ECE Projektmanagement**. While some consumers read up about a product before going to a store, others go to the store first and do their research afterwards or make the actual purchase online. Some retailers are even incentivising their customers to pay online by providing instruction at their physical stores, he pointed out. 'In the last two years, the quality of internet tools has improved dramatically.'

Another trend landlords need to watch closely is the role of social media such as Facebook, YouTube and blogs in determining new trends and what is cool, observed **Scott Abbey, vice president of real estate at US retailer Footlocker**. 'Retailers who engage the customer will have a longer life.' But the development of new online communities around a favourite brand, movies or books also offers opportunities for landlords in the physical shopping world, argued **Seth van der Meer, creative director at Sandfire**. 'The members of the communities and clubs want to meet - a shopping centre could be the place where that happens.'

Aaronson predicted a 'massive' shift to redevelopment, adding that shopping centres that cannot find their own niche and create their own identity would fall by the wayside. He cited the example of Multi's Forum Istanbul mall in the Turkish capital which is being branded as a family destination with an aquarium, ice palace and a soon-to-be-developed Jurassic Park. 'A shopping centre needs to redevelop and readapt itself: that's what I think the future holds. We don't need more locations. Shoppers don't want another shopping centre: they want a better one.'

Kardun agreed that retail developers were in the throes of a process of fundamental change and said the key problem was not that the retail sector was overbuilt, but that it is under-demolished. ECE is also adapting its business model, he added: 'ECE is not just a developer, it is an investor, property adviser, property manager and an asset manager. The scope of our work is changing every day.' Kardun stressed that there were no manuals to help landlords choose the right direction. 'We don't control the process; we have to live with that. But we can have confidence thanks to our past experience.'



## Cities need to improve transparency on risk

Europe's cities need to be more transparent and provide better risk scenarios in their drive to attract real estate investment. That was one of the conclusions of a panel devoted to the subject of 'Winning Cities' at the ULI trends conference in Amsterdam.

**Rosemary Feenan, international director of global research at Jones Land LaSalle**, said that transparency and risk was one area where cities needed to improve their information to investors.

'All the investment incentives in the world are not going to work if the risk factors [of a city] are seen as too high,' she said. Risk scenarios could cover factors such as how physically resilient a city is to natural disasters in the flooding and earthquakes. 'Investors are paying increasing attention to these areas,' Feenan said, adding that this could include things such as whether sluices on city waterways work properly.

While it was difficult to determine what the bottom line is for investors when they review different cities, the panel agreed that 'soft' factors such as liveability, image and identity are becoming increasingly important. 'It is clear that investors are looking at more than just GDP, but it remains to be seen how they [the soft factors] really factor into their decisions,' Feenan said.

Despite a proliferation over the past decade in the number of indices and rankings comparing the performance of cities on a range of issues, 'we're still in a discovery phase about measuring what a successful city actually is', Feenan said. 'We have so much information on cities, urban analysts are digging into every corner, but we're still not measuring very well and not really linking to real estate.' That said, the complexity of city benchmarking was set to increase even further, she said.

Panelist John Forbes, real estate funds partner at PricewaterhouseCoopers and co-author of the annual PwC/ULI Emerging Trends in Real Estate Europe report, said that real estate investors were reluctant in the current climate to rank their investment preferences according to cities. 'Investors cannot rely on picking cities in the current environment. Their behaviour at the moment is "granular"; investors are looking at specific assets, not necessarily which cities they are in,' he said.

## 'Industry needs consistent sustainability metrics'

A consistent approach to measuring the environmental performance of buildings and real estate investment portfolios is needed to engender real progress in the field of sustainability, the ULI trends conference in Amsterdam.



The past few years have seen a proliferation in the number of green benchmarking systems and indices but they are underpinned by different metrics, **Jon Lovell, head of sustainability at Drivers Jonas Deloitte**, said during a panel discussion entitled 'Carrots or Sticks? Are Incentives or Penalties More Effective in Driving Action on Sustainability?'

'I'm concerned about the real estate sector's inertia on sustainability,' Lovell said. 'There is a plethora of benchmarking systems and indices but what are companies doing with all that information? They are quick to identify the problem and its cause but not to implement the changes needed to engender real progress. Industry-led measurement is fine, but we need consistency in the underlying metrics,' he said, noting that the World Green Building Council was trying to foster a discussion on greater consistency.

Commercial interests are also hampering progress, he said, pointing out that in many cases, the benchmarking systems are being led by the vested interests of the proprietary organisation. Nor are things made easier by the 'very rapidly moving regulatory framework', Lovell said. 'There is huge confusion about what is actually going on.'

Panelist **Jaap Gillis, chief operating officer of Dutch property company Redevco** and co-chair of the International Sustainability Alliance, said that companies should measure their portfolios precisely as a way of pre-empting legislation from Brussels. Under EU legislation, all new buildings have to be nearly zero energy by 2020. Gillis: 'Failure to act will result in penalties. We need to tick the boxes.'

Asked by moderator Alex Notay, vice-president of strategic programmes at ULI Europe, whether the sustainability agenda is being led by property owners or occupiers, Lovell said that investor and legislative pressure was driving the momentum. 'Tenants are not prepared to pay for sustainability in terms of higher rents,' he stressed. In answer to the question posed by the panel title, Lovell concluded by saying that a 'stronger legislative framework plus incentives' were needed to engender change in the industry.



## Three European developments win ULI Awards for Excellence

Three developments have been selected as winners and a fourth highly commended in the Urban Land Institute's (ULI) EMEA Awards for Excellence competition. The three winning developments are ENER[GIE]NGER in Munich, Germany; Perseo in Milan, Italy; and The Triangle Building at Wolverton Park in Milton Keynes, UK. KAUST, the King Abdullah University in Thuwal, Saudi Arabia, was highly commended in the awards.

The winners were announced during the ULI Europe Trends Conference in Amsterdam, the Institute's half-yearly review of trends in the European real estate industry.

ENER[GIE]NGER is a 2,600 m<sup>2</sup> office and retail scheme developed by Wilhelm Gienger VerwaltungsGmbH which opened in 2009. It is based on the idea of an 'energy spiral' which allows light to move inside the building. The development places great importance on sustainability with a 250 m<sup>2</sup> solar panel and a combined heat-and-power plant for electro and thermal energy.

Perseo is a 16,000 m<sup>2</sup> office development built in the Expo 2015 district of Milan on a previously undeveloped site. Developed by Galotti and leased entirely to Sole 24 ore, it is the first Triple A standard building in Italy.

Wolverton Park is a former railway just outside Milton Keynes which has been redeveloped to provide 300 mixed tenure homes, alongside commercial space, community facilities and a 2.5-acre park. The project developer was Places for People.

Jury chair Andrew Gould, chief executive of the English business at Jones Lang LaSalle, said the 2011 winners demonstrate holistic urban design and sustainability principles. 'They represent some examples of tremendous innovation and thoughtful approaches to urban design and regeneration in retail, office, mixed-use, as well as education and civic uses.'

The four winners qualify for the ULI Global Awards for Excellence competition, in which a jury of international members will select up to five winners from this year's winning projects in the Americas, EMEA, and Asia Pacific. The global winners will be announced in Los Angeles at the ULI Fall Meeting and Urban Land Expo in October.

The competition is part of the Institute's Awards for Excellence programme, established in 1979, which is based on ULI's guiding principle that the achievement of excellence in land use practice should be recognised and rewarded. The criteria for the awards include leadership, contribution to the community, innovations, public/private partnership, environmental protection and enhancement, response to societal needs, and financial viability.



Please visit [www.uli-europe.org](http://www.uli-europe.org) for post-conference materials including speaker presentations & papers; conference programme & list of attendees

Thank you to our media partner, Property EU, for providing the written content of this report.



[www.propertyeu.info](http://www.propertyeu.info)