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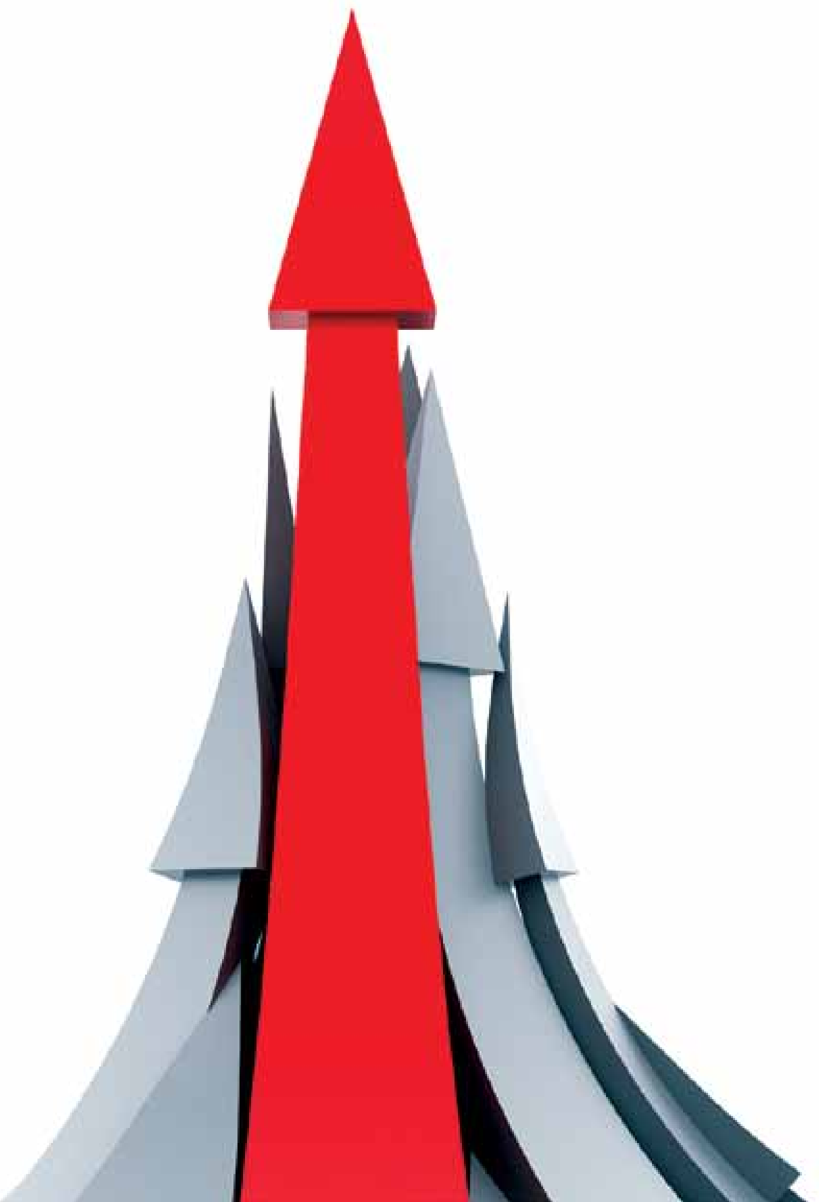
Real value in a changing world

China's Property Market – Fast Tracking to Maturity

Benchmarking China's Real Estate Market



Executive Summary

China's Tier I cities are **fast tracking to real estate market maturity**.

Over the past decade Shanghai and Beijing have gone through a remarkable transformation. Our analysis of 22 key cities around the globe highlights the rapid rise of both cities up the maturity curve. In 2000, they sat firmly in our 'emerging' or *Gamma* category, ranking 14th and 15th respectively. Today, they hold 10th and 11th positions and are classified as 'transitional' or *Beta* markets, having leapfrogged and widened their distance over other key BRIC cities.

China's ascent up the real estate market maturity curve owes much to its unique combination of massive infrastructure investment, highly effective government policies, long-term planning, impressive speed of real estate delivery and a vibrant domestic economy. These attributes will continue to shape China's real estate market, creating a **unique model** that will be closely watched by many emerging markets across the globe.

While traditional maturity characteristics do not always sit comfortably at this stage in its evolution, if achieving *Alpha* status for its Tier I cities is important, then China would need to:

- **Improve market transparency** through initiatives such as developing an active REIT sector, creating robust investment performance benchmarks and improving transparency of real estate occupation costs. Greater transparency will help improve market efficiency, encourage stable long-term investment and equip China's domestic players to compete in international real estate markets. Such benefits, however, will be balanced against the more urgent requirements of growth which will take priority over transparency improvement in the short to medium term.

- **Develop further connections with international capital markets** to offer more diversity in vehicles and facilitate capital inflows, and also to help prepare China's money to find strong footholds abroad. China is now the world's fifth most active real estate investment market, but this has been achieved largely on the back of domestic investor activity. Its contribution to global cross-border flows into direct commercial real estate is still less than 1%.

- **Deliver an ambitious 'green' building agenda underpinned by professional management**, which will not only support the government's emission and energy targets, but will significantly help to improve the attractiveness and reduce the operating costs of individual assets. Opportunities for further advancement in stock quality are immense, with a projected additional 45 million square metres of Grade A offices, around 100 million square metres of modern retail and 40 million square metres of modern warehousing by 2020.

- **Develop a high-order globally-connected corporate base**. As the hubs of the world's second largest economy in the fastest growing region of the world, the potential for Shanghai and Beijing to rise further up the global business hierarchy is enormous. However, both cities will need to work on their competitive profile as aspiring *Alpha* cities, which may require selective policy review to encourage ease of doing business.

Figure 1: Real Estate Market Maturity, 2000 v 2010

	2000	2010
Alpha Cities (Advanced)	London, New York Sydney, Hong Kong, Singapore	London, New York Paris, Singapore, Sydney Tokyo, Hong Kong
Beta Cities (Transitional)	Tokyo, Paris Madrid	Madrid, Seoul Shanghai, Beijing Warsaw, Moscow
Gamma Cities (Emerging)	Seoul Jakarta, Warsaw, Mexico City, São Paulo Shanghai, Beijing, Moscow Istanbul, Mumbai, Delhi	Mumbai, São Paulo, Mexico City Delhi, Istanbul, Dubai Jakarta Cairo
Delta Cities (Nascent)	Dubai Cairo, Lagos	Lagos

***Alpha* cities** – Advanced markets that are, in general, highly transparent, highly liquid, with a well-developed stock and infrastructure, and a corporate base that has strong global connectivity with high-value functions.
***Beta* cities** – Transitional markets that are liquid, transparent to semi-transparent, with a substantial international-grade commercial stock, developing infrastructure and high-value activities.
***Gamma* cities** – Emerging markets characterised by low to semi-transparency, high levels of building and infrastructure development, an evolving corporate base, but with low levels of investor trading.
***Delta* cities** – Nascent markets with low transparency, low levels of new construction, poor infrastructure and limited multinational corporate activity.

Source: Jones Lang LaSalle

Introduction – A Decade of Transformation

Over the past decade, mainland China's real estate market has gone through a remarkable transformation. Unprecedented rates of urbanisation, huge infrastructure development and integration with the world economy, have gone hand-in-hand with the rapid development of its real estate industry.

The speed of change has been astonishing. Ten years ago China's Tier I cities had the characteristics of 'emerging' markets – both Shanghai and Beijing had poor transparency, no actively traded commercial real estate investment market, double-digit investment yields, low levels of Grade-A commercial stock and most multinational corporations in only small representative offices.

Today, China's real estate market is consistently in the global spotlight – it has the world's fifth most active real estate investment market, its Tier I cities are home to a sizeable stock of international-grade commercial buildings, virtually every major MNC has an active presence and a growing number of domestic corporations are making their mark. Yet China's advance up the global rankings has not just been based on activity, but also on its progress toward 'property market maturity' and, while many analysts maintain that China's economy is still categorised as 'emerging', Jones Lang LaSalle believes that, from a property market perspective, China's Tier I cities are **fast tracking to maturity**.

This report reviews how Beijing and Shanghai score on classic property market maturity measures, compared against 20 key cities around the world. We look at how close China's Tier I cities are to being among the world's *Alpha* real estate markets, and review what is required to achieve greater market maturity. We also assess how soon China's 40 Tier II and III cities might make a similar leap in maturity.

In reviewing China's maturity profile, the report also questions how much of the somewhat 'western-centric' definition of maturity is actually important and relevant to its market. China's rise up the real estate market maturity curve owes much to a unique combination of massive infrastructure investment, highly effective government policies, long-term planning and impressive speed of real estate delivery – achievements less common in the profiles of many other real estate markets. The future maturity profile of China is therefore likely to be very different from those in the developed world, and understanding these differences will be vital for:

- **International capital markets**, where perceptions of risk – and therefore attitudes to pricing and location – are influenced by traditional perceptions of maturity.
- **China's cities**, as the direction in which they develop their property markets will influence the future shape of their cities.
- **Global real estate markets**, as China's solutions to the challenges of growth and modernisation will influence many markets that are emerging in its wake.

Benchmarking Real Estate Market Maturity

We have assessed China's real estate market maturity against four key criteria that we believe constitute a 'mature property market':

- **A highly transparent real estate market** characterised by the free flow of high-quality market information, robust regulatory enforcement and fair transaction processes.
- **High connectivity with international real estate capital markets** in terms of both capital inflows and outflows.
- **A commercial building 'offer' that is equipped for future generations of corporations**, in terms of environmentally-sustainable, resource-efficient and well-managed buildings.
- **A robust domestic and international corporate base** in terms of depth and breadth of activities and functions, leading-edge firms, headquarters and high-order activities.

Market maturity in China's Tier I cities – Shanghai and Beijing – has been benchmarked against 20 key cities around the world that cover the spectrum of real estate characteristics, from well-established markets such as London and New York through to 'early stage' markets like Lagos and Cairo. Each city has been scored on the four maturity criteria based on 13 key indicators. From their overall real estate market maturity score, the 22 cities have been clustered into four categories (see Figure 1) with the following broad characteristics:

- ***Alpha* cities** – Advanced markets that are, in general, highly transparent, highly liquid, with a well-developed stock and infrastructure, and a corporate base that has strong global connectivity with high-value functions.
- ***Beta* cities** – Transitional markets that are liquid, transparent to semi-transparent, with a substantial international-grade commercial stock, developing infrastructure and high-value activities.
- ***Gamma* cities** – Emerging markets characterised by low to semi-transparency, high levels of building and infrastructure development, an evolving corporate base, but with low levels of investor trading.
- ***Delta* cities** – Nascent markets with low transparency, low levels of new construction, poor infrastructure and limited multinational corporate activity.

The analysis highlights the rapid rise of China's Tier I cities up the real estate maturity curve since 2000. Ten years ago, Shanghai and Beijing ranked 14th and 15th – they sat firmly into our definition of 'emerging' or *Gamma* real estate markets, alongside other key BRIC markets such as São Paulo, Moscow and Mumbai. Their distance from *Alpha* cities – London, New York, Sydney, Hong Kong and Singapore – was notable.

Today both cities have risen to the *Beta* or transitional market category and have leapfrogged cities like Moscow, Mexico City, Mumbai and São Paulo on the overall maturity score – to hold 10th and 11th positions in the global ranking. Beijing and Shanghai have recorded the largest improvement in their maturity scores over the past decade, and now sit just behind Madrid and Seoul.

The distance from *Alpha* cities has narrowed considerably, but nonetheless still remains significant. In the following sections we review China's position on each of our four core maturity criteria, look at the gap China is opening up over other BRIC markets and discuss the potential journey for its Tier I cities to achieve *Alpha* city status.

Figure 2: Real Estate Market Maturity Index, 2000–2010

	2000		2010		Change
	Score	Rank	Score	Rank	
London	1.3	1	1.1	1	-0.2
New York	1.4	2	1.2	2	-0.2
Paris	2.4	7	1.5	3	-0.9
Singapore	2.1	5	1.6	4	-0.5
Sydney	2.0	3	1.7	5	-0.3
Tokyo	2.3	6	1.9	6	-0.4
Hong Kong	2.1	4	1.9	7	-0.2
Madrid	3.2	8	2.4	8	-0.8
Seoul	3.5	9	2.6	9	-0.9
Shanghai	4.3	14	2.7	10	-1.6
Beijing	4.4	15	2.7	11	-1.7
Warsaw	4.1	10	2.8	12	-1.3
Moscow	4.5	16	3.1	13	-1.4
Mumbai	4.8	17	3.3	14	-1.5
São Paulo	4.2	12	3.4	15	-0.8
Mexico City	4.2	13	3.6	16	-0.6
Delhi	4.8	19	3.6	17	-1.2
Istanbul	4.8	18	3.7	18	-1.1
Dubai	4.9	20	3.8	19	-1.1
Jakarta	4.1	11	4.3	20	0.2
Cairo	5.0	21	4.6	21	-0.4
Lagos	5.0	22	5.0	22	0.0

Source: Jones Lang LaSalle

Real Estate Transparency

In traditional terms, a transparent real estate market is characterised by the free flow of high-quality market information, robust regulatory enforcement and fair transaction processes. According to our own biennial Real Estate Transparency Index[1], China has moved from an Opaque to a Semi-Transparent market over the past decade. It has seen solid advancements, particularly in its Tier I cities, in terms of availability of market data – helped by a growing professional services community, consistent and open implementation of real estate regulation and increasing tax compliance. However, Beijing and Shanghai rank below both São Paulo and Moscow where land use planning and investment performance indices have boosted their comparative scores.

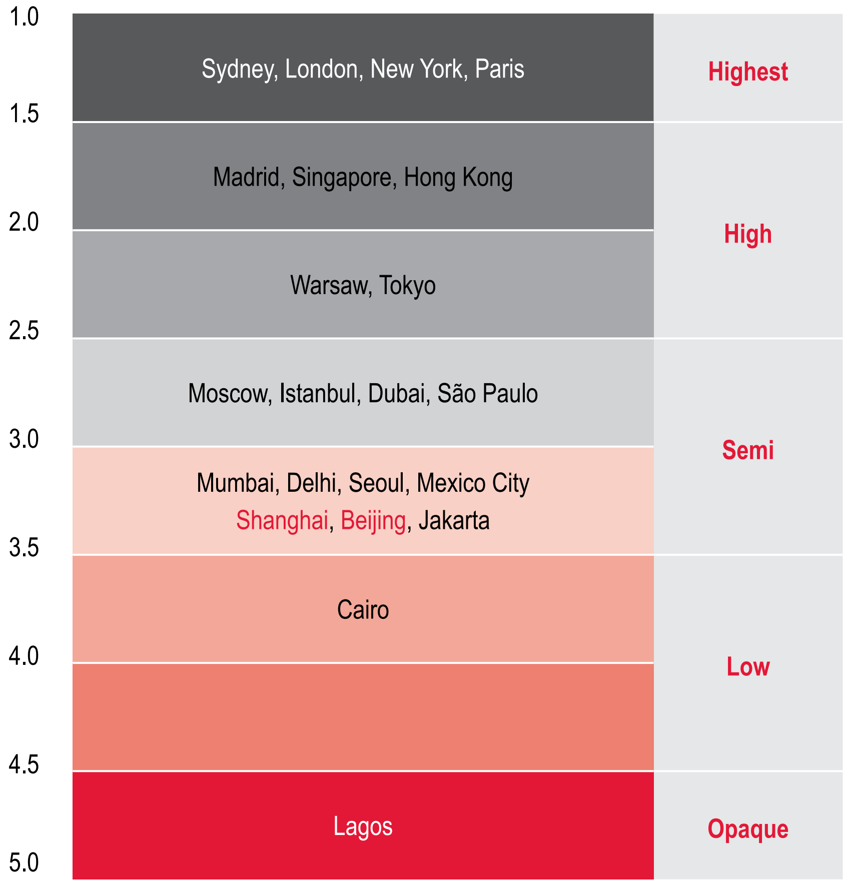
[1] Global Real Estate Transparency Index, Jones Lang LaSalle, 2010. www.joneslanglasalle.com/transparency

Although starting from a low base, China's Tier II and Tier III cities have shown amongst the greatest progress in transparency over the past two years. One area that has seen notable improvement is in the availability of market information, owing in part to the services provided by Jones Lang LaSalle (including our Real Estate Intelligence Service) and the China Real Estate Information Corporation (CRIC).

If further improvements in transparency are an objective for China's property market then the following initiatives would help to move the needle substantially:

- Creating a REIT sector based on the international principles of corporate governance.
- Producing robust real estate performance benchmarks against which domestic and international investors can measure returns.
- Enhancing the transparency of real estate occupation costs to support the efficiency of corporate real estate occupancy.
- Improving regulatory enforcement in China's Tier II and III cities.

Figure 3: Jones Lang LaSalle Real Estate Transparency Index, 2010



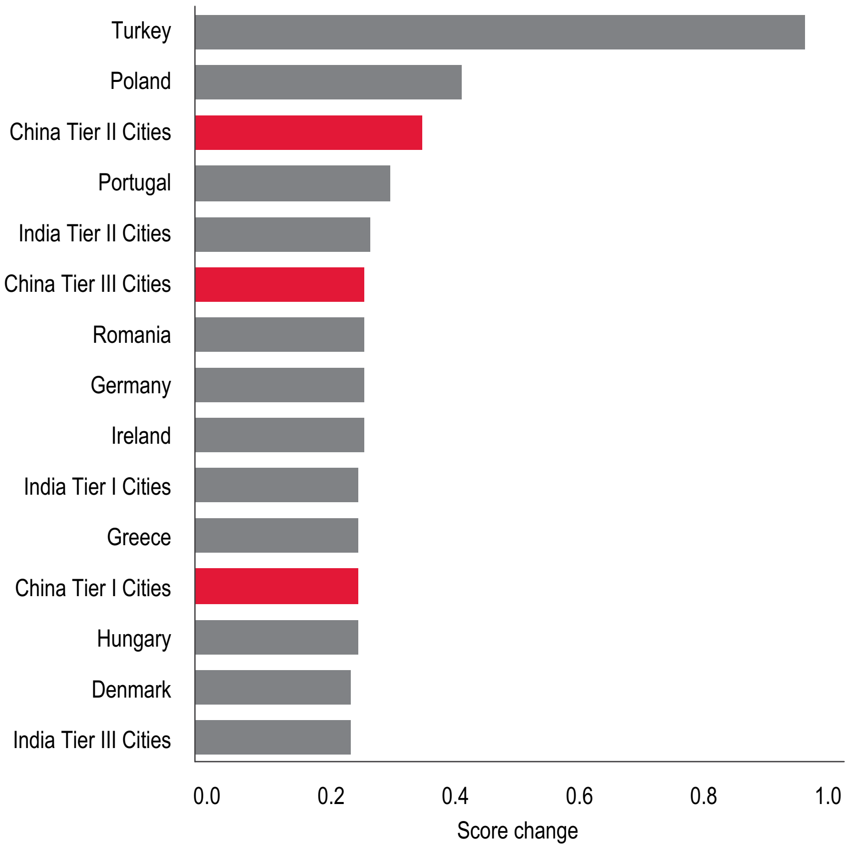
Sources: Jones Lang LaSalle, LaSalle Investment Management

But why should such transparency measures be important to China's market? The benefits over the short term may seem to be of limited advantage to a market largely controlled by government and state-owned enterprises. The more urgent requirements of growth and physical development are likely to take priority over transparency in the short to medium term. However in the longer term, the advantages of transparency, even to a market that will be largely domestically driven, are persuasive. For example:

- Transparency improves market efficiency, and better due-diligence reduces transactions costs for all parties.
- Rising transparency helps the operational efficiency of corporate occupiers.
- There is clear evidence in other markets that high transparency encourages cross-border investment.
- Improving transparency encourages stable long-term investment; otherwise investors have more incentive to 'trade' the market to protect their profits.
- As the property sector opens up further to institutional investment, through insurance company asset purchases and the development of REIT vehicles, improved transparency will be essential in order to appropriately manage risk.
- Understanding transparency measures, and implications on perceived risk and market pricing, will better prepare and equip China's domestic players to compete in international real estate markets.

Such benefits are compelling, but balancing these against China's growth trajectory means that China's Tier I cities are unlikely to reach the 'High Transparency' level before at least the end of this decade. However, we envisage some catch-up of selected Tier II and III cities as they use transparency to attract inward investment and improve their competitiveness. Nonetheless, this does not preclude China's Tier I cities from reaching *Alpha* city status. Interestingly Tokyo is not highly transparent – and yet, just as with Shanghai and Beijing – size, diversity and scale partly compensate for the lower transparency levels.

Figure 4: The Largest Transparency Improvers, 2008–2010



Source: Jones Lang LaSalle, LaSalle Transparency Index, 2010

International Capital Market Connectivity

One of the key measures of city competitiveness relates to a city's external relations to others with regard to trade, capital flows and corporate activities. The more connected a city is, in terms of physical and business networks, then the better it tends to perform. Over the past decade, Chinese coastal cities have become well-connected with the global economy and financial flows have increased significantly. However, China has only recently moved into the top league in terms of international real estate capital market activity.

In 2010 China has become the world's fifth most active real estate investment market, and both Shanghai and Beijing now feature among the world's most liquid markets. This has been achieved largely on the back of domestic investor activity, with only US$17 billion of direct commercial real estate investment coming from overseas during the last three years. For many international investors the risk of doing business in China is still too great.

How much China really wants inward investment will influence what happens next. In Poland, for example, international investment was actively sought as its market emerged and, as a result, inflows grew nearly tenfold in the four years to 2006. In Brazil, measures to improve the business operating environment are now feeding through to expanding real estate investment volumes. Brazil is now the world's fastest growing real estate investment market.

In China, while there is no shortage of domestic funds to sustain ongoing development, there are other reasons why international funds could add advantage; for example, to help mitigate the potential impact of non-performing loans on domestic banks by diversifying the source of investment capital – a policy approach earlier adopted in the residential sector.

Capital market connectivity is also about the increasing importance of capital outflows, as China seeks diversification by investing overseas. Over the period 2007–2009, China-based property investors accounted for only 0.3% of global cross-border flows into direct commercial real estate. However, with China's current interest in directly accessing worldwide consumer markets, trade and resources, coupled with the opportunities offered by the retrenchment of real estate markets in Europe and the US, then further expansion into real estate seems the logical next step.

We expect to see a rise in cross-border flows although, with current restrictions on capital flows, the increase in volumes will be limited over the short to medium term. Nonetheless, there are significant opportunities for China to emulate countries such as Germany, the UK and the US, each of whom holds around 10% share of cross-border flows in direct real estate. The international strategy of the China Investment Corporation, through its focus on indirect vehicles, is leading the way – in a measured and sensitive manner that reflects lessons taken from the Japanese forays into the US and European real estate markets in the 1980s[2].

The role of international capital markets in China's real estate market will be one of fostering increases in market discipline, sophistication and risk management through partnering and knowledge transfer, while China's role in international property markets could become a market-moving and game-changing force.

[2] During the 1980s, outright purchase of trophy assets by Japanese investors in some countries caused unease in the domestic markets.

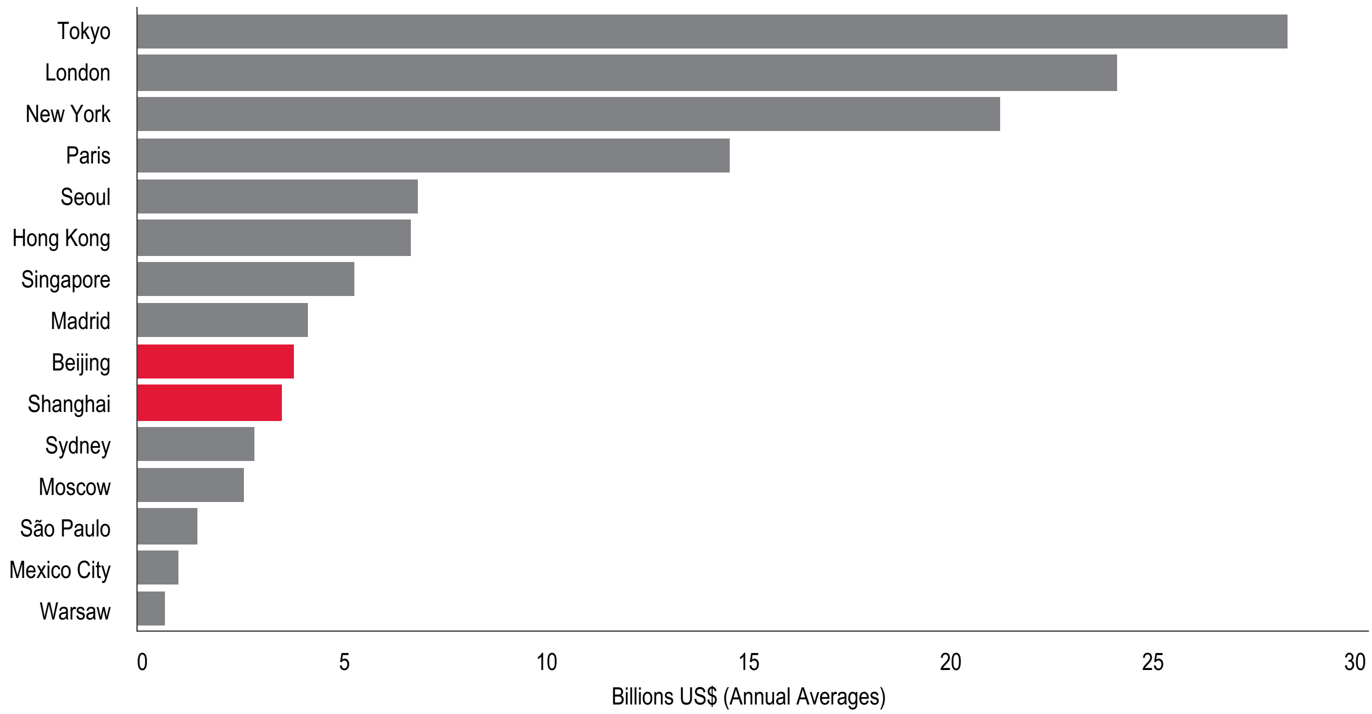
Figure 5: Direct Commercial Real Estate Investment, Q2 2009 – Q2 2010

Rank	Market	Billions US$
1	United States	52.9
2	United Kingdom	44.9
3	Japan	26.2
4	Germany	20.1
5	China	14.0
6	France	13.4
7	Australia	10.5
8	Hong Kong	8.5
17	Brazil	3.3
19	Russia	2.9
25	India	1.3

Source: Jones Lang LaSalle

Figure 6: Direct Commercial Real Estate Investment

Metro Region Volumes, 2007 – H1 2009

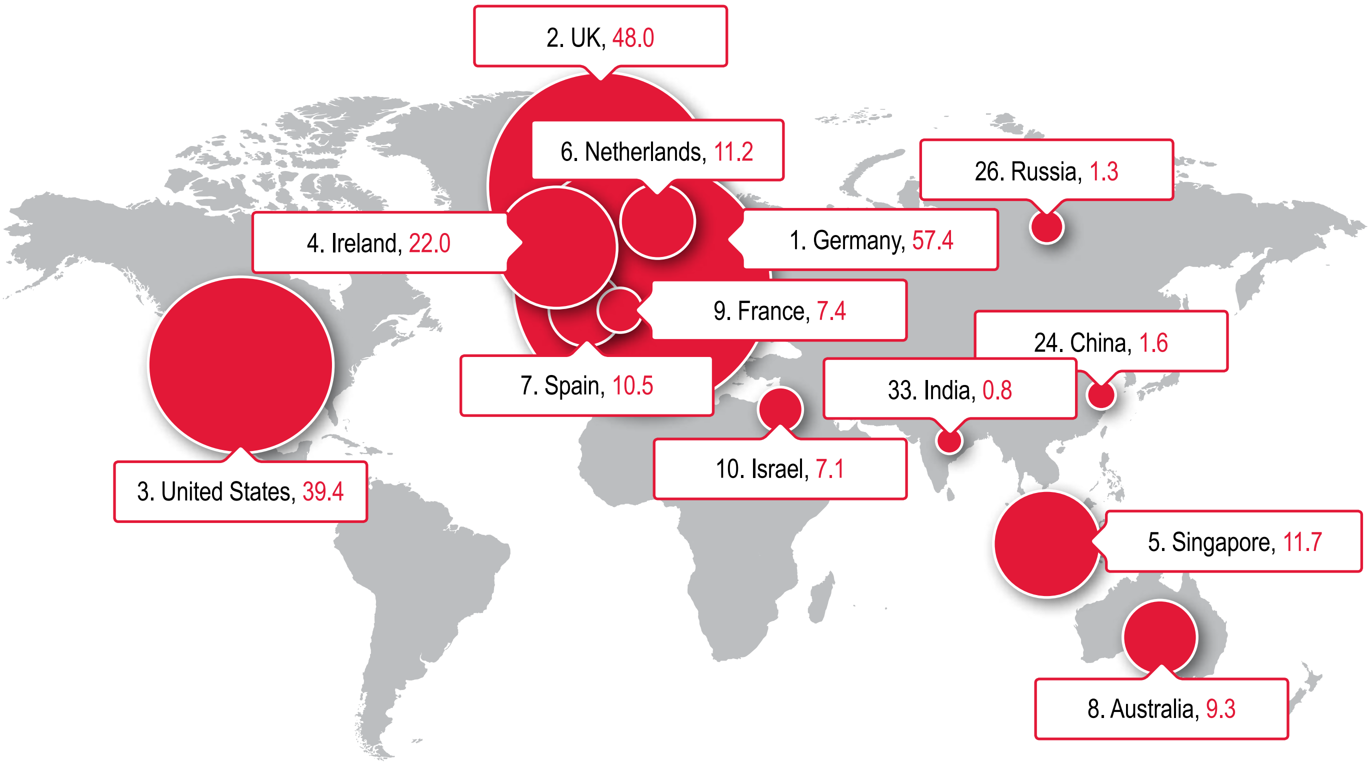


Excludes metro regions with under US$500 million per annum

Source: Jones Lang LaSalle

Figure 7: Direct Commercial Real Estate Investment, 2007–2009

Source of Cross-Border Investment



Top 10 source countries and BRIC countries
Excludes sources of capital not identifiable to a single country
Source: Jones Lang LaSalle

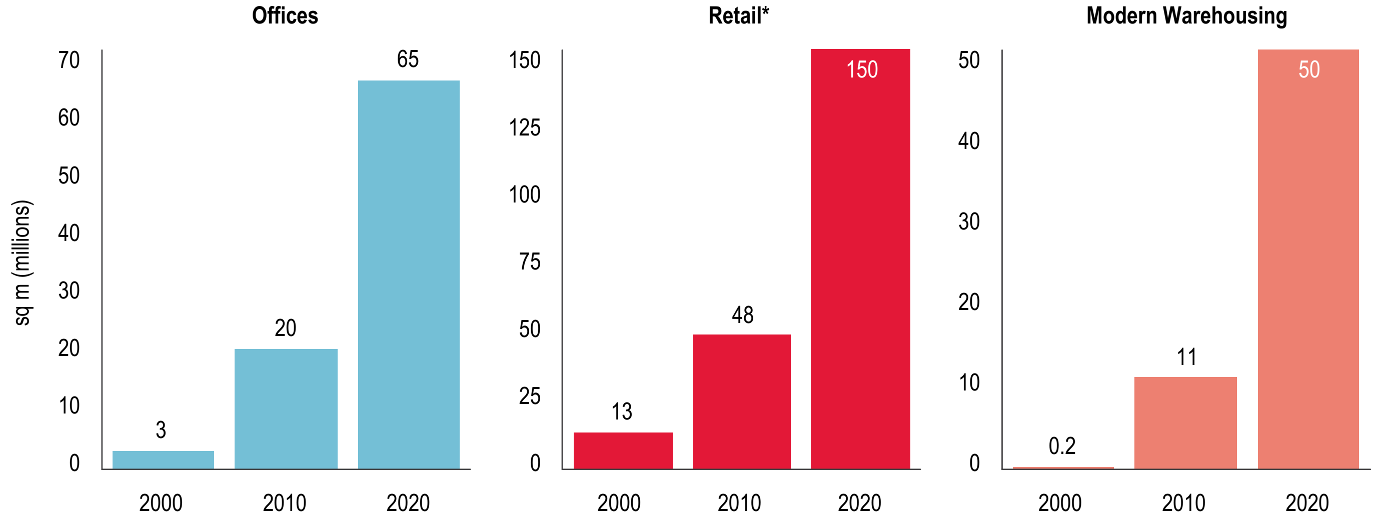
Key: Rank. Country, US$ Billion

Delivering Best-in-class Buildings

The transformation of the commercial stock in China's key cities over the past decade has been astonishing, with the delivery of 17 million square metres of Grade A offices, over 300 major shopping centres and 11 million square metres of modern warehousing – all built largely by the domestic sector. A further 45 million square metres of Grade-A offices, around 100 million square metres of retail and 40 million square metres of modern logistics are projected by 2020.

However, while Tier I cities now provide a broad range of world-class, investment-grade stock, there are three areas that would need to be addressed to move Shanghai and Beijing towards *Alpha* city status:

Figure 8: China's Exponential Commercial Stock Growth



* Includes shopping malls and department stores
Source: Jones Lang LaSalle

Figure 9: Long-Term Office Stock Evolution

Source: Jones Lang LaSalle

Green buildings

There are currently around 70 certified 'green' commercial buildings in China, with a further 330+ buildings registered for certification. This compares to our estimates of around 60 'green' commercial buildings in India, 20 in Brazil and 10 in Russia. By contrast, in response to growing demand from investors and large corporations, the count is close to 4,000 in the US and 3,000 in the UK.

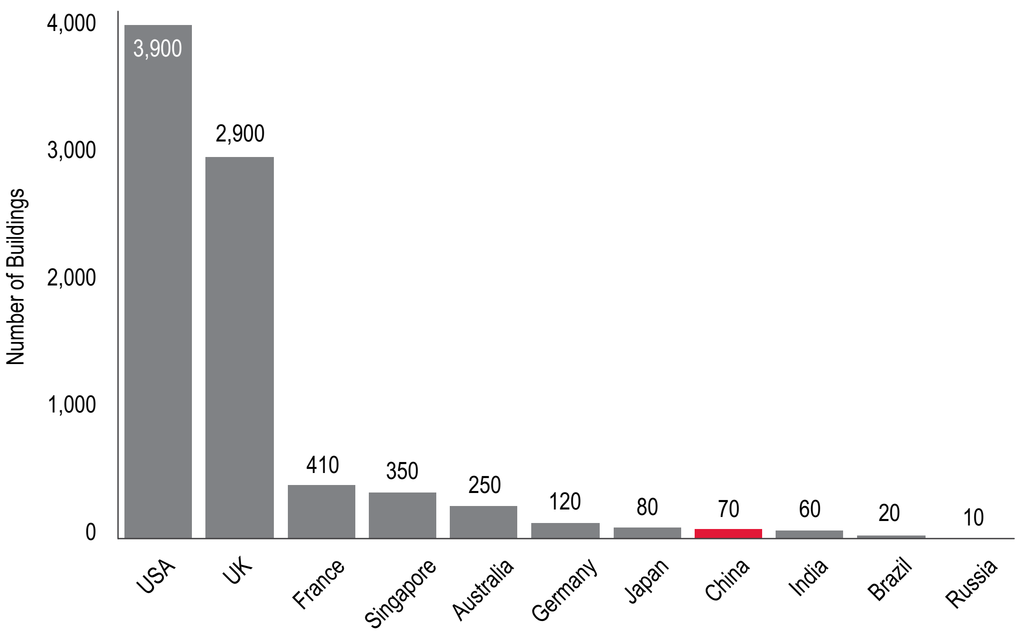
The growth in the requirement for 'green' environmentally-responsible and resource-efficient buildings has led to significant investigations into the costs and benefits of retrofitting existing stock. In cities such as London, Paris and New York, where development economics will be strained over the next few years, retrofitting can be a viable solution.

The opportunity for building energy-efficiency retrofits in China is substantial. But even with potential future legislation as a push factor and demand from multinational corporations as a pull factor, the market still faces a number of challenges including prohibitive technology costs and difficulties in sourcing green building materials. Evidence of ease of letting, running efficiency, of rental premiums and of favourable lifecycle costing for 'green' buildings is mounting elsewhere in the world, and this should help support the case in China.

While we would not expect major retrofitting programmes of the existing stock in China, we would expect a growing emphasis on new 'green' buildings to meet demand and, in time, as part of the central government's commitment to emissions reduction and sustainable development. Buildings such as the Azia Center in Shanghai's Pudong financial district, which became the first LEED EB building in China, will set an example. There are a further eight registered LEED EB projects in the pipeline[3], while the Shanghai government has also recently committed to retrofitting the historic buildings along the Bund.

[3] According to the US Green Building Council

Figure 10: Certified Green Commercial Buildings, 2010



Estimates rounded to nearest 10 units

Sources: National Green Buildings Councils, Jones Lang LaSalle

Efficient planning regimes

Sustainable high-performance buildings are becoming an integral part of the *Alpha* city profile, but China's cities have many challenges beyond ensuring the sustainability of individual assets. Resilience of the physical infrastructure to flooding and natural disaster has become a big part of risk assessment and essential to protecting existing grounded capital. As China's central government has handed much of the responsibility for the creation and implementation of sustainability to its city and provincial leaders, significant opportunities exist to differentiate cities through sustainable development, not just at an individual asset level but also in terms of effective planning regimes.

The robustness of the planning system is an important component in the location decisions of international investors. In China, the planning system has created substantial pockets of speculative-led oversupply. While rapid economic growth will ensure that high vacancies are quickly absorbed, the risks of obsolescence and depressed pricing will continue to concern investors. Significantly, developers are now more aggressively pursuing pre-commitments, which will help.

Planning will continue to evolve, and while we do not expect it to impede corporate expansion across the country, it may make for a tighter geography of interest for investors and developers as they become familiar with the planning approaches and objectives of different cities. Chengdu provides a good example, where plans for the urban centre inside the green belt at the fourth ring road have attracted some of the most prominent international developers and investors, including Tishman Speyer, Sun Hung Kai and CapitaLand. They have not only been drawn to the city's economic and service sector growth potential, but also by the robust master planning laid out by the local government.

Professional building management

An increase in professional building management – i.e. the effective management of a building's infrastructure, tenants and energy efficiency – will boost long-term confidence in building performance, an area where we see international experience as extremely helpful in leveraging value. As the quantifiable benefits emerge, we expect to witness a substantial increase in numbers of buildings under professional management and in the availability of data which will help to extend and improve management practices.

A Robust Corporate Base

Shanghai and Beijing already have a substantial corporate base with virtually every major MNC now represented, as well as an ever growing presence of emerging Chinese corporations. As the hubs of the world's second largest economy in the fastest growing region of the world, the potential for these cities to move further up the global business hierarchy is enormous. Shanghai and Beijing will 'matter' as cities regardless of what happens in the rest of the world because of the significance of their roles in China.

Each city has a clear role – Shanghai as China's pre-eminent commercial, financial and logistics hub and Beijing as the administrative, educational and technological hub. The world continues to watch in awe as transportation and connectivity rapidly improves in road, rail, air and sea – this will help both cities to leverage growth in the domestic economy. The recent expansion of Shanghai's domestic Hongqiao airport and nearby Transportation Hub and the forthcoming completion of the Shanghai–Beijing High Speed Rail (slated for early 2012) represent significant events in the integration of China's primary cities with its domestic economy.

Figure 11: Business Centres – Global Hierarchy

High Order Services – Corporate Representation

	Americas	EMEA	Asia Pacific
Level 1	New York	London	
Level 2		Paris Milan	Hong Kong, Singapore Tokyo, Sydney Beijing, Shanghai
Level 3	Toronto Buenos Aires Chicago	Madrid Moscow Brussels	Seoul Mumbai Kuala Lumpur
Level 4	São Paulo, Mexico City, Caracas, Santiago, Los Angeles	Warsaw, Zurich, Dublin, Amsterdam, Rome, Istanbul, Lisbon, Frankfurt, Stockholm, Vienna, Budapest, Prague, Athens	Jakarta, Bangkok, Taipei, Auckland

Based on corporate representation in high-order services

Source: Globalization and World Cities Research Network

However, *Alpha* city status in the eyes of the world's high-order service providers, demands ever more of its physical and business environments. According to the World Economic Forum[4], there is room for improvement in a number of areas including restrictions on capital flows, tariff barriers and red tape involved in starting a business. As both Beijing and Shanghai work on their competitive profile as aspiring *Alpha* cities, we may see selective policy reviews to encourage 'ease of doing business' – but only to the extent that domestic companies are not disadvantaged. This may be to the advantage of Tier II and III cities where the lower cost of doing business will be increasingly important to attracting major corporations and inward investment.

Shanghai has made a remarkable journey, but in maturity terms and especially with regard to ambitions as a global financial centre, there are issues with obscurities in its financial system, an RMB that is not freely convertible, restrictions on foreign company listings, a limited range of financial instruments and poor corporate governance for listed vehicles. But despite these challenges, few would dispute the place Shanghai has established in record time as one of the world's most important cities.

While Shanghai is firmly established as China's most international city, Beijing has developed a unique position, not only as the nation's political, cultural and technological hub, but significantly, as the main headquarter location for China's large and expanding corporations. Its commercial property market will be shaped by the rapid growth of these domestic companies, which could result in Beijing taking a different path to the more internationally-influenced Shanghai.

Figure 12: Global Competitiveness Index, 2009–2010

Rank	City	Index 2009–10
1	New York	5.59
2	Singapore	5.55
3	Tokyo	5.37
4	Hong Kong	5.22
5	London	5.19
6	Sydney	5.15
7	Paris	5.13
8	Seoul	5.00
9	Dubai	4.92
10	Shanghai	4.7
10	Beijing	4.7
12	Madrid	4.59
13	Warsaw	4.33
14	Mumbai	4.30
14	Delhi	4.30
16	Jakarta	4.26
17	São Paulo	4.23
18	Mexico City	4.19
19	Istanbul	4.16
20	Moscow	4.04
21	Cairo	4.15
22	Lagos	3.65

Source: World Economic Forum

[4] The Global Competitiveness Report 2009–2010, World Economic Forum

A New Model of Success

China's rapid growth, long-term planning, infrastructure investment and targeted encouragement of industrial development have created a new model that is increasingly being studied and adopted elsewhere. Over the next 10 years China's largely domestically-driven real estate market will continue to evolve, but it will do so at very different levels of sophistication on a city-by-city basis and in a manner that suits the needs of fast delivery of substantial volumes of property appropriate to each urban environment.

While maturity and its established market characteristics do not all sit comfortably with China at this point in its urbanisation and evolution, if achieving *Alpha* city status for its Tier I cities is important, then it will need to:

- **Improve transparency** in the longer term to help both domestic and international players, in terms of costs and timing of deals and to help mitigate risks.
- **Develop further connections with international capital markets**, both to offer more diversity in vehicles and to facilitate capital inflows, as well as to help prepare China's money to find strong footholds abroad.
- **Deliver an ambitious 'green' building agenda, underpinned by professional building management**, which will not only support the government's emission and energy targets, but will greatly help to improve the attractiveness and reduce the operating costs of individual assets.
- Create an environment where China's cities are not only relevant to the world's businesses but where the rest of the world is relevant in China's cities. To achieve *Alpha* city status, a city needs to have **high-order global connections**.

We also believe that the rest of the world, both developed and developing, should closely observe the processes that are allowing the greatest urbanisation in history, as well as arguably the fastest modernisation of a nation. From a real estate perspective, China is able to implement some of the best practices to which many countries can only aspire, such as providing the infrastructure before the buildings, making swift planning decisions, being bold with scale and architecture and actually constructing eco-cities. Sometimes the outcomes are not always those that are intended, but the ability to take an idea and remould it with Chinese characteristics is a skill to be watched.

As China's real estate markets continue to grow and progress, we will find that the 'rule book' will change. Beijing and Shanghai may not meet the exact criteria for *Alpha* cities as currently defined, but their influence on China and on the rest of the world is clear, growing, relevant and instructive. The terms 'mature' and 'developed' may no longer be relevant in describing China's new breed of cities whose essence is about mould-breaking, constant change, vibrancy, morphing and re-invention and providing a new model of success.

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