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2ND ANNUAL ULI ASIA PACIFIC SUMMIT
Asia’s Urban Transformation: Reshaping Cities
JUNE 4–6, 2013 • SHANGHAI
The ULI Asia Pacific Summit is quickly becoming Asia’s premier real estate industry event.

Over 250 of Asia’s top real estate leaders attended the 2012 summit in Beijing, representing more than 200 companies from 18 countries across the region and around the globe. Join us in Shanghai June 4–6, 2013, so you can participate in the conversations and make connections essential for your business and get the latest information on real estate trends.

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“ULI is the one place for land use professionals to engage in candid conversation, analyze market trends and best practices, and discuss the future challenges facing urban development. This knowledge-sharing network is helping ULI make a positive difference in how Asia’s cities are growing.”

—PETER RUMMEL, CHAIRMAN, ULI

“The conference is excellent, especially for the first conference in mainland China. The fact that it was in Beijing was effective in bringing nontraditional players to these types of events. It was a very impactful event with very high-level people.”

—PHIL KIM, MANAGING DIRECTOR ASIA, THE JERDE PARTNERSHIP

“The ULI Asia Pacific Summit is what I can clearly say is the best conference that I have ever attended in Asia. The quality of the participants and the energy was unprecedented. I think that I doubled my network of key contacts both in China and from abroad.”

—RICK VOGEL, SENIOR VICE PRESIDENT, CHINA/GENERAL MANAGER, IVANHOE CAMBRIDGE CHINA
The 2012 ULI Asia Pacific Summit took place May 16 to 18 in Beijing. It marked the start of ULI’s collaboration with the China Real Estate Chamber of Commerce, giving attendees access to information, resources, and business contacts essential to conducting business in mainland China. The following is an overview of the information presented at that conference.

Constraints on usable land in China will force changes to transportation and lead to higher-density development.

In his keynote address, Wu Jiang, professor at Tongji University, explained that the tremendous opportunities seen by real estate developers over the past 25 years—when the share of the Chinese population living in cities rose from 15 percent to 50 percent—are beginning to dwindle. Although China is vast, “there is no more land to be built. . . . The usable land of China per capita is one-sixth” that of the United States. This lack of developable land creates challenges for already-massive cities like Shanghai, where the population rises by 500,000 per year. The solution may be to redevelop urban sites at higher densities and to stress the importance of an efficient public transportation system.

Singapore offers a roadmap for keeping high-density cities livable—an example that will reshape development in other megacities as the world’s urban population doubles over the next four decades.

“By 2050, the world’s population in urban areas will almost double from 3.3 billion to 6.4 billion, and Asia in particular will face the brunt of that urbanization,” said Dr. Cheong-Chua Koon Hean of Singapore’s Housing and Development Board. “Eleven out of 21 megacities, with a population of over 10 million, are in Asia.” This rapid growth has led leaders in Asia’s cities to focus on identifying strategies that allow for increased population without sacrificing livability. Singapore, as an island nation
unable to expand geographically, has been particularly active and successful in its quest to create a city that is both highly dense and highly livable. Cheong cited three policies that have succeeded in Singapore: “a long-term and comprehensive approach to planning; a focus on compact, high-density developments; and the inclusion of green cover, which in Singapore increased from 35.7 percent to 46.6 percent between 1986 and 2007 even as the population grew from 2.7 million to 4.6 million.”

Quality of life, not productivity, is the key to successful urban development.

“What are the most important issues and challenges over the next generation of development in Chinese cities?” Gary Hack, professor emeritus of city and regional planning at the University of Pennsylvania School of Design, asked at panel discussion during the summit. Panelists focused on the need for future developments to be better designed and sustainable. “In the past, we only considered the productivity of urban areas. In the future, we should think about the productivity and the quality of life in urban areas,” said Dr. Tan Zong-Bo, professor and deputy director of the Urban Planning Department at Tsinghua University. “We can learn from traditional Chinese villages and towns because they are already quite sustainable.” Echoing that sentiment was Sean Chiao, executive vice president of AECOM, who said, “As China is set to overtake the U.S. as the dominant global economic power, the next ten years are critical. Quantity [of real estate development] is unavoidable; in the coming years, it is really about quality, or the balance between quantity and quality.”

Partnering with experienced developers and incorporating public transportation are essential to get funding for mixed-use projects.

As the number of mixed-use projects in Asia rises, developers are increasingly able to tap the global experience of local professionals to ensure the success of their projects. Carolina Y.C. Woo, CEO of the CW Group, applied a lesson she learned from London’s Canary Wharf when working on Shanghai’s Xintiandi: “When you don’t have public transportation, no matter the mixed-use project, it won’t work.” This project, in turn, inspired Mitsui Fudosan’s Roppongi Hills project in Tokyo. “Xintiandi was partially complete and was popular all over the world, and we were so impressed by the inflow and outflow of people to the project,” said Yoichi Kaga, general manager of the Hong Kong branch of Mitsui Fudosan. “Our site had been isolated from the local community for more than 300 years. We could have chosen to keep the land isolated; however, this was the first chance for the site to be open to the public.” Bringing an investor’s perspective to the discussion, Hoke Slaughter, head of Morgan Stanley Real Estate Investing, Asia, described what he looks for in potential mixed-use developments. “The first thing we look at is the demonstrated capability and experience of our development partner. Full stop. Everybody wants to be a mixed-use developer, but very few people can be a mixed-use developer. The reason why is that it is a high degree of difficulty.”
Governments must provide access to the population and the site, as well as a vision for the project, to ensure success.

Corbett Wall, senior vice president of AEG China, said that in collaboration on projects with local governments, a clear understanding of what each party can and cannot offer is needed. “Often local governments want us to act as an anchor tenant or to have an iconic building within a city. One of the first things we discuss with governments is that we would love to be here, but there are some elements that we can’t bring to the table—like a local population that is interested in our content. Second is access to the venue. Third is the local vision of what they would like a project to be.” It is only after a local government addresses those last issues that a given project achieves a “level of certainty” and investors begin to show interest. In the case of Tongzhou New City outside Beijing, that “level of certainty” was demonstrated by “the fact that we’ve been allowed to engage in conversations with all of the different agencies—for instance, working with the transportation group to bring transportation to a site that was to be a destination for entertainment and conventions,” said Vaughan Davies, principal/director of urban design at AECOM.

Calthorpe offers eight steps to unsnarl traffic and create viable, non-auto transportation options—before gridlock stalls growth.

In his keynote address, Peter Calthorpe, founder of Calthorpe Associates, said the best way to reduce the carbon footprint of new developments in China is to design projects that encourage travel by foot, bicycle, and public transit. “The superblock has come to be the dominant development pattern [in China], and it frustrates pedestrians. Large blocks mean large streets, and large streets are not pedestrian friendly, and more and more dependence on the automobile results.” Calthorpe offered eight planning suggestions that should be implemented in China sooner, rather than later, because, although only 12 percent of trips in China are currently made by car (versus 86 percent in the United States), “the same congestion problems are already arising.” His suggestions are:

1. Develop neighborhoods that promote walking.
3. Create a dense network of streets and paths.
4. Support high-quality transit.
5. Zone for mixed-use neighborhoods.
6. Match density to transit capacity.
7. Create compact regions with short commutes.
8. Create energy-efficient buildings and community systems.
Constrained capital will continue to be a problem for mixed-use projects, but these constraints open new opportunities for well-funded companies and potential partnerships if the value proposition can be clearly demonstrated.

Whereas many panelists focused on the tremendous opportunities for massive mixed-use projects in China, Simon Treacy, group chief executive officer of MGPA, brought the conversation back down to earth by asking, “Who is going to pay for all of the things that have been discussed today? Private equity real estate funds typically don’t have enough money to take down these large public/private projects. Typically, the private equity funds take a building or a few buildings, but it is hard for them to put more than $150 million at a time into a deal. There is a shortage of capital; it’s not going to get any better anytime soon.” It is not only the constrained capital markets that make investments in China difficult, said Richard T.G. Price, chief executive, Asia Pacific, CBRE Global Investors. “If the people whose money we are investing can’t find a particular city on a map, it’s very difficult for them to get comfortable that we’re deploying their capital in the right place. Now that’s got nothing to do with the fundamentals of the opportunity. The opportunity might be great, but it adds an extra hurdle for us.” In contrast with Treacy and Price, Raymond Chow, executive director of Hongkong Land Limited, said, “The constrained capital markets are an opportunity for firms like Hongkong Land that have very strong balance sheets.”

Cities wishing to grow must be able to attract and retain creative talent.

Tom Murphy, ULI senior resident fellow and former mayor of Pittsburgh, Pennsylvania, United States, gave the keynote address on the second day of the summit. He said innovation, rather than manufacturing, is now driving the global economy, and successful cities will be those in which leaders intentionally choose to attract young creative minds. “The story is intentionality: cities must make the choice to become something other than what they were. They must invest in a different sort of way, invest in their infrastructure, require developers to build different kinds of development than what had been done. Young people want to go to the bright lights. They want to be in Beijing, Hong Kong, or Singapore. The challenge of other places is how do you build those bright lights that make those creative young people want to stay in your city.”
Panel examines key findings from the ULI China cities survey.

Andrew Ness, principal consultant for ULI, reported the results from the 2012 China cities survey, presented in the ULI report *Mainland China Real Estate Markets 2012*. In its second year, the survey covered 28 cities, up from 16, with most of the new cities located in western China, where the central government is pushing for investment. The results were gleaned from 138 questionnaires and 45 interviews with industry professionals. Of the respondents, 40 percent represented mainland Chinese firms and 60 percent were from international firms active in the region. Among the findings and comments presented during a panel discussion:

- The cities reported in the survey to have the best investment prospects were Shanghai, Shenzhen, Guangzhou, and Beijing. Beijing and Dalian saw their prospects decline the furthest from a year earlier.
- Generally, respondents were not concerned about a slowdown in the Chinese economy, but rather about the changing regulatory environment. Said one investor, “One year here is like eight years in the United States in terms of policy change.” The past two years of government policies designed to slow residential prices have benefited well-capitalized foreign investors, but have caused mainland developers to reevaluate their residential development–focused business plans.
- The political turmoil in Chongqing was a topic of conversation, with Deng Wei, president of Century Bridge Capital, expressing surprise that the survey showed such a rapid decline in the city’s investment prospects. Said Ness, “It’s not that the companies already in Chongqing regretted investing there, but new companies expressed hesitation about entering the market.”
- All the panelists remain optimistic about investment opportunities in Chinese cities in all tiers. Retail, in particular, is an attractive product type. “Retail is really exciting in China,” said Ng Beng Tiong, CEO of ARA Private Funds and ARA Managers (Asia Dragon) Pte. Ltd., and director, corporate office, for ARA Asset Management Limited. “The urbanization rate is remarkable: 1 percent of the population (or 13 million people) is moving to cities every year. Second-tier cities are following the retail evolution seen in first-tier cities—from street shops to department stores, and now shopping malls. International retailers are moving from first-tier to second- and third-tier cities.”