

September 2004

Contact:

Rosemary Feenan
European Director
Tel. +44 (0)20 7399 5166
Rosemary.Feenan@eu.jll.com

Governance Matters – The First Jones Lang LaSalle City Governance Survey

Executive Summary

A complex system of factors and dynamics can be identified to explain what is happening to cities that are exposed to global competition. Through our World Winning Cities research programme, Jones Lang LaSalle has developed a framework for understanding what makes a competitive city. The World Winning Cities model has identified what “city users” (e.g. investors, or tourists) and “city-residents” (e.g. corporate occupiers, or residents) require from a city, both as a business location and a high quality living or cultural environment. This offer encompasses business, cultural and human attributes as well as real estate provision. A city’s competitiveness is the result of the interaction between these assets and the strength of its governance structure.

But what is city governance? Central to the concept of governance is the notion that a multitude of different actors are involved in the city governance process. With increasing financial constraints and fragmented responsibilities, only a collegiate effort can improve city competitiveness. In this context an accurate depiction of how a city is governed centres on a networked system of *Govern-ance* rather than *Govern-ment*, in which all sectors (public, private and other social organisations) and geographies (city, regional and national) interact in the decision making process in order to produce an effective and efficiently managed city, as well as promoting the city at a global level¹. This perspective has important implications for city strategists, planners and real estate players, because once adopted, it involves all of them in a complex and networked process of decision making that can shape and change the future of their city.

Does Governance Matter? Our Rationale and Approach

We believe that governance will continue to grow as a primary driving force of city competitiveness and a crucial part of the change occurring in their real estate environment. For this reason Jones Lang LaSalle has launched the **City Governance Survey** to inform our understanding of city governance; to provide a tool for the formation of effective city strategies, and to help investors and developers align their real estate assets with a city’s strengths, its brand and changing built environment. Our methodology facilitates the international comparison of city governance, successes and challenges, and highlights the many opportunities that a “governance approach” can offer dynamic city strategists and responsive real estate players.

What is ‘good’ city governance and does it matter? Can good city management and marketing influence the overall competitive position of a city in the global urban hierarchy? How can a city leverage on its planning and spatial strategies to attract real estate investors and occupiers and thus enhance its competitiveness?

In the absence of a reputable, comprehensive third party source of information on city governance, we have designed and conducted a global survey to assess city governance and its impact on real estate.

The survey aims to:

- Understand the contribution of governance to the overall competitive position of a city in the global urban hierarchy.
- Highlight the implications of city governance from a real estate perspective.
- Build a governance analysis that facilitates global comparisons of city governance performance, especially from a real estate market point of view.

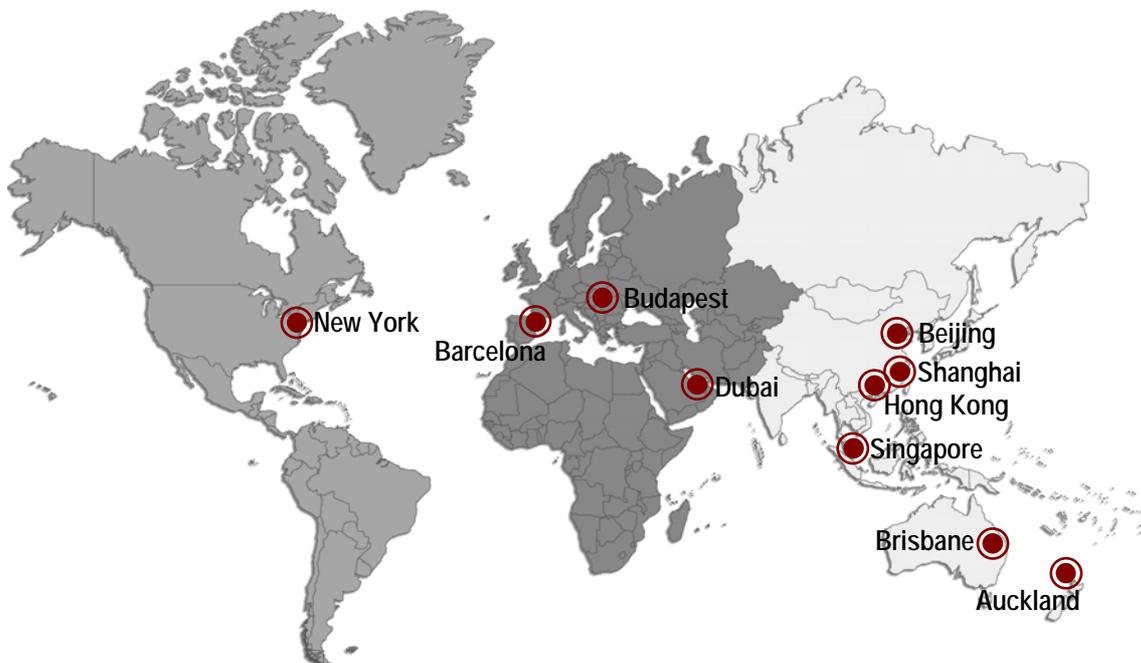
¹ Institute of Governance (2003), Policy Brief N.15.

The Jones Lang LaSalle City Governance Survey – Key Highlights

To better understand the way governance works across major cities, this paper presents the preliminary results of our initial survey of 33 cities worldwide and introduces our views on the role of governance as a springboard for urban competitiveness – our analysis presents successful cases of city governance and offers a global view on the challenges cities have to face in this respect. The key highlights are:

- Cities with ‘good governance’ are spread across the globe. A very mixed set of cities exhibit features of successful governance, ranging from “world cities” such as New York, to transition and developing cities such as Budapest and Beijing.
- A number of the “Rising Urban Stars”², identified previously by our World Winning Cities research, feature amongst the most successful experiences of city governance (see Figure 1). This re-confirms the link between effective governance and emerging city competitiveness.
- We believe that cities with a successful governance experience are those that show both high quality of city management and a strong marketing capacity. Amongst these we have highlighted Singapore, Barcelona and Dubai. Interestingly, two out of these three cities are “city states” and are characterised by their prominent regional position and their cultural diversity.
- Chinese cities show unexpected autonomy in terms of their capacity to allocate financial resources, as well as raising resources according to their spending priorities. Chinese municipalities are free to raise revenue and invest in projects up to 20 million USD without central control. This autonomy has encouraged a large number of infrastructure developments in most Chinese cities. The quality and sustainability of these projects is still to be tested.
- The best performers in terms of city marketing capabilities are those that are capable of building a shared “city-vision” and are characterised by a consistent approach across all agencies involved in marketing the city.
- Dubai and Barcelona are amongst the best examples of cities that have used buildings and events as catalysts and icons to actively promote the city-image internationally.

Figure 1: City Governance – Successful Experiences



² See Jones Lang LaSalle (2003), Rising Urban Stars - Uncovering Future Winners.

Why does Governance matter to the Real Estate Sector?

Good governance is a crucial lever that cities can utilise to preserve or enhance their competitive position. It requires the involvement of all players that have a role in local decision-making. Real estate players are a key part of this community.

- We believe that cities can improve their competitive position by acting on their governance strategy, as cities such as Dubai and Singapore demonstrate. This implies assessing their city's competitive profile, benchmarking against peer-group competitors and implementing a management and marketing strategy that enhances the city's competitive strengths.
- The growing degree of public-private partnership required to build the competitive city, make it increasingly important for the real estate industry to align its objectives to those of policy-makers and planners in order to maximise the effectiveness of their actions. One of its applications is for example in complex, large-scale regeneration projects. Our governance analysis is a first step towards this alignment process.
- The real estate sector has a fundamental role in shaping and developing the competitive city. This involves the delivery of an attractive and efficient built environment for investors, corporate occupiers and residents, and by representing the 'city vision' through iconic buildings.
- The physical environment can be used effectively as an asset to promote the city internationally but only when it reflects the current, as well as future "city offer". Analysing strategies and comparing best practice is a fundamental aspect of building a competitive "city offer".

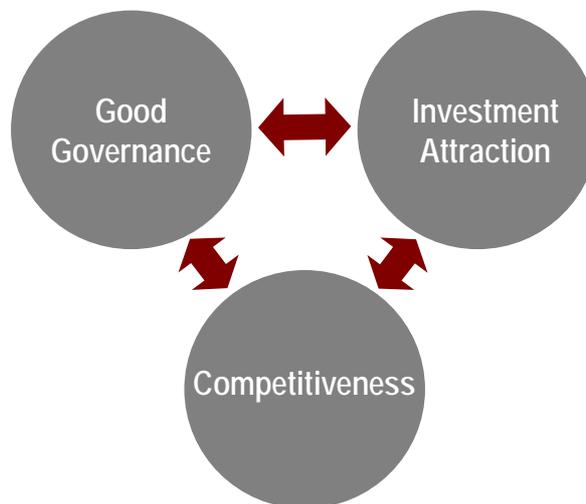
Jones Lang LaSalle City Governance Survey, Working Paper

What is City Governance?

In simple terms, governance can be explained as “a process of decision making and the process by which decisions are implemented (or not implemented)”³.

Over the past 30 years we have witnessed in varying degrees the redistribution of power from central governments to local authorities in many countries around the world. City-regions have been granted increased autonomy in their capacity to raise revenues and implement their own policies with a clear focus on improving their economic position. Pressures on national finances have forced central governments, especially in Europe, to rationalise expenditure and work in partnership with the private sector to deliver the service that an increasingly demanding urban population requires.

Figure 2: City Governance and City Competitiveness, A Virtuous Circle



These financial pressures have often caused a reduction of central government subsidies and financial transfers to the local level. As a consequence, cities have found themselves increasingly in competition to find new resources to compensate for the reduction of top-down government transfers. But city competition is not only on a financial level. For example in a world of more mobile resources, cities have found themselves competing with each other in order to retain and attract the best people required to drive growth in the so-called “knowledge economy”.

Globalisation has had other impacts on local economies, forcing some cities into a path of de-industrialisation that has not yet been completed and the consequences of which have not been completely resolved in social and physical terms. Local authorities in many parts of the world have had to face social problems linked to high unemployment as well as finding viable ways of regenerating vast areas of brownfield land abandoned by industry. Moreover the increased pace of economic change has made competitive advantage less sustainable.

In such a competitive environment, city authorities and other local public institutions are charged with enhancing the competitive position of the city-region. The idea of governance is, in many ways, a response to these emerging pressures that are explicitly or implicitly leading localities to compete economically against near neighbours as well as with faraway city-regions in their “global-league” (Figure 2).

³ United Nations (2000) Economic and Social Commission for Asia and the Pacific, *What is Good Governance?*

The Players Involved

Central to the concept of governance is the notion that a multitude of different actors are involved in its process. With increasing financial constraints and fragmented responsibilities, only a collegiate effort can improve city competitiveness.

In this context, an accurate depiction of how a city is governed centres on a networked system of Govern-*ance* rather than Govern-*ment*, in which all sectors (public, private and voluntary) and geographies (city, regional and national) combine to produce an effective and efficiently managed city, as well as promoting the city at a global level. As Figure 3 illustrates, city management stops being the result of hierarchical authority to be re-oriented toward the collaboration, management and coordination of all local forces, energies and players.

Figure 3: City Governance, A Networked System



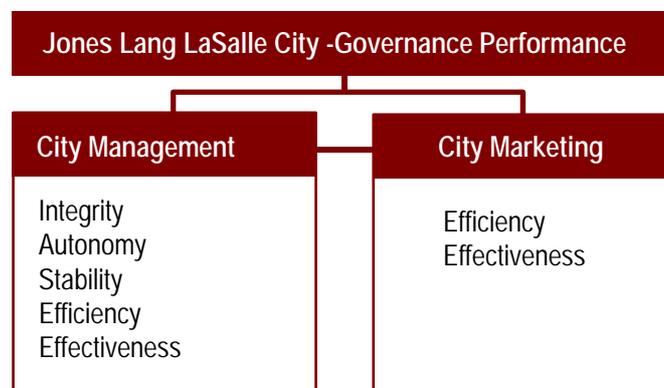
Participants in city governance take on different roles:

- Local governments have the most significant coordinating role in the city. They play a fundamental role in urban competitiveness by determining the quality of the microeconomic environment and contributing to the creation of a favourable location to attract mobile capital, talent and investment.
- The other levels of government (state/regional, central and supranational) have a less significant direct role on city economies, concentrating mostly on creating a strategic policy framework and facilitating the “creation of place” through financial incentives.
- The private business sector will contribute through its financing capacity and business expertise by working independently or in partnership with the public sector. Private capital will be attracted by a favourable business and regulatory environment but also by transparent markets characterised by “controllable-risk”. **Real estate** capital has an important role to play as part of these inflows.
- Individuals will contribute to the complex urban competitiveness through their action as residents and employees. Their participation in local governance is largely influenced by the maturity of the democratic process in place in the city itself.

Jones Lang LaSalle City Governance Survey

Governance is clearly a complex issue, and a full debate on the subject would cover a very broad range of questions ranging from social participation, environmental sustainability through to the business environment and taxation. For the purposes of this survey we have assessed those components of governance that create a favourable environment for real estate players⁴. In this context, we consider two elements of governance as vital: 'City Management' and 'City Marketing'.

Figure 4: Our City Governance Model



The Jones Lang LaSalle City Governance Survey assesses the quality of city management based on five key measures relating to: physical integrity, autonomy, stability, efficiency and effectiveness, as well as two measures relating to the efficiency and effectiveness of city marketing (see Figure 4 above).

For each measure we set out three questions: an "Opinion Question", "Factual Evaluation" and a "Real Estate Factual Evaluation". Qualitative comments on each question were collected.

The survey was carried out by our network of researchers in 33 cities across the globe (see Appendix for city coverage), and focus groups were set up to respond to the questions. The opinions of external experts, both academics and practitioners were also canvassed. To ensure a high degree of consistency, our regional coordinators ran data verification checks on the survey responses. We then grouped cities showing similar characteristics or traits on different components of governance.

The preliminary results and observations of this initial survey are set out overleaf.

⁴ Other organisations have approached this task from a different perspective with a different definition of good governance. For example, the approaches adopted by the United Nations and World Bank place greater emphasis on issues such as community participation, equity and sustainability.

Where the Cities Stand – Highlights on Governance Successes and Challenges

Initially, we have assessed the 33 cities on the basis of the overall score for the two components of good governance – the quality of city management and city marketing capacity.

We grouped cities in three categories – “Successful”, “Balanced” and “Challenged” (Figure 5), and repeated this exercise for both components of governance. We then isolated some outliers, places that show a successful approach to city-management as well as city marketing. Amongst these cities we find Singapore, Barcelona and Dubai. Interestingly in the same group feature a number of “Rising Urban Stars” identified in earlier World Winning Cities analysis, such as Shanghai, Budapest, Brisbane and Beijing. This emphasises the relationship between good governance and enhanced city competitiveness and reinforces our views on the growing importance of including the quality of governance in the assessment of city prospects.

The initial results of the survey show a very mixed set of cities both in terms of size, geographical spread and economic maturity with “successful” city governance. We have not found a significant correlation between successful governance and city size or with wealth. According to our definition, we can find examples of “successful” governance across the spectrum of city types, including established world cities, transition cities and developing cities.

Figure 5: Jones Lang LaSalle Governance Survey – Key Results

Successful Performers

Singapore
Barcelona
Dubai
New York
Shanghai
Budapest
Brisbane
Beijing
Auckland
Hong Kong



The success stories vary a little when we take a closer look at the two different components of city governance - "city management" and "city marketing" (Figure 6). According to our thesis, cities that possess both elements have the best chance of successfully leveraging their competitive advantages. Amongst the cities that we have consistently grouped in the "successful cases", in relation to both elements of governance are Singapore, Barcelona and Dubai.

Moreover, by isolating the two components of governance, we can illustrate some evidence of a relationship between city size, city wealth and governance performance, as summarised in the correlation matrix in Figure 7:

Figure 6: Governance Components

Successful Performers

City Management	City Marketing
Singapore	New York
Auckland	Shanghai
Dubai	Barcelona
Barcelona	Singapore
Hong Kong	Beijing
Brisbane	Dubai
Paris	Budapest
Dublin	London
Cape Town	Berlin
Tokyo	Frankfurt

Figure 7: Governance Correlation Matrix

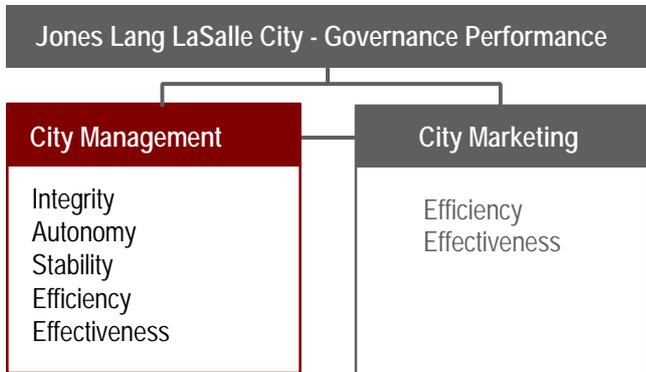
	Size	Wealth
City Management	Slightly Negative	Slightly Positive
City Marketing	Neutral	Neutral

The correlation matrix allows us to highlight some of the interrelation between governance and the city's physical and economic attributes:

- **City Management and Size:** we believe there is an "optimal" size for cities above which they become difficult to manage and less efficient. This is especially true when we talk about the efficiency of property markets. Mega cities often experience problems of congestion and high costs. In contrast, if a city is too small it is less capable of pulling together the forces and resources that create the "governance" network. Smaller cities have to compensate for the lack of real estate product and the limited scope of their markets in order to attract investors and corporate occupiers.
- **City Management and Wealth:** Wealthier cities, in general, show a better quality of urban management generated by the availability of financial resources coming through taxation and its re-investment in the locality. But the relationship can also imply that good governance helps improve the competitive advantage of the city and thus its wealth.

In the sections overleaf we will expand on the details of the survey presenting case studies of successful and challenged cities according to our governance measures.

City Management



In our definitions, a “successfully” governed city is one that is administratively integrated, with an autonomous, stable, efficient and effective city management. This also encompasses the capacity of the city to plan and manage the real estate process effectively.

Physical Integrity

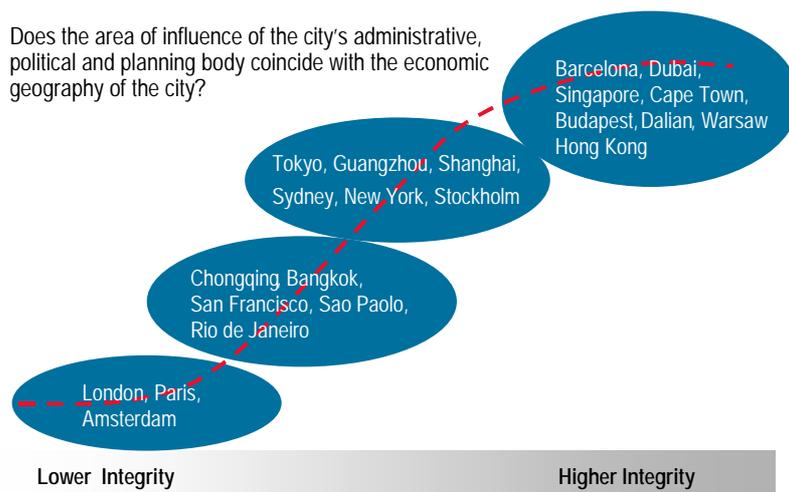
The question of city-boundaries and what geography should be used to measure the economic dimension of a city is an important issue that is hotly debated ⁵. “Physical integrity” refers to the characteristic of cities that show consistency between the geography of political administration and the geography of the functioning economic city-region. In this

case the effects of any policy will benefit the entire area that is supporting the costs.

In our survey three good examples of integrity are Barcelona, Dubai and Singapore; all three have a single administrative and political body whose geographical area of responsibility broadly matches the geography of the city economy. Interestingly, two out of these cities are “city states” and are characterised by their prominent regional position and their cultural diversity - in Dubai for example, over 80% of the population are expatriates. Cape Town also features in the same group after undergoing a local government transition process over the past 10 years that has resulted in the consolidation of 67 separate political entities and 19 administrations into a single municipal entity (Figure 8).

The capacity of a city to rule over its own territory has important implications for its real estate markets. To illustrate this point our survey has considered the number of regulatory planning bodies involved in the development consent process. In cities where there is a single responsible authority, the time involved in obtaining development consent is shorter. A single authority also reduces duplication, improves coordination, and makes the process much more predictable, and thus less costly, for developers.

Figure 8: Governance and City Geographies



Cities that perform well from a purely planning-integrity perspective are Singapore and Dubai. Notable exceptions are London with its complicated and relatively conservative planning process and Paris where the “Préfet” (central government representative body) is in charge of the “agreement”, the first stage in a planning permission for an office completion.

⁵ Cheshire and Magrini (2002), The Distinctive Determinants of European Urban Growth: Does One Size Fit All?

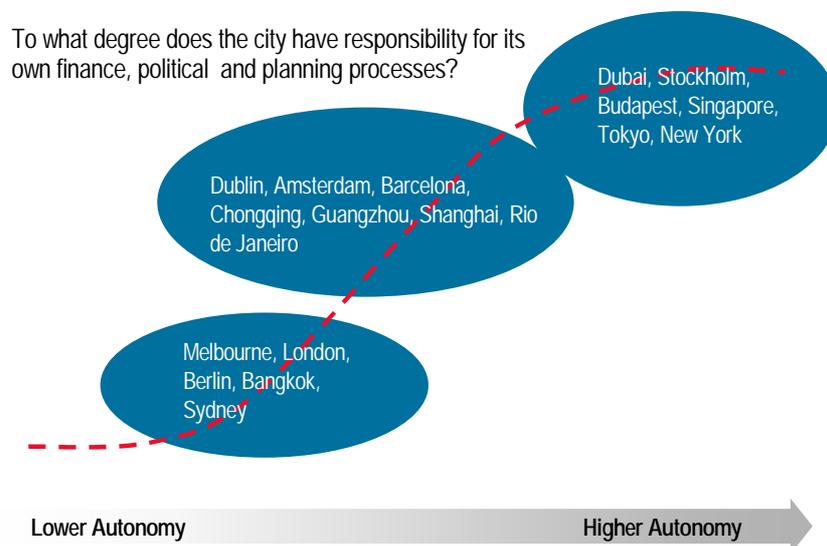
Our approach places emphasis on the importance of adopting the economic region as the spatial unit of analysis, instead of focusing purely on the Central Business District (CBD). Our methodology directs property business attention towards a wider array of activities that normally take place outside the city centre, but nevertheless represents a key competitive advantage for today's city. Production activities, research & development and logistics, for example, are part of a city's function but they are often located on the city's periphery⁶. Also, these functions often have a great impact on the built environment since they occupy large sites, and have shown great potential to act as catalysts for inward investment.

The capacity of a city to govern the geographical space in which these activities are dispersed is therefore fundamental to its competitiveness. Sydney's metropolitan area, for example, has over 25 councils, but there is no administrative body overseeing the 'economic region' as a whole. This represents a concern for initiating a coordinated strategy for issues such as population growth, urban sprawl and transportation.

City Autonomy

We have measured "autonomy" in terms of the capacity of cities to allocate financial resources according to their spending priorities, as well as raising resources to fulfil the same priorities without depending on central government transfers. Both Singapore and Dubai, for example, are autonomous cities; due to their city-state status over 50% of their local public sector expenditure is raised by local public sector revenue sources. We also see Barcelona performing relatively high on overall autonomy as Dublin, Amsterdam and most Chinese cities in our sample do (Figure 9), although these cities are characterised by different level of fiscal autonomy.

Figure 9: Governance and City's Autonomy



To explicitly take into account the real estate dimension we have also considered the degree of autonomy in the management of cities planning processes. Unsurprisingly, most European cities are largely autonomous in this respect, although often central government maintains some level of strategic control. In this respect, Budapest particularly stands out, as its local authority takes the final decision as well as Stockholm where the decision on new developments is completely in the hands of the city, as long as it can be financed.

Chinese cities provide interesting case studies in this respect. Although China is generally perceived as a strongly centralised command economy, in practice for many years several Chinese cities have had considerable autonomy. The four provincial level

⁶ O'Connor (2003), Rethinking Globalisation and Urban Development: The Fortunes of the Second-Ranked Cities.

cities (Beijing, Shanghai, Tianjin and Chongqing) are able to act independently. Chinese municipalities are free to raise revenue and invest in projects of up to 20 million USD without central control and this autonomy has encouraged a large number of infrastructure developments. The major coastal cities have also experimented with issuing local bonds to finance infrastructure projects. Many cities have established special economic zones to attract international investors through a mixture of physical and fiscal incentives. This has helped attract foreign investors interested in physical infrastructure development, regeneration of central-city areas and other new development. The quality and environmental sustainability of these developments has yet to be proven.

With regard to the planning aspects, the degree of autonomy varies from city to city. Perhaps the most complex is Beijing, which has power to make its own decisions but is still strongly influenced by the central government that maintains overriding authority. Shanghai is another special case declared the nation's top development priority, and Shanghai's Pudong area benefits from strong central backing. In part, Shanghai has achieved a special status in the last decade because of the prominence of a Shanghai faction in the national leadership.

In general, the further the geographical distance from the political centre of China, the greater a city's municipal autonomy. This autonomy may be at a cost, as many Chinese local authorities are willing to sacrifice their natural resources in order to attract foreign investors – to do so they promote “image” and speculative developments. This is becoming an endemic problem for many localities in China and one that may jeopardise longer term sustainability as local authorities are judged by the government on the GDP, employment and development growth they achieve⁷.

Financial Stability

Along the same lines, we also considered the financial “**stability**” of cities. With interest rates at all-time lows, many cities especially in the United States and Europe are taking advantage by funding projects (largely infrastructure and development) based on municipal bonds. The cost and thus the affordability of these projects, for both investors and the community largely depend on the rating of these bonds. Bond ratings are comparable to credit scores for a city. Major rating firms, such as Moody's and Standard & Poor, look at a city's overall financial position and then issue a rating to show investment risk. In this context we have taken stability into account because a financially “stable city” will have a higher rating, indicating a more predictable business environment, which is likely to be less risky for real estate investors and occupiers.

In this respect London and Paris perform well in Europe. Both cities are world economic hubs, as well as strategic cores of their national economies. The UK and French central governments have traditionally placed considerable effort on supporting the financial stability of London and Paris, in order to maintain their strategic position. On the other hand both Cape Town and Warsaw have scored poorly. In particular in Cape Town, recent local government restructuring has led to short-term financial instability.

Australasian cities are, in general, financially stable. In particular, Sydney, Brisbane and Auckland have shown high financial stability in the last five years.

Both San Francisco and New York have experienced budget deficits in the last eight years, which have sometimes jeopardised the capability of the city to finance its initiatives. The case of New York is symptomatic: According to the Citizens Budget Commission Report⁸, spending shot up 9% in real terms during Mayor Giuliani's administration (1994-2001), but at the same time the Mayor and Council of New York passed tax cuts that reached 3 billion USD a year, resulting in a budget crisis that left New York with a gap of about 4 billion USD by 2002. The greater autonomy of cities in the US, can largely explain their greater financial instability in times of economic downturn.

Efficiency

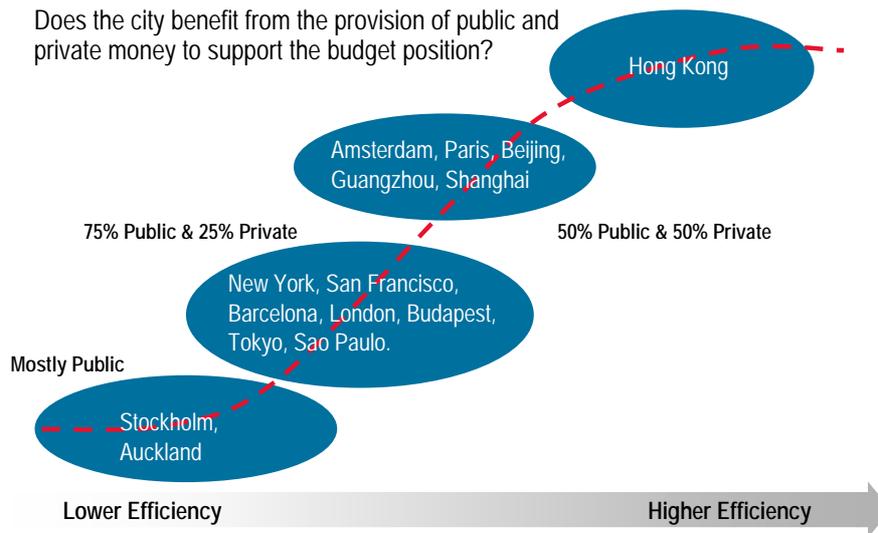
A city is “**efficient**” when capable of providing outputs such as financial management, service delivery or infrastructure investment, in the best way given the resources available. There are many ways through which the outputs can be delivered, mainly through local and central government structures, Public-Private Partnerships (PPP) and non-profit organisations. This definition of output provision that involves all the players in the city is very much aligned with the idea of good governance resulting from the concerted action of a network of players. The efficiency of such a model derives from the larger amount of resources that a mixed model

⁷ James Kynge - FT, Tuesday 27th July 2004.

⁸ Citizens Budget Commission is a non-partisan business support group. Source: [Newsday.com](http://www.newsday.com), (2004)

(public/private) is capable of injecting in the system, as well as the better allocation of tasks amongst different stakeholders. In the USA the private component of the partnership has traditionally been considered strong, although in our analysis of US cities, San Francisco and New York show a prevalence of public funding in their public-private mix (around 75% public and 25% private). In Europe it is only in the past decade that PPP have been used extensively, especially in the UK where "partnerships" was the policy buzzword of the 1990s.

Figure 10: Governance Efficiency and Finance



Cities across our survey still largely support their budget position through public funds. A little surprising once again is the result for the Chinese cities for which resources are on average 50% public and 50% private. The exception is Hong Kong, which shows a mix of fixed investments strongly biased toward the private sector (about 25% public and 75% private). At the other end of the spectrum we can find Stockholm and Auckland where very little private money has been mobilised (Figure 10). We believe that efficient governance should encourage increasing collaboration between public and private sectors in various stages of the economic and physical development from financing to service delivery.

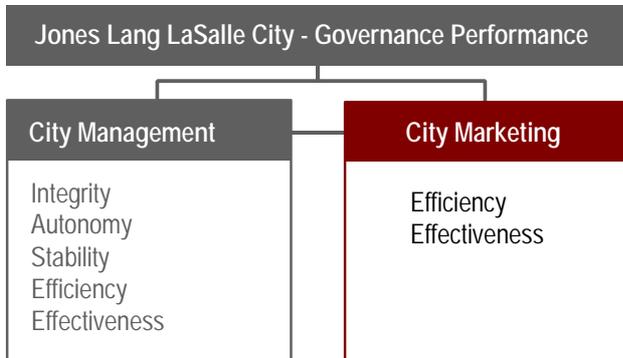
When efficiency is measured in terms of the provision of a broad range of public sector services most cities in our survey have experienced favourable service provision. Nevertheless, these positive performances do not necessarily correspond to an efficient planning system as emerging cities in China and Central and Eastern Europe exemplify. It can still take over one year just to obtain a necessary consent for a new office building in the CBD. This suggests that there are opportunities that are not appropriately leveraged in many cities due to lack of efficiency of the planning process.

Effectiveness

We have also assessed governance "effectiveness" or the capacity of the local government structure to act in a way that positively affects the city. Political leadership and transparency are pre-requisites of effective governance. The cities covered by this survey have scored well in terms of providing political leadership. Cape Town and Warsaw have experienced a period of political instability over the past decade that has affected economic policy planning and delivery. Cape Town now appears to be moving into a period of relative stability.

Transparency, both at a general business level and at a specific real estate level, directly influences governance and therefore city competitiveness. The availability of comparable market information and a fair and transparent financial, regulatory and legal environment lie at the base of any investment decision. Cities in Australia and New Zealand, offer amongst the most transparent business and real estate environments in the world. Their real estate markets are characterised by a favourable and transparent legal framework that has encouraged cross-border investment. In particular, Australia tends to have an overweight allocation in many cross-border investors' portfolios, particularly for investors with more risk-averse investment profiles.

City Marketing



A key objective of a city strategy is to climb the global rankings as a favoured location for innovative business and leisure activities, as well as a place to live. This requires cities to invest in their promotion strategy, to enhance their international profile or, at the very least, to maintain their market position against competing locations. The upsurge of city promotion agencies and progressively sophisticated marketing techniques applied to the urban environment can be seen as a response to this need.

Underpinning a territorial marketing strategy must be the "city vision" identifying priorities and providing the city with a sense of direction. This vision needs to be attuned to changes in the global economy and the local economic context, as well as position the city to maximise its appeal in the face of the changing rationale of investment decisions. If well communicated, the projection of such city vision and image will be recognised internationally. This is particularly important for second tier cities that aspire to appeal to the global investment community and the "high-skilled" nomadic workers searching for the best combination of professional opportunities and high quality of life.

Figure 11: The Effective City Marketing Strategy



As Figure 11 shows, the last step of an effective marketing strategy – implementation - has important implications for the real estate environment, since cities increasingly use buildings and physical developments as a way of implementing the "city-vision" and at the same time achieve an internationally recognisable profile. Often these developments are initially projected for a specific event. Barcelona and Dubai both highlight the effectiveness of place promotion, using events and buildings as catalysts and icons through which a city can be identified.

Through our survey we have assessed whether each city has a proactive and explicit marketing strategy. In order to generate and establish the urban profile, many cities have recently adopted a professional approach, utilising commercial marketing agencies to promote the city (see Fig.6 for a list of successful cases of city marketing).

New York, for example, is active in all aspects of city marketing from the use of financial incentives to urban regeneration initiatives. The city is working to retain and enhance its global position through extensive planning efforts, communication campaigns and infrastructure developments. The city profile is of key importance for Mayor Bloomberg, exemplified by his words soon after elected "...we will take advantage of our brand. New York is the best-known city on the planet. Our skyline is recognised worldwide. News from our streets reaches homes around the world... yet, as a city, we have never taken direct coordinated custody of our image"⁹.

Similarly in the UK, Manchester City Council has recently appointed a 'design guru', who had worked previously for rock bands and fashion designers to advise the city on its image.

⁹ Bloomberg (2003), State of the City.

The best performers in terms of city marketing capabilities are those cities that apply a consistent approach across all marketing agencies with a mandate to profile and brand the city internationally. A fragmented city marketing strategy can significantly impair the effectiveness of a city strategy and a consistency of approach is not always evident. Large metropolitan cities often have to



coordinate the activities of several bodies (public and private) that have a mandate for marketing one or more aspects of the city. San Francisco, for example, has been very successful in branding itself for tourism, but has been less successful for business interests. With the recent election of a new mayor, business marketing is expected to become more effective. However, it could be argued that San Francisco, as with many other established business centres (Silicon Valley being so close although in a different county) does not need to actively market itself because the local entrepreneurial milieu acts as an automatic magnet for further investment and people.

To some extent London suffers from a similar challenge. The city scores well in its marketing capabilities, with a public private partnership (London First) that promotes London as a business location. However, as often happens in large cities, divergence of interests can arise among the promotional bodies – due to differences in focus in terms of geographies or functions. Nevertheless London ranks high in its marketing capabilities and efforts.

Tokyo features at the lower end of the scores. Japanese cities have not been particularly active in promoting Japan to foreign investors and tourists. Although Tokyo is a global business centre, its international status is recognised only within the Asian region (particularly within Japan) where the city is a prominent trendsetter. It could be argued that the city has failed to fully promote its global profile in the western world. Only very recently has this begun to change, and cities such as Kyoto now acknowledge the role of city marketing as a tool to actively attract capital and people.

Towards the bottom of our scoring we also find cities such as Warsaw. The city has benefited from a first “easy” round of inward foreign investment coming from western companies searching for high-skilled, low-cost labour. Warsaw, in its first decade as an open-economy, has also been the focus of real estate investment, especially in the retail sector. The city’s initial success has made “city-marketing” strategies appear superfluous, but there is now an increasing sense of urgency to create a solid strategy to retain “first comer” investors and transform the city’s recent growth into sustainable development. Other Central European cities (such as Budapest) have been more proactive in formulating strategies to market their cities. As a consequence a foundation called *Warsaw Destination Alliance* was established last year to promote Warsaw throughout the world.

Using Events to Market the City

Barcelona's marketing capabilities are taken as a good example of best practice by other local authorities and local promotion agencies. The city's international profile was shaped by the Olympic Games in 1992, as the city used the event as a catalyst to renovate the city. After the Games, Barcelona has maintained and reinforced its image through a marketing strategy that sought to "sell" the city as the leisure and cultural centre of Europe. To exemplify this achievement, in the last five years Barcelona has supported the implementation of its vision through other kinds of international events such as the Cultural Forum 2004 and the new developments that have been built for the occasion.

Nevertheless the cost-opportunity of hosting large-scale events, such as the Olympics is controversial and forms the subject of many public debates within the cities that have placed a bid for the next events. The degree of success experienced by different cities in the use of events to promote themselves varies significantly as shown by Figure 12.

Figure 12: Costs & Benefits of the Summer Olympic Games

Financial Costs & Benefits of the Olympic Games (Expressed in PPP)				
US\$m, 1995 prices	Operational Costs	Revenues	Balance excluding investments	Overall balance
Montreal 1976	399	936	537	-1,228
Los Angeles 1984	467	1,123	656	335
Seoul 1988	512	1,319	807	556
Barcelona 1992	1,611	1,850	239	3
Atlanta 1996	1,202	1,686	484	0
Sydney 2000	1,700	1,900	239	0

Source: Preuss, 2004¹⁰

The 1976 Montreal Olympics illustrate this debate very well. These Games were largely financed with the city's public funds that left Montreal with a significant budgetary deficit. Montreal's taxpayers are still paying for this in the form of an extra tobacco tax that is expected to balance the Olympic shortfall by 2005¹¹.

The degree to which major events can be successfully used as city marketing tools is strongly linked to the long-term promotional effect that the event has on a specific locality as a tourist and business destination. Cities often bid for events just to "be on the map" and show that they can profile themselves as potential locations for global happenings (see Figure 13 overleaf)¹². Bidding for the Olympics has acquired a great "signalling value" as bid cities often seek to profile themselves as an international player that has the capability to stand against global competition. Dubai for example has launched sporting events such as the Desert Classic Golf Tournament or the Dubai World Cup Horse Race to support its marketing strategy and position itself as an exclusive tourist location for business travellers. The Beijing 2008 Summer Olympics are expected to have a great impact on the city's international profile. The city is planning many infrastructure and development projects as hosts of this event. Nevertheless the long-term economic impact and the sustainability of these developments have yet to be verified.

¹⁰ Preuss (2004), The economics of staging the Olympics: a comparison of the Games 1972-2008.

¹¹ Pricewaterhousecoopers (June 2004), European Economic Outlook.

¹² See also Jones Lang LaSalle (2001), Reaching Beyond the Gold.

Figure 13: City Marketing - Most Successful Performers: Competing for International Events
Bids and Wins for International Sport Events



Using Buildings to Market Cities

Outside the international events circuit, cities are progressively trying to replicate what has come to be known as the “Guggenheim Effect” by using iconic architecture to build the “distinctive city”¹³. Dubai epitomises the use of the built environment as a catalyst for investment. The city has duplicated the model adopted by Singapore some years ago by investing heavily on city promotion and marketing. It has developed extraordinary buildings that have become internationally recognised “icons” of the city and has established itself very effectively as a tourist destination internationally. Today it has 272 hotels with around 30,000 rooms, 30 shopping malls and almost 5 million visitors a year¹⁴. Building on this success, in the past two years Dubai has launched other marketing campaigns to promote new concepts and projects such as Dubai Media City and Dubai Internet City. This is a high profile example of how real estate directly influences governance and indirectly influences urban competitiveness.



For example, the city has built a major harbour, Jebel Ali, which has become the cargo hub of the Gulf region used increasingly for trading with China by over 2,500 companies located in the tax free zone. Also, in part due to the “iconic” value attached to the Burj-Al Arab Hotel, Dubai has become a leading world tourist destination.



Our results suggest that this strategy works better in “new” cities where a “sense of place” needs to be created *ex-novo*. In these places physical development can greatly help to define a city identity and, as a consequence, create a “brand” capable of attracting capital and people on the basis of this success. The drawback of this strategy is that it needs continuous effort and updating. Dubai is developing a new hotel built on an artificial island (Palm Island) and is producing other iconic developments such as Dubai Airport, Dubai Marina and Dubailand, with the aim of making Dubai’s successful use of architecture sustainable in the long run.



Although it is easier to see the role that physical developments can play in the creation of “new places” such as Dubai, iconic development also has considerable scope in more mature cities. It can, for example, help regenerate physically and psychologically run-down parts of established world cities. Examples include the proposed regeneration of a former industrial area in Barcelona, called 22@, an area to be transformed to host a cluster of innovative activities, with a focus on high value services related to the industrial past of the area. In New York the physical regeneration of the World Trade Centre area symbolizes the re-birth of the city.



The indiscriminate use of buildings to foster place creation and promotion can be counterproductive. The novelty impact of an iconic building fades away if every city does the same. Cities are different and not everyone can be a “Dubai” or build a Guggenheim Museum. The real estate sector plays a major role in the feasibility of many projects that form the city vision, from iconic buildings to large facilities that can host international events. We believe that this role should encompass advising cities to optimise their promotion strategies via the built environment, as well helping cities “recycle” their built assets by finding alternative commercial uses for them and ensuring their long term viability. This is particularly crucial in emerging

markets where cities need to attract foreign investors.

There are many cities that are looking to establish their position on the world scene. China for example has over 90 cities with more than 1 million population whilst India has around 40 such cities. These cities need to approach their marketing and promotion very seriously, and include these functions in their cities’ strategic plans.

¹³ Turok (2004), LSE International Symposium.

¹⁴ The Economist, May 2004.

Conclusions

We have analysed models of governance in over 30 cities worldwide and it is evident that “good” governance is a crucial lever that cities can utilise to preserve or enhance their competitive strengths. Good governance requires the involvement of all players that have a role in local decision-making. Real estate players are a key part of this community.

- We believe that cities can improve their competitive position by acting on their governance strategy, as cities such as Dubai and Singapore demonstrate. This implies assessing a city’s competitive profile, benchmarking against peer-group competitors and implementing a management and marketing strategy that enhances a city’s competitive strengths.
- The real estate sector has a fundamental role in shaping and developing the competitive city. This involves the delivery of an attractive and efficient built environment for investors, corporate occupiers and residents, and by representing the ‘city vision’ through iconic buildings. The real estate industry is not simply a passive “consumer” of public policy and regulations, but rather it is an influencing partner in the decision-making and implementation processes that are focused on creating a favourable built environment.
- The growing degree of public-private partnership required to build the competitive city make it increasingly important for the real estate industry to align its objectives to those of policy makers and planners, in order to maximise the effectiveness of their actions and guarantee the long term sustainability of the developments; this is especially important for emerging and physically growing markets.
- One of the applications of public-private partnerships is in complex, large-scale regeneration projects. Many cities in the world need to transform under utilised areas. The complexity of the process and the number of interests involved makes urban regeneration the perfect test ground for a governance approach based on Public-Private Partnership (PPP). While these practices are very common in USA and UK cities, they are still largely undiscovered in most real estate markets. PPP represents an opportunity for cities to assemble resources to regenerate and create growth.
- Real estate advisors are increasingly helping cities in their struggle for sustainable growth, through the “recycling” of their built assets and finding alternative commercial uses for obsolete real estate, thus ensuring their long-term viability.
- The physical environment can be used effectively as an asset to promote the city internationally, but only when it reflects the current, as well as future “city offer”. Analysing strategies and comparing best practice is a fundamental aspect of building a competitive “city offer”.

Appendix: City Coverage of Governance Survey

- 1 Adelaide, Australia
- 2 Amsterdam, Netherlands
- 3 Auckland, New Zealand
- 4 Bangkok, Thailand
- 5 Barcelona, Spain
- 6 Beijing, China
- 7 Berlin, Germany
- 8 Brisbane, Australia
- 9 Budapest, Hungary
- 10 Cape Town, South Africa
- 11 Chongqing, China
- 12 Dalian, China
- 13 Dubai, UAE
- 14 Dublin, Ireland
- 15 Frankfurt am Main, Germany
- 16 Guangzhou, China
- 17 Hong Kong, China
- 18 London, UK
- 19 Melbourne, Australia
- 20 New York, USA
- 21 Paris, France
- 22 Perth, Australia
- 23 Rio de Janeiro, Brazil
- 24 San Francisco, USA
- 25 Sao Paulo, Brazil
- 26 Shanghai, China
- 27 Shenzhen, China
- 28 Singapore
- 29 Stockholm, Sweden
- 30 Suzhou, China
- 31 Sydney, Australia
- 32 Tokyo, Japan
- 33 Warsaw, Poland