Grant Thornton

An instinct for growth™

Uncovering opportunities for overseas investment and growth

Real estate and construction 2015

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By blending entrepreneurial instinct with greater factual analysis, a better understanding of the drivers can reveal previously uncited opportunity and help maximise returns.

Foreword

Global cross border real estate investment activity continues to grow with transaction volumes rising by 9%[1] in the first half of 2015. Geo-political change in multiple regions has been a powerful driver, as investors seek to manage risk and diversify. Shifting demographics and urbanisation patterns worldwide are also making investment decisions more complex.

One constant from the conversations Grant Thornton have with our real estate clients around the world is where to invest and in what project. Given the size of investments they are involved in, getting this right is critical. Another is that investing in new markets can be time consuming and sourcing up-to-date insights to inform decisions can be challenging.

Those insights inform the scope of this report. *Uncovering opportunities for overseas investment and growth* draws on interviews with real estate experts around the world and reveals that when weighing up options for overseas real estate investment, there is a tendency to rely on familiar territories and instinct to drive decision making. As a result, there's a danger that investors miss potential opportunities, or even misread those they embark on.

Driven by ingrained experience, gut instinct is undoubtedly valuable. Based on separate research conducted by Grant Thornton, we estimate that around US$250 billion in global real estate investment per annum is made on instinct – it simply feels right[2]. This approach needs to be checked, however, to ensure unconscious bias isn't swaying decisions, particularly as how we feel about a country can be based on the soft power allure it wields. By combining entrepreneurial instinct with greater factual analysis of global real estate opportunities, a better understanding of the drivers can reveal previously uncited opportunity and help maximise returns.

This report seeks to support investors in identifying how this combined approach can help lead to greater opportunity. It provides practical, achievable advice for investors looking to harness the forces shaping global real estate activity in order to hone their investment decisions. Four particularly important themes are discussed:

Methodology

The insights in this report are drawn from a number of in-depth qualitative interviews conducted in Q2 2015. Many thanks go to the real estate experts across Grant Thornton's global network who took part, as well as external contributors: John Marasco at Colliers International, Nick Yanovski at Cushman and Wakefield and Alison Quinn at Aveo Group.

Statistics were provided by the Grant Thornton International Business Report (IBR), which provides insight into the views and expectations of more than 10,000 businesses each year across 36 economies. Fieldwork is undertaken on a quarterly basis, primarily by telephone.
The surveys both listed and privately held businesses. This report contains data drawn from interviews with more than 2,500 chief executive officers, managing directors, chairmen or other senior executives from all industry sectors conducted in May 2015.

[1] Jones Lang LaSalle Global Market Perspective Q2 2015
[2] Grant Thornton International Business Report Q2 2015

Themes

Identifying emergent stability

A post-crash sensibility is combining with concerns around geo-political risks to drive investors towards low-risk opportunities. Investors prize political stability above all else, with confidence growing in countries that are actively reducing instability. While the most secure returns are likely to come from stable regions, there are still valuable opportunities in territories that have recently become investment or developer friendly.

Soft power and its limitations

Familiarity with target territories is often a key factor in investment decisions. Based on feedback from clients, it seems decisions can be driven on the basis of where a decision maker's peers, family or professional contacts have been educated. While cultural familiarity and gut instinct should never be ignored, investors must ensure decisions are complemented by solid evidence that models all risks and potential returns. There needs to be an assessment of any unconscious bias that may sway decisions away from the evidence, particularly around risk.

Demographic trends driving new opportunities

Demographic shifts are changing the nature of real estate investment opportunities, but not always in the most obvious ways. Examples include an ageing population, an increasingly transient workforce and the habitats favoured by Millennials. These trends highlight the importance of having local insight and expertise when making decisions, because what works in one culture or region might not fit another.

The opportunities of urbanisation

New opportunities for investment are opening up as established cities become saturated and population growth slows. At the same time, urban areas are adapting to demographic shifts with new forms of mixed-use city centres creating the potential for 'place shaping' property portfolios. Infrastructure pressures are also creating issues that require public policy responses and pose new opportunities/threats for investors. Savvy investors can benefit by getting into secondary markets while the costs of entry are low.

Sian Sinclair
Global leader
Real estate and construction

With the insights from this report, global real estate investors can review how they plan overseas investment and growth. I hope you will be better equipped to both manage risk and uncover the opportunities presented by the global marketplace.

The political party: Identifying emergent stability

Amid the increasing uncertainty wrought by a series of geo-political flashpoints, real estate investors are seeking out returns in overseas territories known for their political stability. This is happening despite macro-economic conditions being on their firmest footing since the 2008 financial crisis, with strong messages emerging from most advanced economies.

Where investors find these pockets of stability they gain greater confidence, allowing them to seek greater returns through bolder investments. However, investors would do well to avoid assumptions of where political stability is found. Countries and governments that make progress and legislate to create greater levels of certainty open up a host of potential new opportunities for real estate investors.

Stability vs tax and regulation

Political stability often means fewer unexpected shocks and more straightforward exit strategies. However, being politically stable is not necessarily the same as being investor friendly; that is, providing a low tax, low regulation environment to encourage foreign investment. Indeed, in some cases, there are obvious examples of regulatory burdens that at first glance might dissuade overseas investment.

Government measures in Hong Kong, Singapore and now Australia have all introduced targeted charges or additional levies on foreign investors purchasing residential property. These measures have been taken to address concerns that foreign investors are pricing locals out of residential markets. While such measures are relatively new in Australia, this hasn't deterred Asian investors – Australia remains a popular destination for Asian real estate investment, particularly from China. According to John Marasco of Colliers International, these investors want to diversify money from the Chinese market and see Australia as a safe haven, despite the policy barrier. Burdensome policy does not need to be a deterrent to investment if the stability of the political system commands confidence from the investor.

Geo-political uncertainties

- Possible disintegration of the EU
- Impact of government managed slowdown in China
- Falling oil price implications on emerging markets
- Ongoing unrest in the Middle East

"When you look at where investment is made, one of the key things investors look at overall is the stability of the political environment."

Alvin Wade, Grant Thornton USA

Risk appetite

The desire for stability does not mean a lack of ambition, whereby investors retreat to conservative opportunities that offer consistent but lower returns. There is a considerable appetite to invest in ambitious projects, but the political environment needs to be right. A good example of this is Qatari investors' backing of The Shard. These investors supported a project on London's South Bank when all other tall buildings were on the opposite side of the River Thames. As this demonstrates, there does not need to be a trade-off between bold investments that offer high rates of return and the need to act with a degree of caution.

"Investors can model risk of particular projects. What's more difficult is those issues that are unseen and beyond control. Political change can be the one thing that pops up and is worse or different than anything you might have put into your models. It can create a significant problem."

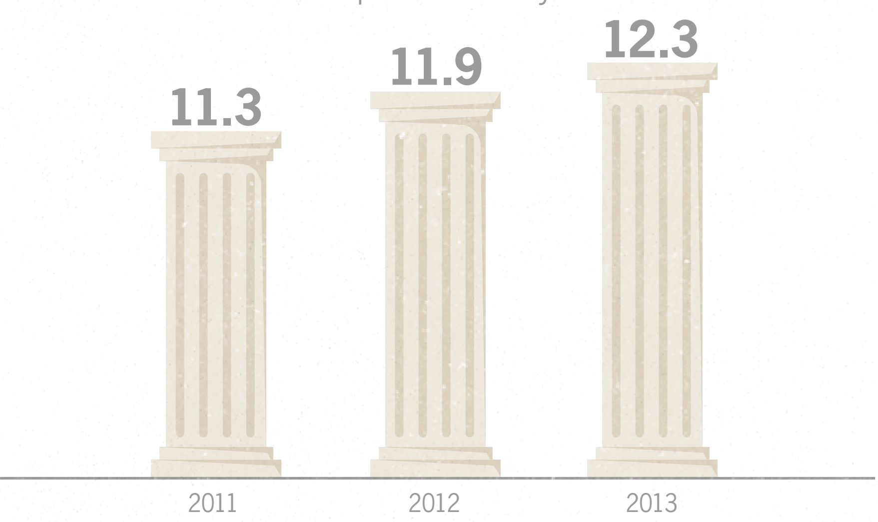
Alvin Wade, Grant Thornton USA

Emerging opportunities - the political exchange rate

Together with territories long-known as politically stable, governments in a number of emerging markets are actively working to build the long-term certainty real estate investors need to act with confidence. A good example of this is Egypt where, having come through a turbulent period, the political environment has improved. According to a report from Jones Lang LaSalle[3], Cairo's residential market continues to recover and see improved sales figures, as a result of the recovering economic and political sentiment. Likewise, despite the legal challenges investing in property in India can present, the Narendra Modi administration is adopting a pro-business agenda and working to reduce corruption. Such change will incrementally increase the attractiveness of the world's largest democracy as a destination for inward real estate investment in the future.

These occurrences of emerging stability open up a range of potential markets for real estate investors. For investors it can be worth looking closely at which countries are actively working to create more stable political systems and generate more certainty over the long term policy environment.

India world bank political stability rank[4]



Source: World Bank political stability ranking

"I think that the government's recent clarifications of some of the key laws and key judgements have been very positive. Investors have really taken note of those actions; which clearly demonstrate the government's intention to attract investors in a very different manner."

Neeraj Sharma,
Grant Thornton India

[3] 'Improved economy and political stability boost Cairo property markets', Property Wire, April 2015
[4] 'The worldwide governance indicators', World Bank, 2014

"There's almost an invisible political exchange rate whereby it's a cheaper bet to go with territories such as the UK, USA and Canada. Investors pick them because they're comfortable with the political system and the legal system."
John Marasco,
Colliers International Australia

What can investors do?

Seek out stability, but don't make assumptions about where to find it

It makes sense to invest in regions you can be confident about, but countries where political leaders have firm mandates for decisive action also offer opportunities. Though not without risk, look for deals that will deliver strong returns as the changes in these regions take hold.

Structure investments with clear sight of tax and regulatory obligations

Use local experts to understand and pre-empt the political mood for foreign investment. Politicians defending domestic interests can change tact and erode certainty, leaving investors with new entry and exit barriers.

Political stability can afford more ambition with project

Taking the time to identify the territories that offer the highest degree of political stability may allow you to invest in higher value, higher stakes projects.

Mind the gap: Recognising soft power and its limitations

The world of international real estate investment offers an abundance of choice; of global opportunity and possibility. Faced with a myriad of options, the sheer vastness is, at first, overwhelming. While many real estate companies and investors conduct extensive research and analysis before investing, they also look for quick and efficient ways to filter the options before them. This can mean taking investment decisions based on gut instinct. Instinct can serve well as a decision making tool; however, it should be combined with hard analysis and a broader view in order to assess where the strongest returns lie.

Put another way, investors feel confident putting money into territories they are familiar with. When you dig deeper what emerges is that this familiarity is being determined by the level of soft power regions project and the direct experiences investors have with them.

What is soft power?

The concept of soft power was developed by Joseph Nye at Harvard University. It measures a nation's cultural attractiveness, something which co-opts people or organisations into taking a positive view of that nation. Examples of the factors included are prominence in the arts, or the quality of education. It is important that investors are conscious of the impact these factors have, and how they can affect investment decisions.

"Experienced international investors tend to have a pretty good idea of the countries they want to get into and don't necessarily need to gather a lot of evidence before making a decision."

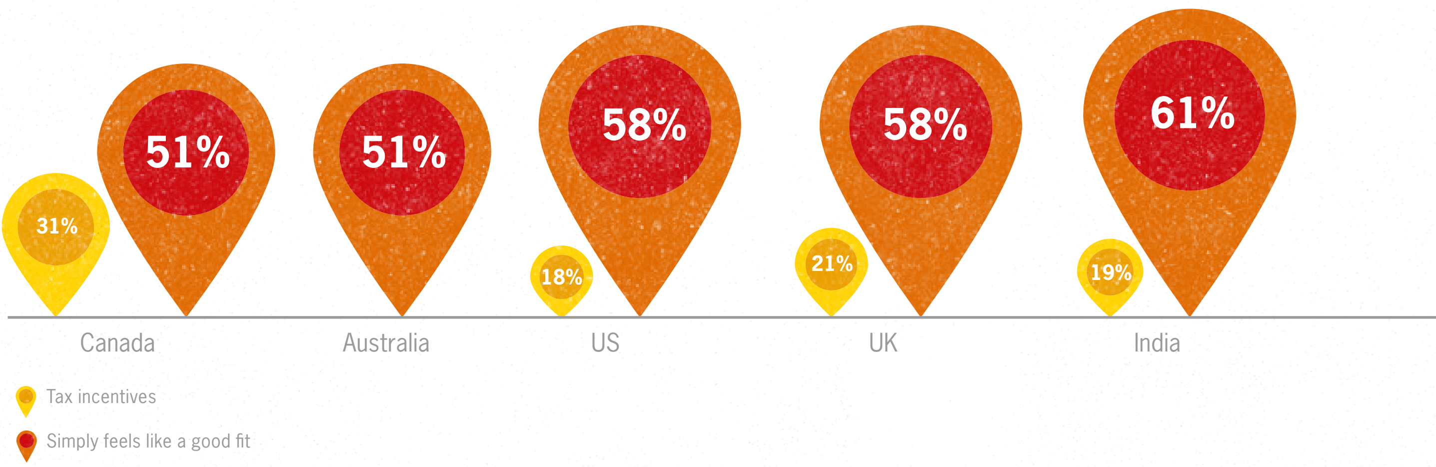
Sian Sinclair, Grant Thornton Australia

Investing instinctively

Rather than relying on complex modelling processes and in-depth analysis of political dynamics, investors are often going with their gut.

According to data gathered for Grant Thornton's International Business Report (IBR), our quarterly mid-market business confidence monitor, instinctive decision-making can, when left unchecked, override other considerations. When we asked senior executives what drove their decision to enter and make a significant investment in a foreign market, many gave the instinctive response 'it simply feels like a good fit'. In fact, this was most common answer and outperformed other considerations, such as tax incentives. Based on our IBR research and analysis, this instinctive approach is adopted for about half of all direct real estate investment decisions and has a significant value, approximately US$250 billion per annum.

Drivers behind investment choices of global business leaders planning to invest in the following countries



Source: Grant Thornton International Business Report Q2 2015, refer to methodology for details

Soft power drives investment decisions

Countries where investors have links through education are particularly attractive. Previous visits to a particular country, or knowing people that have been educated there, appear to be significant drivers for decision making, subconsciously or otherwise. The figure below shows that inward real estate investment follows the same pattern as the numbers of international students a country hosts. This high level of correlation suggests that education is a potent soft power asset when it comes to attracting real estate investment. Where students go, the real estate money follows.

Cultural familiarity is also a strong pull on investment. Cities like London and New York have a lot of worldwide exposure through popular culture, regularly featuring as the setting for major movies and TV shows; while less well established territories like Qatar have invested heavily in hosting global sports events. As such, they are front and centre of the minds of international investors, who instinctively want to buy property in iconic destinations.

It may come as a surprise just how many deals are done on the basis of the opportunity looking culturally familiar and therefore attractive.

"Investors don't pick a market without having a connection to that market. When making overseas investment decisions, typically investors have been educated there, or a member of their family has been educated in that part of the world."

John Marasco,
Colliers International, Australia

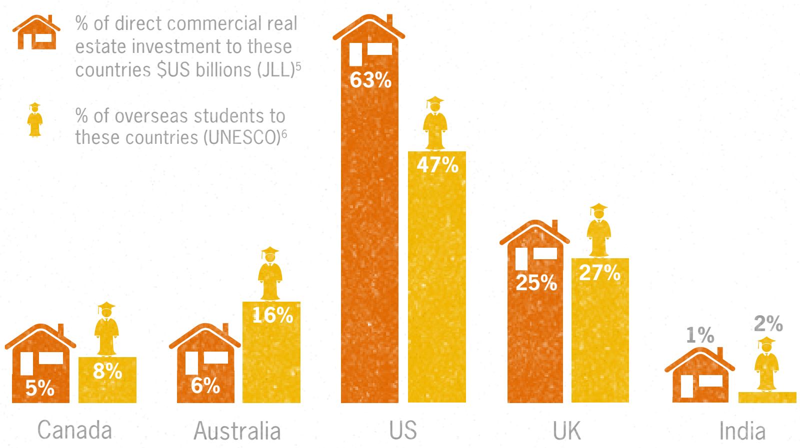
"Australia is becoming widely known for its quality of education and we get lots of foreign students coming to study here. This has coincided with big developments – particularly residential developments – becoming increasingly popular with large Chinese development companies."

Sian Sinclair, Grant Thornton Australia

"Chinese money follows Chinese students. If an investor studied in a certain country, or sent their children to study there, then they are happy to invest in property in this region. However, the basis for a good education and a good return on property may not be the same."

Wilfred Chiu, Grant Thornton China

Correlation between international students hosted and incoming real estate investment in 2014



Source: Jones Lang LaSalle, UNESCO

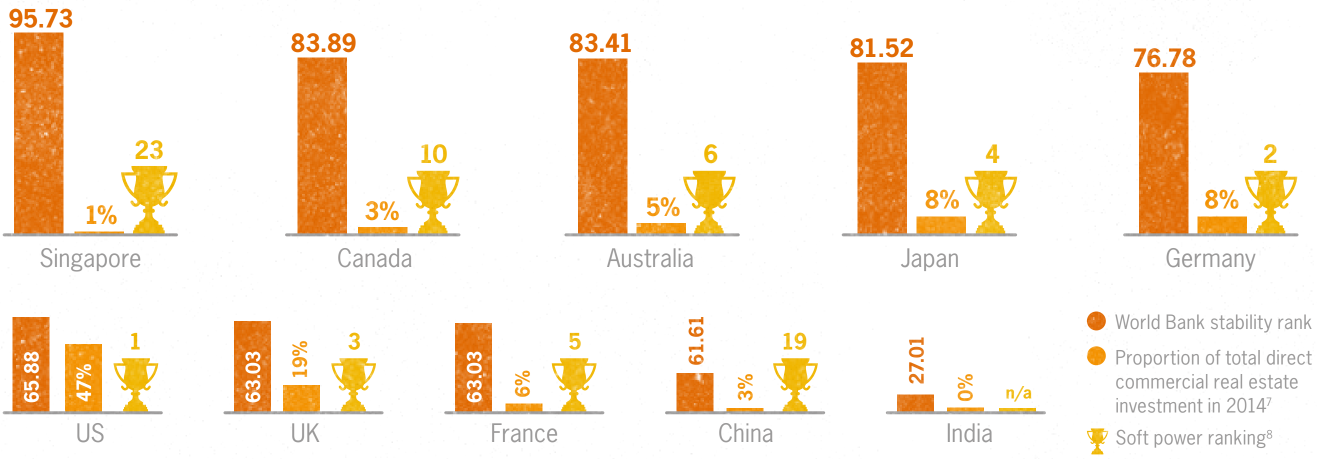
[5] 'Global market perspective', Jones Lang LaSalle, Q1 2015
[6] 'Global flow of tertiary-level students', UNESCO, 2014

Balancing hard evidence with instinct

Instinctive investments in familiar territories can make for solid real estate deals, but further opportunities open up when decisions are complemented by hard data and an analysis of broader options. The evidence (below) points towards a cluster of potentially hidden gems that can offer the high levels of political stability investors crave, but to date haven't been able to attract the significant levels of real estate investment seen by destinations with more soft power clout.

If we consider the 10 countries receiving major inward real estate investment in 2014, only 25% of investment is being directed towards the five ranked highest in the World Bank's political stability index. These territories – Singapore, Canada, Australia, Japan and Germany – offer investors the potential to enter markets that currently have a lower level of investment, but offer the high levels of political stability needed to act with confidence. It is clear that soft power is a factor in drawing real estate investment. The nations that occupy the top four slots in terms of soft power ranking are the same ones that attract the highest levels of inward investment.

Correlation between political stability, soft power and investment



Source: World Bank, Monocle, Jones Lang LaSalle

What can investors do?

Be aware of the lure of soft power

It's vital to reflect on the factors that inform perceptions of a territory, and whether they are accurate indicators of likely returns. For example ensure that instinct isn't being overly influenced by unconscious biases driven by soft power.

Consider which personal experiences are most likely to sway your decision making

One compelling trend we've identified is the close correlation between where overseas students go and where real estate money goes. A better understanding of these trends and the dynamics behind them will provide better context for your own investment decisions.

Complement instincts with hard analysis to spot new opportunities

Investment horizons can be broadened through the use of evidence and analysis. Savvy and progressive investors incorporate local expertise in conjunction with good judgement, which often presents opportunities that may not have otherwise been considered.

[7] 'Global Market Perspective', Jones Lang LaSalle, Q1 2015. Total invested in all countries: $574bn (USD)
[8] Soft Power Ranking, Monocle, 2014/15

People watching: Demographic trends driving new opportunities

Anticipating and staying ahead of the shifting demands of tenants is key to obtaining sustained rewards in real estate investment. For international investors, there are two global population trends currently driving decision making:

The emergence of an ageing population in many regions worldwide, where greater numbers of people live and work for much longer

The growing economic and cultural significance of Millennials, those born between 1980 and the early 2000s (also known as Generation Y), with their own take on how to live and work.

The impact of this population dynamic is being felt in real estate, with the shape of residential, commercial and business property portfolios needing to adapt accordingly. Our research reveals a series of common trends related to the ageing and Millennial segments of populations.

International investors shouldn't assume, however, that the impact of demographic change will be felt in the same way across different territories. Local guidance is invaluable. For example, the property that appeals to one region's ageing population isn't necessarily the answer in another territory or culture. New opportunities create new challenges.

Complementing an informed understanding of the impact of changing populations with local intelligence about how that impact is materialising, will enable investors to spot opportunities most likely to offer strong returns earlier.

A new lease on later-life

According to the United Nations, the world is in the midst of a unique and irreversible process of demographic transition[9]. The population of almost all major nations is ageing. This phenomenon is particularly prevalent in developed economies where the baby boomer generation often outnumbers younger generations. For instance, over one in four Canadians will be over 65 by 2036[10]; a quarter of Australians will be over 65 by 2055[11]; and the UK's population of over 65s will have doubled to 19 million by 2050[12].

People are not only living longer, but are enjoying a reasonable standard of living for longer, changing expectations of the retirement market.

As older people live and work for longer, in good health, they are more likely to live in their own homes in their later years. As a result traditional retirement home propositions are less attractive than opportunities to maintain a greater degree of independence. For instance, a number of US developers, like Lennar and PulteGroup, have responded to this with a pioneering approach to housing projects aimed at 'ageing but fit' demographics. In Britain, developers like Barratt Homes are actively developing new properties to meet the needs of downsizing baby boomers. Meanwhile, in Australia, the Aveo Group is working to build innovative new models of retirement villages that offer residents many more social and leisure opportunities.

Interpreting demographic change is not without its challenges, especially when looking overseas for investment opportunities. Bo Mocherniak from Grant Thornton Canada, observes that there have been a number of incidences where investors made mistakes interpreting the needs of the country's ageing population. He points to a glut of retirement homes being developed leading to overcapacity and eventual closure. Investors here failed to correctly gauge the level of appetite for out of town retirement home living, and misread the needs of Canada's ageing population.

"People are living longer, but they are also living healthier lives and are able to remain in their own homes for a longer period of time."

Nick Yanovski, Cushman and Wakefield

"A lot of discussion is going on about what people apparently like in retirement villages as well as talking to people in their 50s about what they will be expecting in 10-20 years' time."

Alison Quinn, Aveo Group

[9] United Nations Social Policy and Development Division
[10] Statistics Canada
[11] 'Intergenerational Report', Treasury Australia, March 2015
[12] 'The ageing population: key issues for the 2010 Parliament', UK Parliament

Migration

A greater proportion of older people in the workforce – a consequence of an ageing society – creates the need to fill more manually intensive roles with migrant workers willing and able to move long distances for job opportunities. This is a trend the United Nations calls 'replacement migration'. In order to maintain the size of the working population, the European Union estimates it needs 4,500 migrants per million residents between 2000 and 2050[13]. This will have a direct impact on residential property markets, often with more low cost housing needed to match the requirements of lower income transient communities. In many regions, the challenge will be creating the right types of residential property, not just more of it, to meet these major trends.

"Migration is definitely having an impact in the residential real estate market. People coming here for jobs need places to stay immediately."
Patti Walsh, Grant Thornton Canada

The rise of the Millennials/Gen Y

Alongside the growing significance of ageing baby boomers, Millennials have come of age and are shaping the nature of their economies and communities. As a group they are also bigger than the baby boomer generation in the US; 92 million compared to 77 million. A range of evidence below[14] demonstrates that this generation has very different sensibilities to their parents and grandparents.

These themes point towards the need for some very different real estate solutions:

Access over ownership

Millennials tend to favour using goods and services rather than owning them. They also start families later and have higher levels of debt than previous generations. This makes renting rather than home ownership a longer term proposition. As a result, developers and investors will need to target properties at different markets, such as buy-to-let, or adopt different financial models based on being longer term landlords.

Mixed use spaces

Millennials are the first generation of digital natives and are used to the connectivity that social media and other technology offers. It's affecting the way they work, play and purchase. It's also changing the nature of commercial properties like workplaces and retail spaces. These properties increasingly need to offer something extra to encourage foot traffic. And developers will need to anticipate this convergence to ensure buildings are mixed use, digital ready and adaptable.

Location, location, location

Millennials want to be close to the action and value accessibility, so living and working in the heart of an urban area is very appealing. The proposed plan to redevelop the Granada television studios in Manchester, England is likely to appeal to the needs of this group. While in Toronto, Allied Properties REIT speaks to Millennials by investing in properties that integrate office and living workspaces in the city.

[13] 'Replacement Migration', United Nations Population Division
[14] 'Millennials: Coming of Age', Goldman Sachs

More active retirees who are living well past retirement age want to enjoy the benefits of leisure facilities and healthcare amenities in close proximity to their homes now that they have the time to do so. Combined with the eroding distinction between work and living spaces experienced by the younger population, this highlights the growing desire for mixed use city centres.

"Young people want a mixed city. It creates opportunities for any profile of investors – it could be residential, retail or even a hotel opportunity. People want to work, play and live in an area that's close to the core."

Sylvain Berneche, Raymond Chabot Grant Thornton Quebec

"Young people and retirees are looking for similar things. Both groups want community, access to dining, access to entertainment, with a bolt on of easy access to work for younger people and access to medical facilities for older people."

Patti Walsh, Grant Thornton Canada

What can investors do?

Stay alert to emerging opportunities

The changing shape of populations in key territories is transforming the nature of the global property market. For example, there are high returns on offer for investors who can:

- Package residential, business and commercial property deals into 'place-making' propositions in mixed-use city centres
- Quickly enter and exit deals to develop the affordable housing immediately required by transient workers
- Offer business tenants flexible workspaces.

Take local advice

The specific nature of demographic trends and the impact they are having for real estate will vary from country to country. Local advisers can add value with detailed analysis of how demography is shaping the domestic market.

"Developers tell us that people just aren't as keen on traditional retirement homes – they carry a stigma for many."

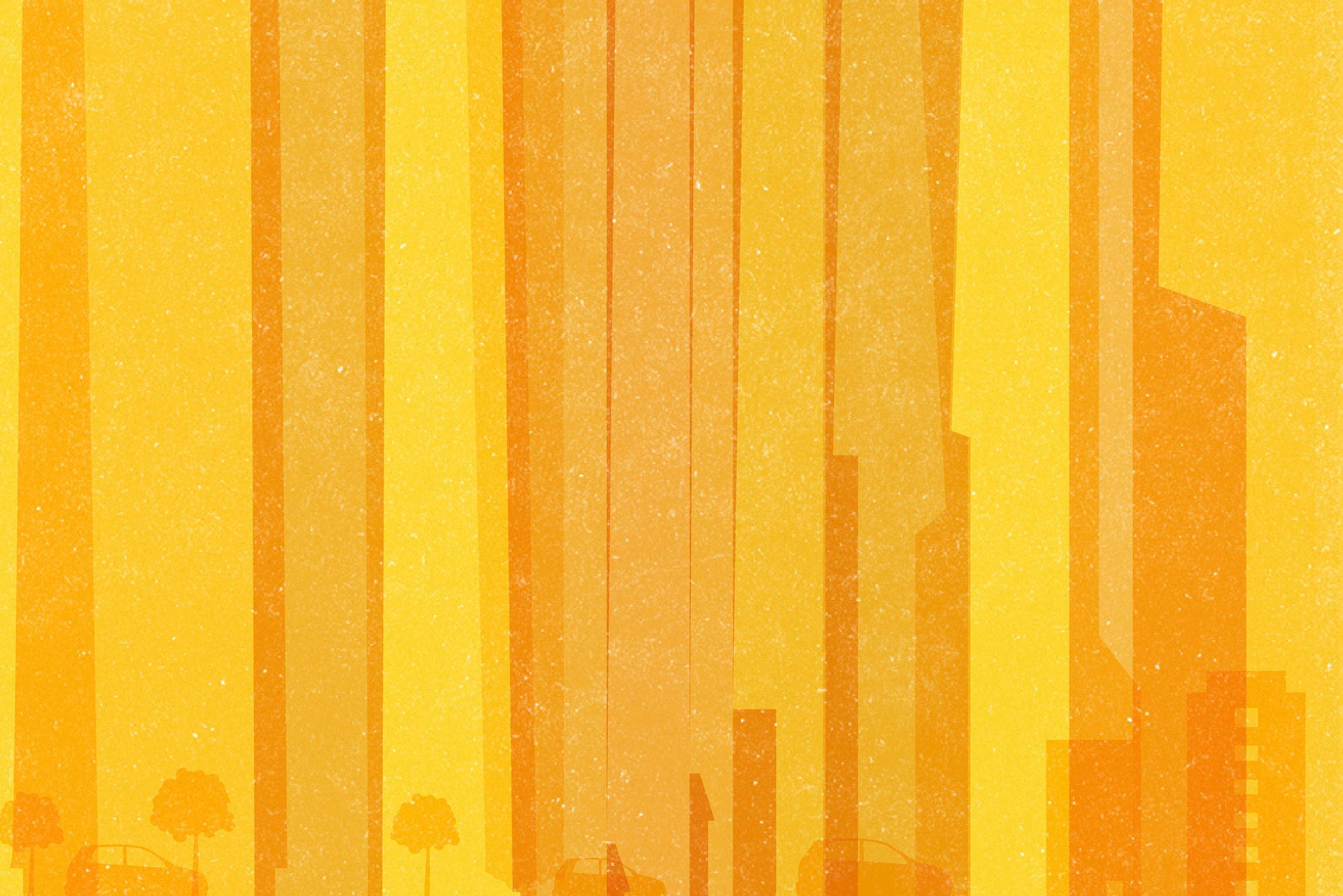
Sian Sinclair
Grant Thornton Australia

Invest for the future and pre-empt it

Work with local partners to anticipate implications on real estate over time and close deals that pre-empt future needs. What is going to work for the long term, rather than the returns available right now?

Going to town: The opportunities of urbanisation

Urbanisation is another dominant global trend that is influencing socio-economic change across every territory. The world's urban population grew from 746 million in 1950 to 3.9 billion in 2014, and is projected to grow by a further 2.5 billion by 2050[15]. This represents a dramatic and rapid shift from rural to urban areas which is already having a powerful impact on real estate investment opportunities.



In fast-growing cities, there is potential for overseas investors to look at projects that help relieve the pressure on stretched infrastructure and housing capacity. Long term returns are available to investors who can credibly contribute to solving national policy challenges caused by increasing urban populations.

The growth of urban populations also gives overseas investors a greater variety of cities to target for investment. Population increase and economic growth in secondary cities makes them more viable real estate markets, particularly as the supply of available opportunities dwindles in more well-established cities, where competing capital may be driving prices up and returns down.

Urban growth and mega cities

The flight of people from rural to urban areas has been dramatic over the last 40 years. Today there are 29 megacities around the world with populations over 10 million, compared to just three in 1975[16]. This pace of growth has been a major driver of real estate investment, with an increasing scale of residential and commercial property needed to accommodate the growing density of city populations. Local governments also continue to approve higher density levels to compensate for a lack of sufficient infrastructure.

Often urban real estate investment has been driven by the instinctive desire investors have to get a foot into well recognised and obviously attractive locations. Grant Thornton USA's Alvin Wade speaks of investors attracted by the 'bling factor' of a stake in iconic buildings in New York, for example. Grant Thornton UK's Kersten Muller, meanwhile, draws attention to the pull London has on overseas investors:

"I think London is quite different and the normal rules of supply and demand don't apply. People just want to be here, so the yield requirements that apply elsewhere don't come into play. The perception of value is quite different."

There are sound economic reasons that underpin the instinctive desire to invest in primary cities – their high (and growing) populations mean they have high concentrations of businesses willing to pay a premium for office space. They are also likely to have good connectivity to other destinations and be rich in culture and leisure opportunities.

However, the dramatic levels of urban growth also create challenges that open up a wider array of opportunities for investors.

In the UK, housing is high on the political agenda. Simply put, houses are not being built quickly enough to keep pace with population growth, driving up prices and making home ownership unaffordable for many. Successive governments have sought to address this through demand side measures to lower affordability barriers to home ownership. However, over the long term these are likely to prove ineffective without significant interventions to increase the supply of residential property. Kersten Muller believes that the door could open for international real estate investors to play a part.

The housing affordability issue is something that is common in many countries, with similar factors creating the pressures in most locations. It will be crucial for governments to understand what measures are being successfully implemented in other regions and how these can be put into practice locally.

"We've been working alongside clients and industry bodies to encourage the Treasury to look at fresh ways for big investors to come in and provide good quality houses and apartments to meet UK demand. This is an aspect that I think foreign investors should explore. "

Kersten Muller, Grant Thornton UK

[15] 'World Urbanization Prospects', United Nations 2014
[16] 'The Problem With Megacities', Chapman University's Centre for Demographics and Policy, 2014

Easing the pressure on urban infrastructure

Rapid urbanisation adds significant pressure to city infrastructure, with extra capacity needed to provide public transportation, housing, electricity, water and sanitation to meet the needs of a fast growing and changing population. The expectations of the increasingly important Millennials and older generations are likely to require updated infrastructure solutions.

This creates a burden on public spending, that governments world wide are frequently looking to offset through models that attract outside investment.

With the world's second largest urban population, India has a particularly pressing need for infrastructure investment. In the past, instability and policy uncertainty have hampered the country's ability to attract investment in infrastructure. Grant Thornton India's Sumeet Abrol notes that changes being introduced by the new government are opening up a more viable market:

"The new government is very conscious of the need for policies that allow investors to support infrastructure with confidence. They have announced the creation of a hundred smart cities that act as ecosystems to support all sorts of opportunities, from transportation to leisure facilities. If you capitalise on that sort of opportunity then you can see a very different value for the country and for investor returns."

Sumeet Abrol, Grant Thornton India

Secondary markets are primary opportunities

The population growth in all cities means that as well-established, prime locations become saturated, emergent secondary markets become more viable. Jones Lang LaSalle[17] cites evidence of corporate occupiers shifting interest away from 'trophy properties' towards markets that offer 'character over cachet'. Put simply, cities that were previously unfashionable are benefiting from the advantages of growing populations, specifically as major employers are attracted by a deeper talent pool.

These emerging opportunities are not intuitive. They are often unsighted by international investors who are more familiar with a country's principal city or capital – cities that have their own soft power allure. To unearth and understand the nature of the opportunities secondary markets can offer, sound analysis and local insight is essential.

"The type of discussions we have are about ignoring the location, and the fact that an investor may not have heard of it, and looking at who is actually there. Spotting where major businesses are choosing to locate seems to be quite successful. "

Kersten Muller, Grant Thornton UK

[17] 'Global market perspective', Jones Lang LaSalle, Q1 2015

National factors drive the viability of secondary urban real estate markets, for example:

Manchester, UK

3%

POPULATION GROWTH[18]

2011-15

The UK national government has made the 'Northern Powerhouse' initiative a policy priority, investing heavily in transport infrastructure to improve connectivity and in R&D capacity to establish northern cities like Manchester as hubs of innovation.

Brisbane, Australia

10%

POPULATION GROWTH[21]

2011-14

Growing as an alternative for business investment to the saturated markets of Sydney and Melbourne.

Seattle,USA

9%

POPULATION GROWTH[19]

2010-15

A booming technology sector and a strong supply of property in pockets of areas with potential for redevelopment.

Kolkata, India

2%

POPULATION GROWTH[22]

2011-14

Economic growth second only to Delhi in India, with per capita GDP projected to improve dramatically over the next 20 years.

Edmonton, Canada

8%

POPULATION GROWTH[20]

2011-14

Growing population and high levels of manufacturing in support of oil and gas commodities is driving demand for residential property.

What can investors do?

Offer solutions to national challenges

As urban populations grow, pressure on infrastructure will increase. The costs won't all be able to be met from public funds, so governments will turn to the investment market to make up the shortfall. The models they develop are likely to offer stable returns over a defined time period.

Get into secondary cities early

All cities are growing, not just those with the biggest reputations. Taking local advice on the locations corporate tenants are starting to head towards will put you in prime position to get into those markets before the costs of entry start to rise.

Keep an eye on population trends

City populations are surging the world over, but some are pulling in more people and business than others. These growing mega-cities will offer a critical mass of economic and cultural activity that will ensure they remain iconic destinations, putting high value real estate deals on the table over the long term.

[18] Mid-2011 population estimates', UK Office for National Statistics / 'Manchester Factsheet', Manchester City Council
[19] 'About Seattle', Seattle Department of Planning and Development
[20] 'Population History', Edmonton City Government
[21] 'Brisbane Revealed', Australian Bureau of Statistics, 2012 / 'Queensland State Summary', Australian Bureau of Statistics
[22] 'Kolkata Population', World Population Review / Census India

Helping you uncover opportunities for growth

A whirlwind of factors – political environments, demographic change, increasing urbanisation – are now shaping opportunities for investors to seek returns in markets overseas. This constantly evolving global environment adds to the richness of choice and the challenge of deciding where to put your money.

Faced with this level of both opportunity and complexity, investors will, like everyone else, take short cuts in their thinking. However, to ensure you're making the best decisions and capitalising on new opportunities it's critical to complement this gut instinct with rational analysis. From established markets to emerging regions, our specialist teams in more than 130 offices can provide the technical skills to support you.

Takeaways for investors:

When seeking politically stable environments to invest in, apply sufficient analysis to check your initial assumptions about which countries offer safe harbour. There may be emerging pockets of stability, offering new opportunities, that haven't registered previously on your radar.

An investor's instincts are often based on the accretion of many years' experience and can be a powerful decision making tool. But perform regular checks, using hard data analysis, to ensure decisions are not based on personal bias and informed by the lure of soft power. Otherwise opportunities that can better meet investment objectives might remain obscured from view.

To back the best overseas projects, engage with local experts to understand the impact of demographic change in that region and the residential and commercial preferences this generates.

When considering investment in a foreign city, satisfy yourself that you understand the pressures urbanisation puts on local policy makers and whether your projects help ease them.

About Grant Thornton

Grant Thornton is one of the world's leading organisations of independent assurance,tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward-looking advice. Proactive teams, led by approachable partners, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 40,000 Grant Thornton people across over 130 countries, are focused on making a difference to the clients, colleagues and the communities in which we live and work.

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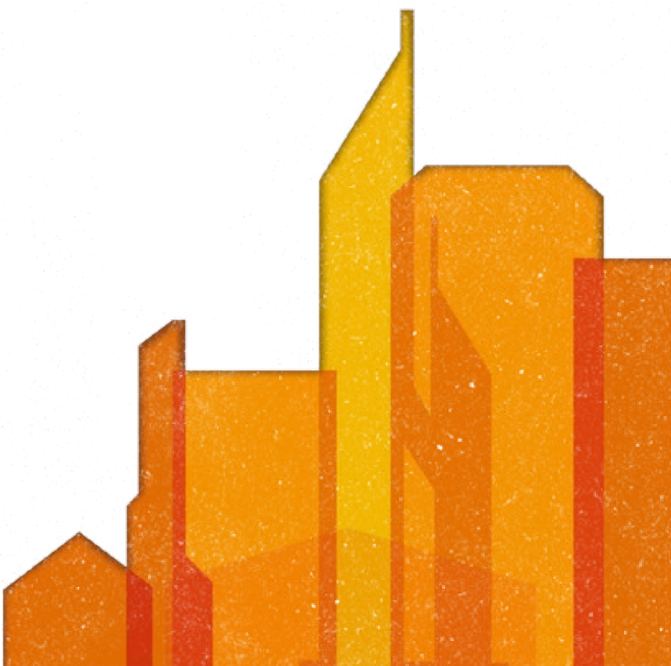
Grant Thornton
An instinct for growth™



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