

THE RAPID RISE OF LIVING WELL IN THE CITY

As the continued urbanisation of Europe's cities picks up pace, it is more vital than ever for mixed-use real estate investors to combine acute analysis of traditional fundamentals and increasingly relevant soft factors to create a precise understanding of a specific location's lasting attractiveness.

Europe's bustling multi-cultural cities have been an age-old magnet for ambitious and fun-seeking generations – and there is compelling evidence to show that this trend is escalating rather than slowing. With ongoing urbanisation and increased mobility, an estimated 70 mln people will be setting up home in a European city in the next 30 years. That's even more people than the entire UK population.

From Glasgow to Rome – and everywhere in between – cities attract society's diverse demographic groups who share a healthy appetite for experience, choice and good-quality living. Millennials working hard to save for a foothold on the property ladder, young families growing together, and retirees spending free time enjoying social and cultural amenities all live side by side.

The number of people across all age groups renting rather than owning their homes (the so-called generation rent) is also on the rise. They make up a mixed group of urban dwellers – some rent out of choice, but for others it simply comes down to the affordability factor. Whatever their motivations, they all share that special goal of living the urban dream well.



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CREATING DESIGNS FOR LIVING

Achieving this dream is more than a chance meeting of local residents' minds though. It takes empathy, understanding and commitment on the part of real estate managers, developers, urban planners and capital providers to create solid foundations and communities for living well in the city. Crucially, neighbourhoods are built on a holistic view of mixed-use facilities that meet people's needs and aspirations. As this article illustrates, those needs are based on very human qualities or 'soft factors' of belonging and fulfilment that are intrinsically linked to socio-economic drivers in the urban setting.

PEOPLE MAKE COMMUNITIES

People are attracted to good-quality infrastructure where their needs are met. They want to live, shop, work, socialise and thrive where they feel connected and welcome – helping to create sustainable and attractive communities. Safety and social cohesion are top of city residents' minds – and the built environment has a vital role to play in delivering community confidence and nurturing a well-functioning society.

While a sense of local community may sometimes be an allusive factor for some city residents who are busy with work, strong ties to a local area and emotional connections are vital ingredients in helping new and existing neighbourhoods thrive. With a good level of emotional security comes a willingness to engage and take part in local community activities, helping neighbourhoods to flourish and grow. Happy residents are likely to be aware of the need to prioritise their wellbeing and take a proactive role in their own physical and mental health. They are also more likely to be active members of society and play a meaningful and valuable role in the economy.

CITIES WITH SOFT FACTORS OUTPERFORM

According to research carried out by Redevco, cities that offer a strong array of soft factors – all the elements that improve the quality of life – are more likely to outperform. It's important to take a holistic view of a city's attractiveness, the research finds. People's shopping ex-



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periences depend largely on factors that determine the environmental quality of a city. The number and range of popular leisure and multi-cultural activities, world-class historic sites, diverse food and beverage offerings, as well as the presence of creative professions are all indicators of a city’s quality.

Those cities with more creative people tend to ooze a certain buzz and atmosphere because creatives generally choose interesting cities to live and work in, according to Redevco’s findings. Cities that score highly in soft factors will have stronger economic growth prospects, various academic and commercial research studies have found. Combining those soft factors with fundamentals like population and a thriving economy results in better-performing property over time, helping to perpetuate the ongoing appeal of investing in urban mixed-use developments.

DEFINING A CITY’S ATTRACTIVENESS

To inspire and motivate retail and residential real estate investment providers, an in-depth view on a city’s attractiveness is crucial to create a robust business case. Also, capturing an understanding of the perfect blend of qualities that inspire and appeal to future generations of city residents will determine which cities and locations succeed or risk failure in the long term. For real estate investment managers like Redevco that are committed to investing in the future of Europe’s cities, the core of a successful real estate investment strategy comes down to an expert ability to identify future-proof locations because they drive performance.

To research urban appeal for high street retail locations, Redevco created the City Attractiveness tool over seven years ago. The tool has been refined and updated every year to maintain a detailed and up-to-date as possible investment view. The City Attractiveness tool assesses the perceived quality of a market and its current and future risks and, of course, opportunities. The weightings of the indicators within the City Attractiveness model are based

on their correlation with prime rents and prime yields.

Using a wide range of sources to analyse and rank 825 European cities across 25 countries, 19 different indicators are grouped into four main categories: population, economy, retail property market and city quality. Taken together, category data are scored and weighted to generate a city’s ranking. What’s special about the process is that each ranking is then enriched with local knowledge and insight from Redevco’s seven country teams. This process results in a grouping of locations into five quality baskets, ranging from ‘excellent’ to ‘poor’ – helping to identify a total investment grade universe of around 150 European cities.

MODELLING SOFT FACTORS TOO

According to Redevco, its model reveals that soft factors – like the presence of creative professionals or the number of tourist attractions, for example – are increasingly important in determining a city’s overall attractiveness for investment. What’s more, these soft factors help to support the superior financial performance of assets in these locations. Having a thorough knowledge of cities, combined with consumer behaviour related to shopping, provides compelling market intelligence to be able to select the optimal neighborhood for retailers to open stores, as well as delivering investment strategies with the potential to outperform.

BIG CITIES, BETTER GROWTH PROSPECTS

Social dynamics, consumer profile and make-up of a city’s population have a fundamental impact on the performance of retail – according to Redevco’s research – and these factors seem to have commonalities with those that create attractive living environments. Equally important in assessing a city’s attractiveness for mixed-used retail and residential is its drawing power and the strength of competition from urban centres in the surrounding catchment area. An important factor in destination-choice modelling is how to account for the effects of ‘cumulative attraction’ – where destination choices of individual recreationalists are dependent on the spatial distribution of sites and attractions – from multiple sites and hierarchical processing of potential destinations. On this basis, larger cities relative to smaller ones are more attractive as mixed-use destinations, the Redevco research reveals.

Convenience has become synonymous with urban living and is part and parcel of its attraction. High up on people’s agenda is the ability to enjoy the convenience of social venues close to their homes. Communities close to well-connected transport hubs and services attract city dwellers who like the convenience of being connected to their wider environment. Public transport use also appeals to climate

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change-conscious city residents who will be more likely to favour sustainability-aware offerings in the local communities. The rise of European urbanisation is also acutely connected to changes in the consumer-retail dynamic.

ADAPTING TO CHANGING DEMAND

The Internet is accelerating the polarisation of retailing into ‘experience’ or ‘convenience’ shopping, according to Redevco’s proprietary research and analysis of wider market trends. Consumers are adopting a new ‘retail state of mind’ where a need-to-buy mindset is shifting to a need-to-enjoy mindset, which influences consumers’ decisions about their favourite retail destinations. Consumers today are motivated by much more than a quality shopping experience. Faced with a broad choice of dynamic leisure options, discerning consumers are understandably attracted to appealing destination-specific leisure and cultural pursuits, and those that offer ample quality socialising options.

With the risk of oversupply leaping up the industry’s agenda as demand for retail space is increasingly impacted by e-commerce, Redevco has switched the basis on which this factor is measured from the traditional reference to future new retail real estate supply, to the volume of online sales. In countries with a high share of online sales, such as the UK and Germany, the risk for physical space to become obsolete increases due to severe continuous competition.

The shift in retail to new types of experience and convenience is a key reflection of the way city residents live, work and consume, which further supports the appeal of investing in future-proof mixed-used real estate in attractive cities. The market is evolving so rapidly – and developments such as e-commerce and urbanisation are so complex to measure and evaluate – that only a deep and dynamic data approach will allow investors to keep up with the radical market evolution that is underway. ■