Global Research | October 2020

# Readiness, Resilience and Responsibility

## City Governance and Real Estate in a Post-COVID World

# Contents


| | |
|---|---|
| Executive Briefing | 3 |
| Introduction | 11 |
| What is City Governance All About? | 19 |
| What to Look for? The Seven Habits of Good City Governance | 24 |
| Towards a Typology of City Governance for Real Estate | 42 |
| Conclusion | 51 |

# Executive Briefing

# City Governance, Urbanisation and COVID-19

We are now well into the 'century of cities.' Yet the COVID-19 pandemic has exposed just how vulnerable our global cities are to external shocks. Debate is now raging on the future path cities will take, with some even speculating that urbanisation will go into reverse.

The reality is that we all continue to live in an age of urbanisation. How cities perform will matter even more than ever. Some cities will be much more successful than others at responding to the current COVID crisis, preparing for the looming climate emergency, and capturing the economic and investment opportunities that emerge in cycles of recovery. Why?

The answer will be substantially informed by **City Governance** – the way cities are run, managed, led and orchestrated. The century of cities is to a large extent about city governance. By stretching governing capacities to the limit, COVID-19 will act as a catalyst to sort successful from less successful places.

This paper produced by JLL in partnership with The Business of Cities introduces the notion of city governance. It explains why it is becoming more of a differentiator for real estate, and what the implications are for those navigating choices within and between cities.

## Why is Good City Governance Becoming so Important?

The coming years are likely to see significant disruptions to our cities, not only as consequences of the COVID-19 pandemic, but also due to climate, technological, social and geopolitical changes. It is likely to result in:

- **Changes in demand between cities**, depending on levels of health impacts, perceived risks and changing industry dynamics. There will probably be more flux in population flows and business relocations.
- **Changes in location patterns within city regions**, including potential shifts in risk profiles between city centres, suburbs, satellites, logistics assets and other sites of critical infrastructure.
- **Changes in how cities are used**, including more hygiene and space utilisation protocols in public streets and spaces and transport systems.
- **Changes in building use**, including safe workspace formats, adaptive uses and attendant demand for collaborative working.
- **The industry mix within cities** will evolve amid retail rationalisation and omni-channel acceleration, travel and tourism setbacks, new supply chain requirements and logistics models.
- **Pressures to move to a low-carbon economy will intensify**, requiring fast-track routes to creating green infrastructure and buildings, and embracing the circular economy and mass sustainable mobility.
- **Wider digital catchments**, with the high-value, face-to-face physical economy complemented and 'blended' with a virtual economy that has more geographical reach and flexibility.
- **The use of smart solutions** and deployment of advanced technology platforms, putting pressure on cities to be capable partners, customers and regulators.
- **More neighbourhood collaboration required** between district leaders, landlords and tenants to jointly cope with disruption, respond rapidly and collectively when needed, and mitigate ongoing risks.

These disruptions and the ever more complex nature of city transformation all point to city governance being increasingly elemental to a city being 'future fit' for the coming decades. In order to prepare, react and future-proof collectively, cities require effective governance and a high level of mutual trust, symbiosis, transparency and brokerage between the various city stakeholders.

# The Seven Habits of Good City Governance

Our analysis of city performance data and our interviews with city and real estate leaders have identified seven common habits or principles of good governance that shape the experience and the outlook for these cities:

## 1 Political Consensus and Continuity

Political flux is in the DNA of most cities. Political timelines are short, while major infrastructure and real estate projects can have 10 to 25-year cycles. In some countries, leaders may change but policies within cities and towards cities remain consistent because there is a depth of civic consensus, commitment to evidence-based policy and an inclination to support the key engines of national growth and sustainability.

## 2 Metropolitan Management

For real estate, the scale of opportunity that a city offers as a single, whole market is essential. If the city can manage its growth at something close to a 'whole city' scale, it can assemble land parcels of the necessary size to stimulate the market and create attractive projects. It can define a long-term vision and develop coherent planning frameworks and rational land-use policies. This adds to predictability and reduces the risk of wasteful competition from neighbouring locations, or of asset obsolescence during periods of adjustment. It also provides a clearer investment prospectus for private capital.

## 3 Fiscal Capacity

A key signal of a city's power to recover from downturns and co-invest in its long-term success is its ability to regularly secure public investment to meet new priorities of infrastructure, housing, resilience and quality of life. This will be especially important in a post-COVID fiscal context. While higher-level governments are essential to investment delivery, greater fiscal agility and independence add certainty and capacity for city and local governments. It allows them to integrate capital investment budgets, plan for long-term investments and become more willing and competent partners for private finance.

## 4 Instruments to Optimise Land and Infrastructure

How efficiently cities use land is a big shaper of the industries they can host, their attractiveness, their potential to be environmentally prudent, and the access they give their residents to intergenerational opportunity. This is even more important in light of COVID-19, as cities require agility to respond quickly to changing health requirements, movement patterns and business needs. The demand will grow for speed and flexibility in how buildings, land and streets are used.

## 5 Vision and Appetite for the Future

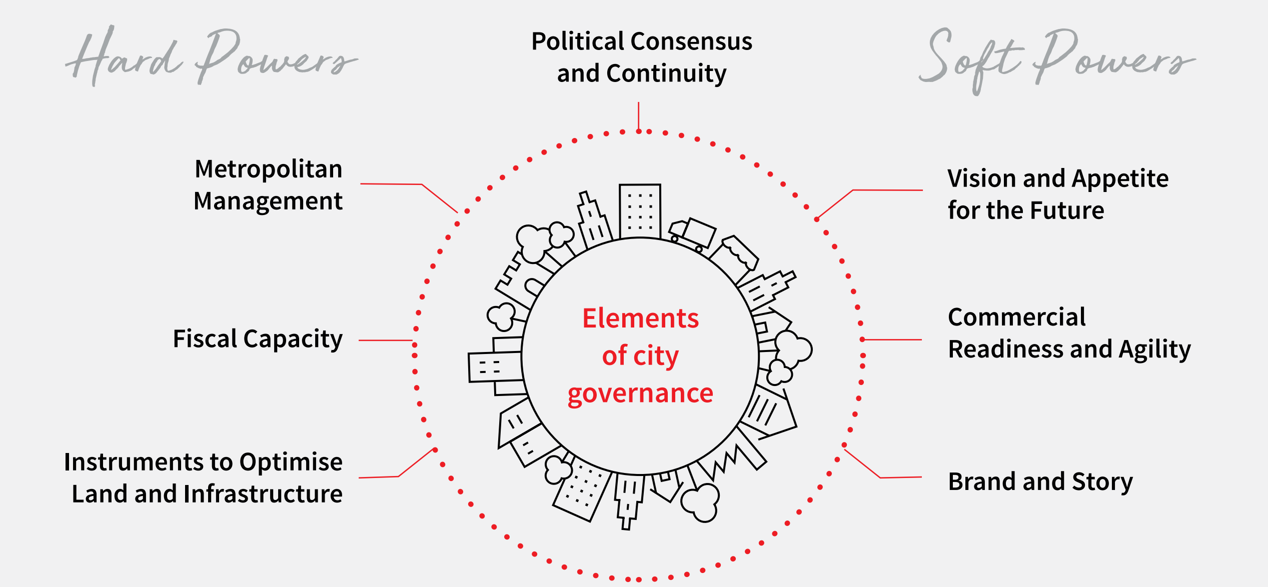
A vision and thirst for success separates some cities from others. Even for a city with far-reaching formal powers, delivering change relies on a shared ambition about what it wants to become, endorsed by business, citizens and communities. Appetite for a city's future, especially during and after times of profound setback, stems from a city's own common purpose. A compelling vision also enlists the capacity of the real estate sector to conceive, design and deliver the kind of development the city needs.

## 6 Commercial Readiness and Agility

The experience of real estate in urban markets depends on how nimble a city is in building partnerships, doing deals and ensuring the regulatory environment is transparent, predictable, speedy and responsive. In some cities, business and real estate is welcomed to propose opportunities, share risks, contribute to decision-making and provide insight on anticipated future needs.

## 7 Brand and Story

In a crowded global marketplace and amid the scrutiny of a worldwide pandemic, demand for a city is inspired by its visibility and reputation. A city whose identity has global reach and resonance and conjures a powerful set of ideas as a place to do business, visit, study and innovate, is more resilient against shocks because it has an enduring magnetism to trade, investment and talent. It provides a conducive environment for the real estate community to demonstrate both the civic value it can create and its contribution to wider goals.




Source: JLL, The Business of Cities, 2020

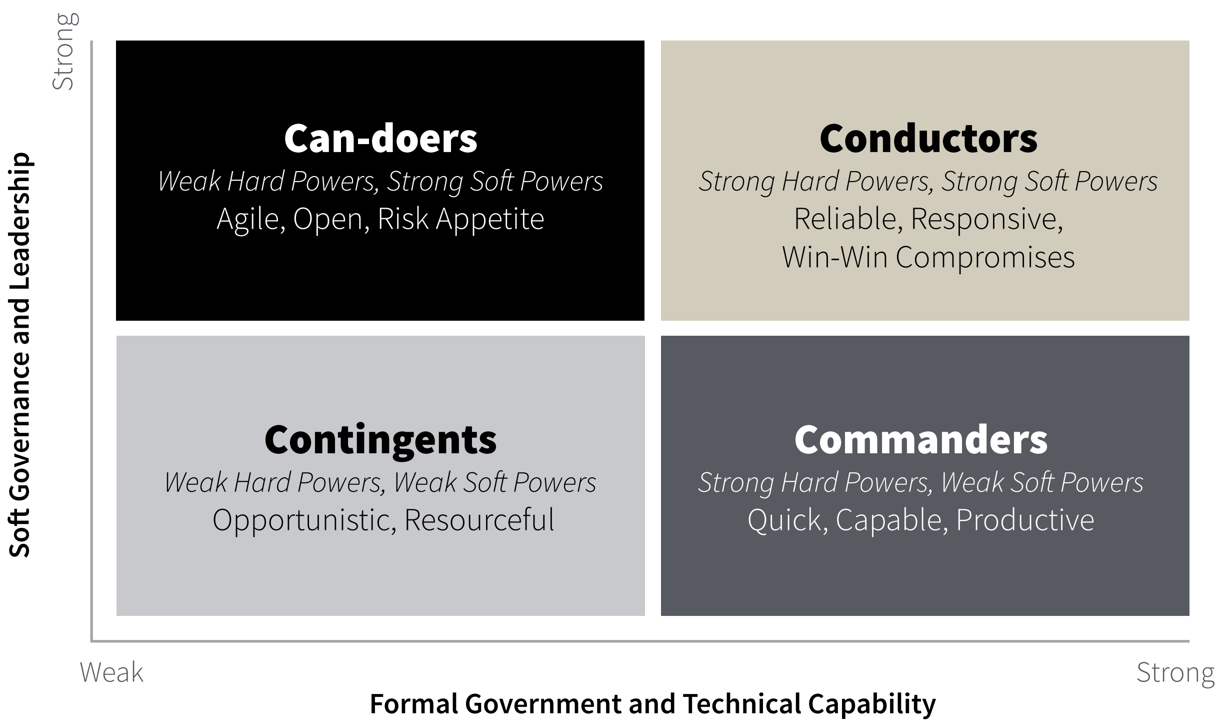
# Formal versus Soft Governance

For a real estate investor or occupier, understanding what type of governance framework a city has helps to inform in what ways they can interact with the system, and what kinds of advantage or risk it poses.

Our analysis has differentiated between a city's 'hard' and 'soft' powers:

- A city's 'hard' powers of governance underpin whether it is capable of investing in, legislating, subsidising, incentivising and leading the market so as to accelerate the transitions in building, transport, energy, design and resilience.
- A city's 'soft' powers tell us a lot about its instinct and appetite to adapt to new contexts, to find win-win scenarios with development partners, and to mobilise allies to implement strategies at scale.

**How the different types of city governance model work for real estate**




Source: JLL, The Business of Cities, 2020

# Four City Governance 'Types'

By mapping cites across these two core dimensions we can identify broadly four governance 'types':

## The Can-Doers

*Weak 'Hard' Powers, Strong 'Soft' Powers*

A group of cities that inherit weaker formal powers but which have tried to make up for those deficits with agility and appetite to seize new opportunities and make deals happen. This attitude can be found where city leaders have created capable teams around them and are consistently open and nimble in response to enquiries about investment, development and infrastructure. These cities tend to be quite successful at winning opportunities, organising around time-limited agendas, securing reforms and building a fabric of co-operation across conventional borders. This instinct can prove especially advantageous in the uncertainty that follows major shocks, such as COVID-19. Examples include Manchester, Milan and Dallas.

## The Commanders

*Strong 'Hard' Powers, Weak 'Soft' Powers*

There is a significant group of cities whose tight governance arrangements create very strong co-ordination and clarity around responsibilities, a predictable investment system and the calibre of leadership to drive long-term agendas. These cities are quick, capable and productive in responding to opportunities. Powers over land use and transport also mean they are far better equipped to enter into sustained partnerships with investors and developers. They are typical of some Asian cities such as Singapore, Shenzhen and Dubai.

## The Conductors

*Strong 'Hard' Powers, Strong 'Soft' Powers*

A small number of cities have both very strong formal powers around land, finance and growth management, and the instinct to engage with business and real estate as an ally and partner in the strategy-making process. In these cities there are usually long-term, well-signalled projects shaping the city, and real estate has the opportunity to form long-standing, durable partnerships. They are typical of several Northern European cities like Hamburg and Stockholm.

## The Contingents

*Weak 'Hard' Powers, Weak 'Soft' Powers*

There is also a group of cities that, relative to their size, location and potential appeal, are not always able to optimise their situation due to governance fragmentation issues and have limited channels for softer governance to take hold. In these cities the fundamentals mean they continue to be in demand: talent, companies and investors can still find affordable and good-value options. And they offer real estate a chance to lead with demonstrator projects. Osaka, Brussels and San Francisco are examples of cities with this type of governance model.

For real estate there are advantages and disadvantages in the different governance 'types.' Most can be good partners for real estate in the right circumstances. And they rarely stay still for very long because internal impulses for change and external conditions are constantly in flux. A global shock such as COVID-19 can be a time for major city governance upheaval and reorientation.

# Lessons for Real Estate and Governments

## For Real Estate Investors and Developers

- City governance has now become an unavoidable factor in decision-making. Investment decisions will become more governance-centric and we will see new metrics devised to support city evaluation and choices. Evidence of how cities are run, led and managed will increasingly influence whether to allocate capital and attention to one city or another.
- A governance focus can help spot which cities have significant growth and improvement capacity, knowledge assets capable of being commercialised, and propensity to borrow scale from neighbours.
- Being attuned to the governance context can also help investors and developers recognise the conditions when a city may slip backwards in terms of the consensus to welcome growth and capability to develop at scale.
- Investors need to identify early the risks of local political disruptions, saturation and changes in growth appetite, and cities for whom single catalysts can trigger a whole positive cycle.

## For Corporate Occupiers

- City governance is an essential condition and constraint for corporate occupiers to be alert to.
- For those occupiers with sunk assets, understanding how the governance works helps them to navigate the operating environment of the cities they are in. They can use it to learn and optimise how they interact with public officials and to figure out which informal and formal avenues to pursue.
- There are opportunities to align corporate ambitions with proactive contributions to city governance and longer-term agendas that make the city conducive to talent and innovation.
- A governance lens helps to focus on future demands and imperatives the city will follow – around sustainability, workforce health, transport and more.
- And for those occupiers with more mobile assets, governance can help identify cities that will make it easier to tailor a comprehensive package, provide grow-on space, permit flexibility of land uses and pursue win-win solutions for public and private benefit.

## For City Governments

And what can city governments learn about how to optimise for real estate and for long-term growth?

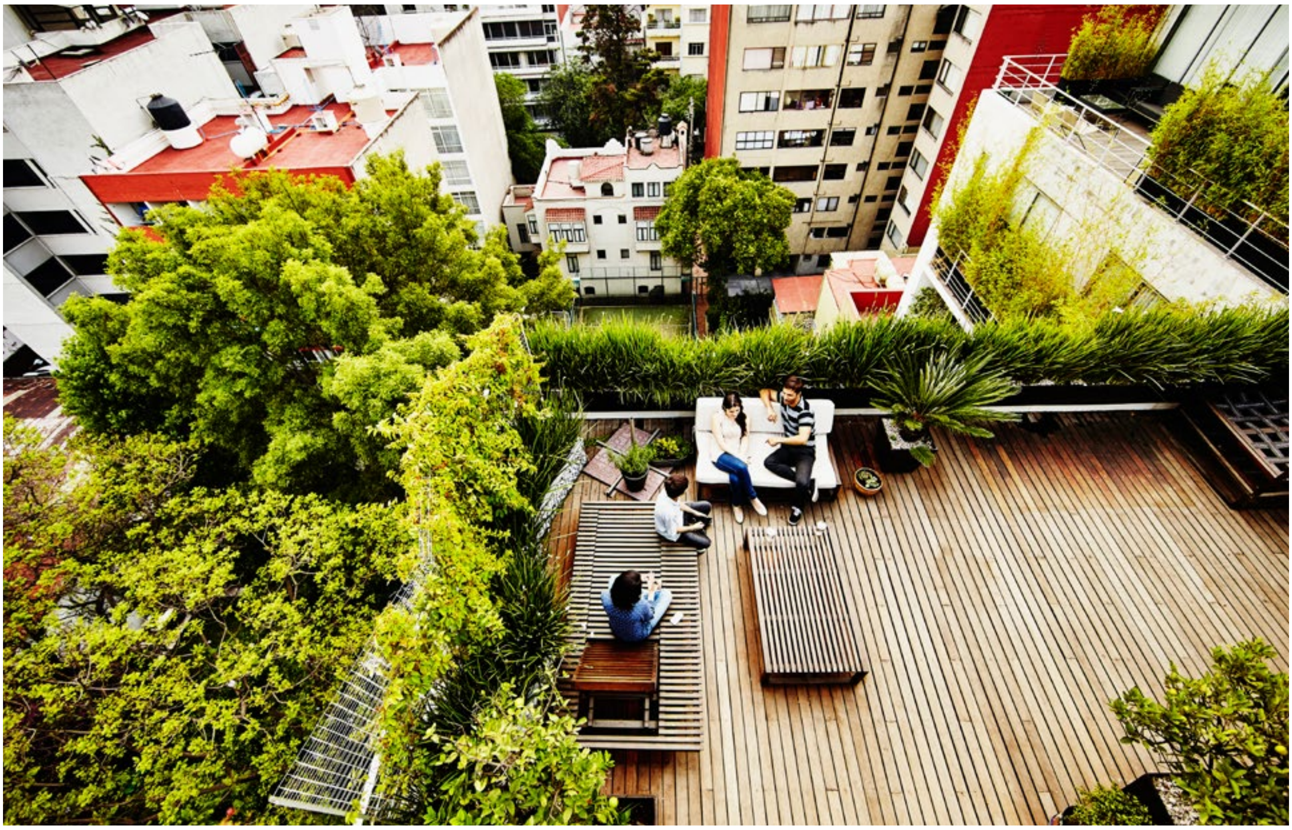
- Master the hard powers and the soft; and establish a clear sense of who is able and responsible to optimise different parts of the governance equation.
- Become informed about what the real estate industry requires, and how this alters over time as the character of urban economies and risk changes.
- View real estate developers, investors and occupiers as a city-shaping partner that can help to achieve goals which would otherwise be difficult.

# City Governance and Responsible Real Estate

In a post-COVID world, the future of well-run cities will include many roles and responsibilities for the responsible investor and enterprise:

- Business will play an essential role in ensuring workspaces and work practices in cities are healthy, secure and productive; and their built environment responses will help cities become cleaner, more efficient and attentive to well-being, and accelerate towards a zero-carbon future.
- At the same time, business will also increasingly become stewards and participants in the distributed system of leading and orchestrating a city. Successful cities will seek and leverage the market intelligence and skills of business to achieve their strategic, communicational and social goals.
- Business can act as a standard-setter, a demonstrator, an eager collaborator and an advocate for long-term change in the shared interests of a productive, sustainable, talent-rich and responsible city.
- Responsible investors and businesses will gravitate towards well-run cities, as they look for capable and reliable partners who share their values and have a clear vision for a low-carbon, sustainable, inclusive future.

**City governance** – the common endeavour of making our cities places that are fit for the future – is here to stay as a difference-maker for capital, for business, for citizens and, ultimately, for cities themselves.



# Introduction

# City Governance and Real Estate in a Post-COVID World

2020 marks the transition from a long cycle during which business and capital decisively urbanised into a new cycle of disruption and altered risk profiles for cities.

We are now well into the century of cities. Yet COVID-19 has exposed and confirmed some of the ways in which successful in-demand cities are underprepared and under-equipped for the short-term risks and long-term external threats they face.

The character of the public health emergency and ongoing uncertainty created by COVID-19 is also a trigger for renewed speculation about the path this century of cities will take. Many are reflecting on whether urbanisation and densification will be interrupted or even go into reverse. After all, COVID-19 strikes at the heart of what cities are all about – togetherness, connectivity, and shared services, spaces and systems.

Debate now rages about whether and which cities will experience demographic shocks, business de-concentration and reduced demand for density, interaction and conventional urban assets in favour of more hygienic lifestyles and dispersed technology-enabled platforms and services.

The reality is that we all continue to live in an age of urbanisation. How cities perform will matter even more than ever. It matters not only to competitive allocators of capital and to cities seeking to win against the global competition. It counts for all of humanity that cities are successful, and that the world completes its urbanisation journey in a way which is sustainable, resilient and responsible.

However, the current crisis underlines that most major global cities are in a critical period when their success model is being sorely tested.

The most pressing questions being asked of cities include:

- Are they able to protect and defend their populations and assets from the full spectrum of global threats?
- Will they move at scale to decarbonise and mitigate against climate change?
- How will they adapt to combat inequality and segregation?
- Will they solve their chronic housing market problems?
- Will they decisively confront populism and anti-globalisation sentiment?

Some cities will be much more successful than others at responding to and resolving these doubts. Why?

These issues demand a different calculus for those seeking to understand which cities will recover and succeed, and how, in the next cycle.

The answers will be very much informed by how cities are run, managed, led and orchestrated; cities' ***governance*** will define if they are to translate their success and promise into a stable and sustainable growth model. The century of cities is to a large extent about city governance, and by stretching governing capacities to the limit, COVID-19 will act as a catalyst to sort successful from less successful places.

This paper produced by JLL in partnership with The Business of Cities draws on global evidence and expertise to introduce and familiarise the notion of city governance. It explains why it is becoming more of a differentiator for real estate and what the implications are for those navigating choices within and between cities.

# What is City Governance and What is it Not?

There are plenty of definitions of city governance out there.

The core idea is that the complexity of challenges which cities face as they grow are beyond the sole and direct control of city governments.  There are many other players involved in producing a well-run city.

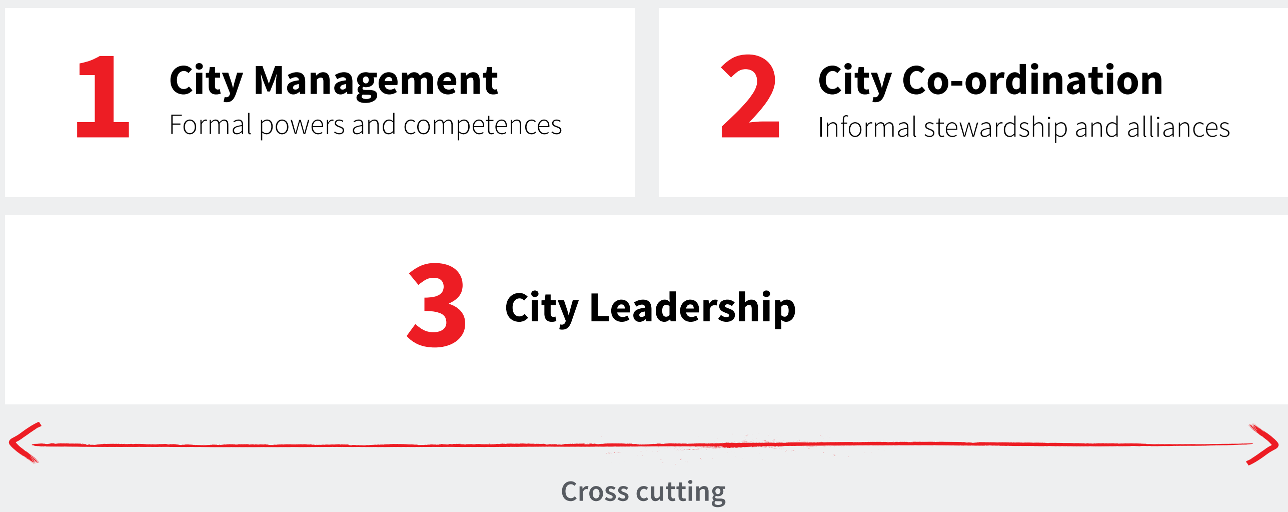
For the purposes of this report, city governance encompasses:

1. **City Management** – the span of formal powers that cities possess and deploy to deliver services, invest in public infrastructure, maintain essential city systems, and finance or co-finance development.

2. **City Co-ordination** – the informal propensity of cities to work across boundaries, recruit others into shared agendas and stakeholder alliances, and embrace partnerships and common projects.

3. **City Leadership** – the character and capability of city leaders to galvanise others in the city, set agendas, optimise the institutions they lead, innovate boldly and advocate for improvements.

**The three pillars of city governance**




From the point of view of a corporate occupier, developer or investor, good governance spans all three of these dimensions.  Together they define the confidence, the value-added potential and the trust that surround decisions to choose, operate and grow in a city.

# What is at Stake?

**For Real Estate Investors and Developers**, city governance has now become an unavoidable factor in decision-making.

Evidence of how cities are run, led and managed increasingly influence whether to allocate capital and attention to one city or another. A close understanding of a city's institutional framework can help to recognise whether a project or project announcement is a signal that a whole new positive cycle is really beginning, or alternatively is just a piecemeal or one-off initiative. Being attuned to the governance context can also help investors and developers spot the conditions when a city may slip backwards in terms of the consensus to welcome growth and capability to develop at scale.

**For Corporate Occupiers** city governance is also an essential condition and constraint to be alert to.

For those occupiers with sunk assets, understanding how governance works helps them to navigate the operating environment of the cities they are in. They can use it to learn and optimise how they interact with public officials and to figure out which informal and formal avenues to pursue. Familiarity with a city's governance gaps also enables occupiers to contribute both directly and indirectly to making the city work more effectively.

And for those occupiers with more mobile assets, governance can help distinguish more sharply between cities that will make it easier or harder to tailor a comprehensive package, provide grow-on space, permit flexibility of land uses and pursue win-win solutions for public and private benefit.

## The Dividend of Good Governance for Cities and Urban Assets

There is growing evidence of the value to cities of effective institutions, high levels of co-ordination and strong sources of leadership.

This value is not only captured in terms of increased productivity, prosperity and opportunity for citizens, but also in added stability and reduced multiple risks for owners, investors and developers of urban real estate.

Cities that have gained the tools and know-how to manage their growth are better able to cope with saturation in a high-demand cycle by unlocking new locations and, when shocks happen, they can make rapid responses and investments. They protect the interests of their citizens and their customers and make the most of their assets in each cycle. This helps those cities to be more future-proof for those who live, work, own and invest in them.

The ability and the appetite to fashion win-win scenarios between city government, businesses and real estate owners separates certain cities from the pack. Those cities who look ahead and make use of market intelligence tend to proactively respond to external changes to demand and stay friendly and accommodating to business during up and down periods. Across different terms of political leadership, they foster a positive psychology and story about how their city is changing.

Cities that have learnt how to manage and plan for growth through more than one cycle can provide confidence and certainty to real estate through their ability to sustain the ingredients which make them attractive to talent and business, and their adaptability to new circumstances when change strikes.

Better governed cities will also be more equipped to redesign their systems to prioritise resilience and low-carbon futures. Their relationships with networks of businesses and manufacturers, and negotiating powers with higher tiers of government, mean they can more easily adopt and scale innovations in sharing and circular business models, promote sustainable mobility, regenerate urban infrastructures and, ultimately, reduce environmental footprints.

## The Risks of Bad Governance

By contrast, the risks and disadvantages of cities whose governance is less fit for purpose are becoming more apparent in the current period.

Many cities have shown that they can 'win' growth and appeal to both business and capital, but without a 'whole city' framework for steering and co-ordinating the growth they achieve, these opportunities can be squandered. Investors and occupiers endure extended uncertainty around whether projects will go ahead and at what scale. Silos, slow processes, internal competition and fragmented leadership result in many promising locations lacking, in the long run, the scale and critical mass to succeed for users and owners alike.

The frequent result is that as these cities start to grow rapidly, they meet capacity problems very quickly and seem habitually unable to achieve infrastructure 'catch up' or to switch to a different kind of development model.

Without the powers of regulation, co-ordination or leadership, cities can lack the agility they need to respond to shocks – in terms of adjusting the industry mix, urban form and infrastructure resilience to thrive in altered circumstances.

They may also find they miss out on opportunities to other cities that are able to mobilise more quickly and are willing to innovate in order to partner with the private sector or with large institutions.

**The divergent paths of cities with effective or weak governance**


- Functional housing markets
- Adoption of smart systems at real scale
- Resilience is organised and implemented
- Social value built-in
- City embraces its future

- Piecemeal projects
- Unaffordability becomes chronic
- Vulnerable to external shocks
- Brittle civic life and diversity
- City stuck in the past

Source: JLL, The Business of Cities, 2020

# Why is Good City Governance Becoming so Important?

In the 2020s, city governance has become a real differentiator for the property industry for a number of related reasons.

**The burning platform of city governance**

- Innovation economy needs nuanced policies
- Infrastructure investment deficits are growing
- Sustainability requires whole system approaches
- Smart solutions are fragmented
- Co-ordination to achieve the placemaking that talent expects around real estate assets
- Populism resulting in business losing its license to operate
- Densification required

There are, put simply, three key factors at play:

**1. Nearly everywhere, cities have recovery and reinvestment requirements that exceed their existing fiscal and decision-making capability.**

Cities' ability to 'build back better' and lead a sustained economic recovery after COVID-19 depends on whether the fiscal conditions and operational control are conducive.

The fiscal and financial stress experienced by cities has intensified. Before the onset of the pandemic, nearly all global cities had already accumulated big investment deficits to serve the high demand they were facing. Only a small minority – including Singapore, and to a lesser extent Hong Kong, Seoul and Hamburg - had been regularly investing in extra capacity as they grew.

Delivering infrastructure investment and a new spatial equation to suit the post-COVID economy, requires more networked leadership and more financial tools compared to earlier cycles of urbanisation when it was easier to pick the 'low-hanging fruit.'

**2. The future economy, in a context of climate change, requires cities to co-ordinate as a whole ecosystem in order to innovate, compete and insure against disruption.**

Costs and incentives are no longer the primary driver for many urban businesses. Instead, corporates and scale-ups feed off the maturity of cities' ecosystems, talent and enterprise models, and are accelerated by initiatives to foster a more circular and climate-aware economy. Nudging these processes will require more nuanced longer-term policies and better integration between different partners and industries in the city governance system.

This includes at the neighbourhood and 'place' level, where co-ordination between owners, businesses and governments is needed to achieve the standard of 'total experience' around real estate assets that can meet the quality of life expectations of scarce talent.

Meanwhile, the rise of companies that deploy advanced platform technologies puts pressure on cities to be capable partners, customers and regulators. This trend also makes 'smart' solutions more possible at 'whole district' and 'whole city' scales but only if cities can overcome fragmentation and capacity issues.

**3. Political and systemic risks are becoming more pervasive and permanent.**

The resilience of urban assets and infrastructures against pandemics, climate change, cyberwarfare and trade conflicts relies on how systematically cities can invest, prepare and co-operate with higher levels of government. The sustainability push starkly reveals how quickly or slowly cities can build 'whole system' and 'whole life cycle' approaches to optimise infrastructure.

Many top-tier cities also now confront the rise of populism, anti-immigrant and anti-globalisation sentiment, especially among electorates beyond city borders.

This not only presents an additional source of political and regulatory volatility for real estate. It also poses a new kind of governance and negotiation challenge for cities to reach positive settlements with their nations and non-urban electorates. And it creates a diplomacy task for how business in cities can retain its social license to operate, as well as new opportunities for companies to demonstrate their social responsibility working together with city leaders.

These trends are set to define the 2020s and together demand that those investing, occupying and owning physical assets in cities take greater account of whether their 'home' or 'target' cities have the span of powers and levels of co-ordination, competence, know-how, distributed leadership and trust to optimise the demand they enjoy and safeguard against the risks they encounter.

# A New Landscape

City governance is not something that only those with a stake in big, in-demand cities need to worry about.

After COVID-19 there is likely to be more flux in population flows, business relocation and appetite for density, interaction and conventional urban assets. The high-value, face-to-face physical economy will be complemented and 'blended' with a virtual economy which has more geographical reach and flexibility. Cities will develop a larger 'digital catchment' that will create opportunities for other cities and locations, and stronger linkages between neighbouring clusters or corridors of cities.

Governance is therefore also an informative signal of whether:

- Smaller 2nd and 3rd tier cities can take advantage of digital transformation, cyclical saturation and reputational damage in top-tier cities.

- struggling low-demand cities can rediscover their purpose and reorganise around the assets they still have.

- capitals of emerging economies can gain the credibility to absorb a wider variety of occupiers and investors.

In the post-COVID-19 world, the competition between cities will be even more nuanced, influenced not only by market dynamics but also by new terrains on which cities are judged and how cities react to the changed context. For cities of different types at varying points in their evolution, governance will become an essential part of the jigsaw to assess their comparative performance and potential.

# What is City Governance All About?

# What is City Governance All About?

'City governance' is sometimes used to refer to everything that happens outside of the normal activity of government. Here we use it to mean both the formal powers within city government, and the informal partnership between city government and other neighbours, partners and levels of government.

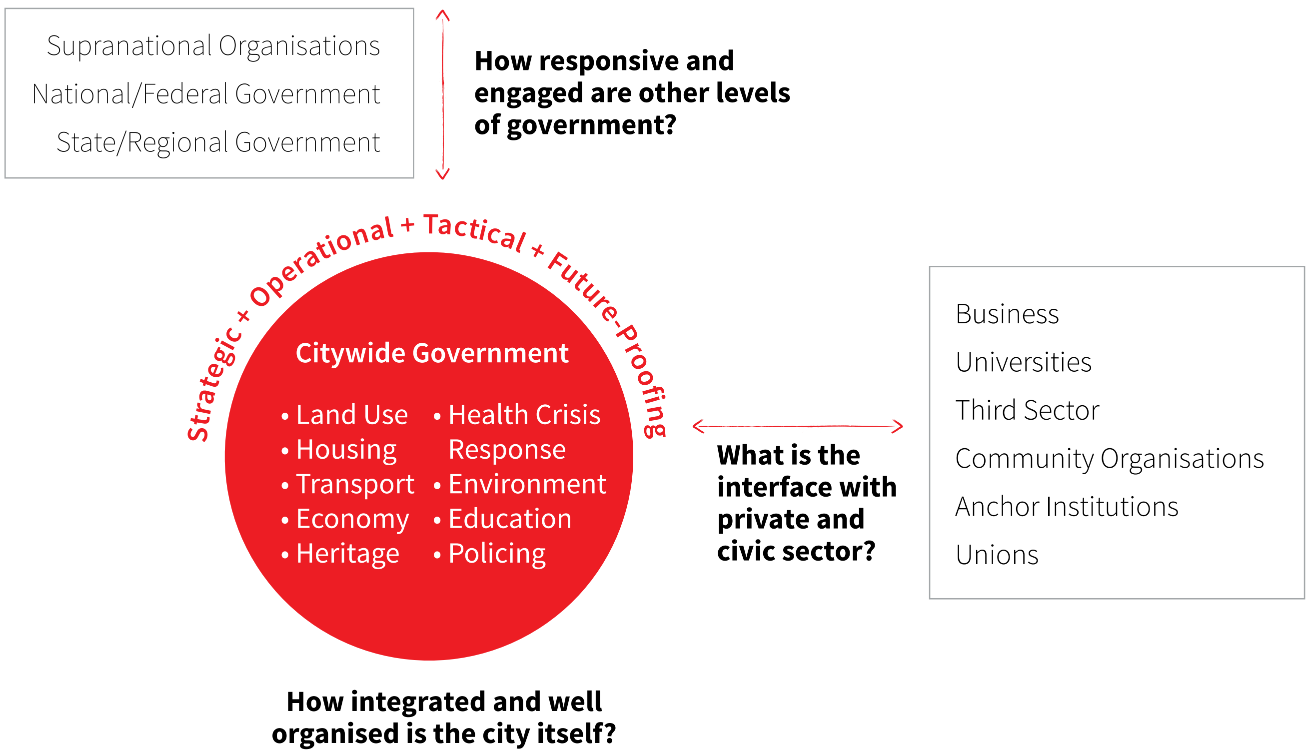
No city government is the exclusive provider of services, investment, leadership, strategy and co-ordination. Each is part of a distributed, often fragmented system of players involved in producing a well-run city.

These include national governments and agencies, public investment banks, large transport authorities and infrastructure providers, state parliaments and smaller government units, plus major landowners, universities, companies, employee unions, civic bodies and advocates, and other institutions in public life.

Thinking about governance in this way is useful for real estate because it:

- helps distinguish between the core capability of city government itself and its enabling relationships 'above', 'below' and 'sideways'.
- observes the importance of higher levels of government whose politics and policies strongly influence city performance and competitiveness over the short and longer term.
- identifies the role of other essential players in the governance system, including universities, anchor institutions and civic bodies, who can act as partners, allies and influencers.

**The system that makes up 'city governance'**



At first glance, global cities sometimes share similar built environments and business climates, but they inherit very different kinds of governance. More cities are competing for investment capital and for other contested opportunities; however, they are led, managed and run in very different ways due to idiosyncrasies of cumulative history, geography, culture and recent reform cycles.

What do these traits add up to? Some cities have very clear points of decision-making and are used to acting decisively, while others are slow and procedural. Some cities are very willing partners in some political cycles but less co-operative in others, while other cities show a more continuous pattern of behaviour. Some are flexible about sites and others more prescriptive.

For those in the property sector, these differences not only shape how development opportunities arise and the speed and scale at which projects take form. They also affect the reliability and transparency of the city as a partner, the propensity of the city to anticipate change and shield from external risk, and the city's proficiency in negotiating with others for the kind of reforms and policies that can unlock future capacity.

# When does Governance add Value?

## Paris

When **Paris** combined infrastructure investment in a big rail project with land-use planning reform to enable it to densify in the most advantageous locations.

## Auckland

When national government decided to restructure **Auckland**'s governance for it to catch up to the city's real effective size, become a more strategic asset manager, and avoid wasteful internal competition.

## Tokyo

When large-scale housing investment in **Tokyo** was able to be integrated and sequenced with dedicated funds for education and utilities to make new residential districts desirable, popular and successful.

## Vancouver

When **Vancouver**'s local and provincial government worked closely with business and utilities to produce an Energy Step Code certification for buildings, which incentivised green building innovation and wider growth of the green economy.

## Shenzhen

When higher levels of government in **Shenzhen** agree to invest up front in the technology and high-speed rail infrastructure base to accelerate the city's transition into the innovation economy.

## Melbourne

When highly professional city investment teams in **Melbourne** share information widely, respond efficiently, and prepare the packages that investors and businesses want.

## San Diego

When city leaders in **San Diego** work with allies to create and communicate a common vision and tell a unified story with common purpose that attracts more global attention and interest.

## Oslo

When policies are enacted in **Oslo** to put the city ahead of the curve on resilience, climate change and air pollution, providing a reputational edge to city businesses and assets.

# No Single Governance Recipe

There is no single governance recipe that all cities should aspire to or be judged on. Governance should be appropriate to the context each city and national system inherits. There can be advantages and limitations to every way of running a city. And we observe that the kind of ingredients a city may rely on can evolve for each type of city as each comes up against the limits of its success model.

For example:

- For **Established World Cities**, like London, New York and Tokyo, governance in the 2020s is now more about restoring confidence with business after COVID-19, building relationships with the wider (mega-)regional catchment including neighbouring 2nd and 3rd tier cities, and re-establishing the social license to pursue new housing and mobility solutions. Coping with success and scrutiny, and the pushback from wider electorates, requires a different set of leadership and co-ordination tools, as does capitalising on opportunities that arise from disruption to neighbours (e.g. Paris with Brexit, Singapore with Hong Kong/China uncertainty).

- For **New World Cities**, such as Auckland, Helsinki and Vancouver, that are competing on their safe, small-city feel allied to metropolitan scale, their success model as they grow calls for proactive diversification from vulnerable sectors, making more assets visible, and for reinvestment into their quality-of-life edge. Adapting the inherited success model in light of COVID-19 necessitates a different kind of approach to land use, skills and co-ordination of the ecosystem.

- For **Emerging World Cities**, from Mexico City to Mumbai to Manila, the pressure to shift into a higher-value industry mix, to optimise use of scarce land and to organise around the city's brand has become more of a governance focus compared to the previous cycle, when adjustments to the business climate and investments in metropolitan infrastructure were paramount to deliver broad-based prosperity. These cities also have to confront major challenges of environmental degradation, urban restructuring and stabilising the jobs market.

Owners, occupiers and investors should be alert to which ingredients are becoming critical to the functioning and flourishing of their priority cities. In the next section we break down the common principles to observe.

To find out more about the Global Typology of cities and distinct city types as defined by JLL and The Business of Cities, please see

Demand and Disruption in Global Cities

# What to Look for?

# The Seven Habits of Good City Governance

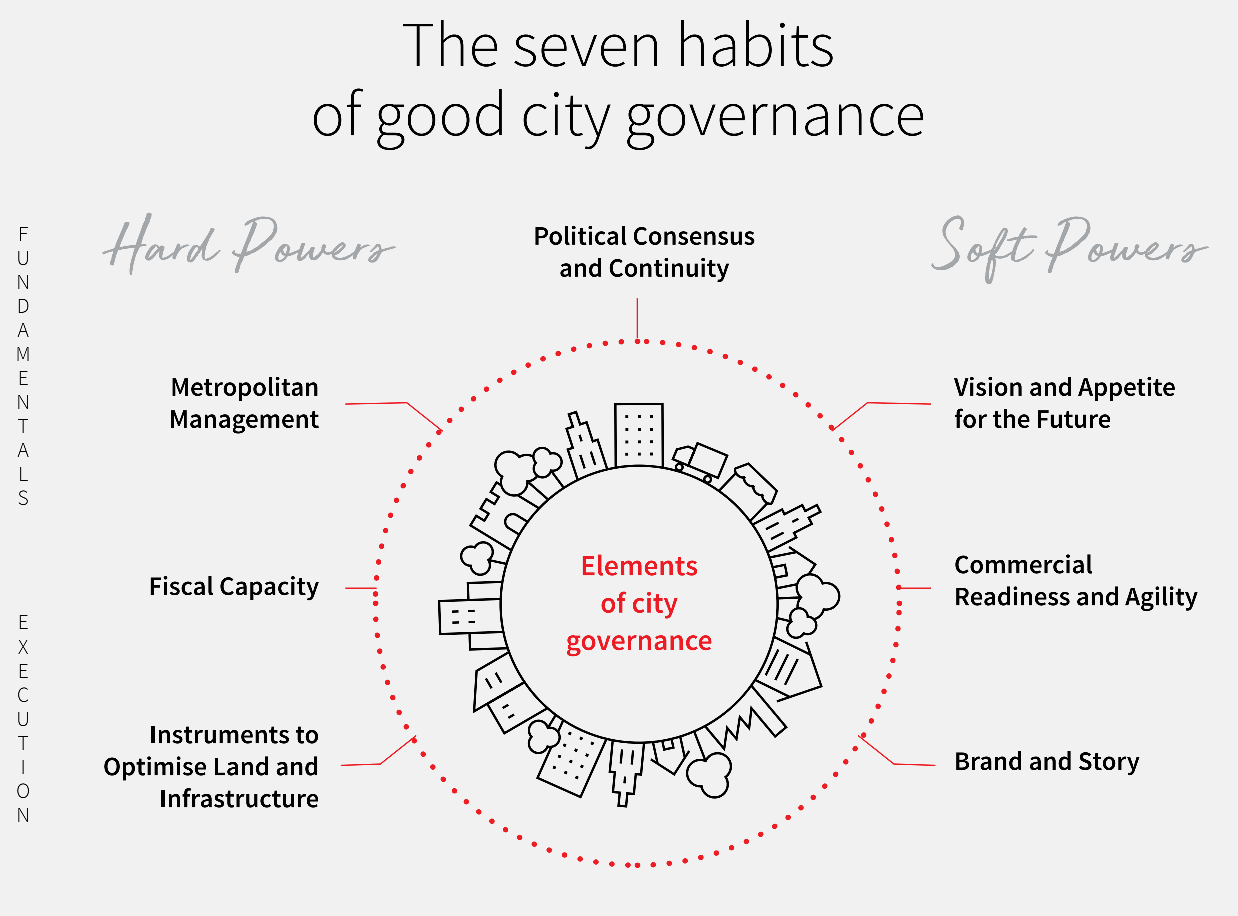
If real estate owners, occupiers and investors had a 'wish list' for their city partners, what kind of things might we see on it?

Our analysis of city performance data and our interviews with city and real estate leaders have identified seven common habits or principles that shape the experience and the outlook for these cities.

These principles span a spectrum from:

- The 'hard' powers cities possess to plan, make policy for, invest in and manage their future, to
- the 'soft' powers cities deploy to implement their strategies, make themselves open for business, build shared agendas and influence others.

Cities vary quite substantially in terms of how developed or mature these 'habits' are. The mix that each city has or does not have influences the kind of opportunities and relationships real estate partners can pursue. Cities are also not static, and these habits tend to evolve over time due to reforms, crises and the effective use of some powers to unlock others.




Source: JLL, The Business of Cities, 2020

# 1. Political Consensus and Continuity

**Questions to ask of a city:**

- How long are election cycles?
- How divided are the city's political parties on housing, planning and economic and social policies?
- Is there a clear national framework for the city?
- Are there paths to insulate long-term projects from political sea changes?

Political flux is in the DNA of most cities. Political timelines are short, while major infrastructure and real estate projects can have 10 to 25-year cycles.

Nearly all cities find themselves in institutional frameworks where they have very direct relationships of reliance and reciprocity with one or two higher levels of government. In addition, both the city and the higher tiers usually have fairly short-term (3-5 years) governing mandates. So political alignment and consensus between the city and the national parties in power can be fleeting.

If a city has less direct power, for example in centralised countries such as Chile, New Zealand, Turkey and the UK, it becomes very reliant on being politically aligned with the higher levels of government. Without this alignment, a city may find that decision-making and financial support for key land and infrastructure projects is unforthcoming, or that joint mobilisation during emergencies is less automatic.

**Political continuity dynamics in select cities**

| | Average length of national/federal parliament. Years since 2000 | Median length of national/federal leadership. Years since 2000 | No. of years since 2000 that city government has aligned politically with the next higher tier of government |
|---|---|---|---|
| **London** | 3.6 | 4.6 | 14 |
| **New York** | 4.0 | 8.0 | 13 |
| **Paris** | 5.0 | 5.0 | 4 |
| **Toronto** | 3.2 | 9.7 | 5 |
| **Seoul** | 4.0 | 5.0 | 8 |
| **Sydney** | 3.0 | 2.8 | 0 |

Source: JLL, The Business of Cities, 2020

There are also differences of political culture. In some nations, leaders may change, but policies within cities and towards cities will remain consistent because there is a depth of civic consensus, commitment to evidence-based policy and a culture of stewardship with respect to the key engines of the national economy. In other countries there are very low levels of consensus about the appropriate public policies to address everything from affordable housing to social inequality or climate change in cities.

Cities can advocate and influence for change beyond their immediate jurisdiction. But for a city to manage some of the risks it confronts, and establish itself as a competitive and inclusive environment for business and talent, it may ultimately rely on a national government shift towards more ambitious climate emissions targets, more proactive intervention in urban housing markets, stronger frameworks to ensure mixed-income communities, and a variety of other 'non-urban' policies which impact on cities' safety, cohesion and skills base.

# German Cities

Germany has achieved a well-balanced and successful 'system' of cities in part because of decades of relatively firm political consensus around economic, infrastructure and planning policy. Despite numerous political and economic shocks since 1989, nearly all of Germany's largest cities perform well above the national productivity average and are underpinned by an excellent system of transport and trade infrastructure. Their liveability edge is continually improved upon.

Federal and state tiers of government have been relatively well aligned around issues of tax base, housing and planning systems, human scale, heritage and social policy. Although housing supply challenges and policy uncertainties over rent controls have grown in certain cities, overall Germany's system has tended to create cities with fewer issues of unaffordability and entrenched social divisions than many others in Europe. City governments have been reasonably well incentivised to broaden participation of private financial sources, fostering a high investment/high return equilibrium for the urban fabric.

The growth and productivity path of most German cities has benefitted from consistent communication and bipartisan negotiation between public and private sector. This trust has produced several innovations in terms of cluster development, energy efficiency, demonstration building projects and social regeneration. Federal policies often survive multiple political cycles and have evolved to keep pace with the new challenges faced by cities.

Cities such as **Frankfurt** and **Hamburg** have managed to shift towards a norm favouring a strong mix of uses, incomes and tenures, while cities like **Stuttgart** and **Düsseldorf** have successfully pivoted to an advanced manufacturing model. Political stability supportive of well-managed growth is also nurturing the emergence of secondary cities with strong fundamentals and clear specialisms.

# Hard Powers

## 2. Metropolitan Management

**Questions to ask of a city:**

- Does the city have effective leadership and institutions governing at a market-relevant geography?
- Are institutions operating at a 'whole city' level gaining a wider span of powers?
- Are city leaders able to work across boundaries to deliver larger projects?
- Does the city collaborate well with cities and satellites around it? Do city and regional leaders speak as one place?

For real estate the scale of opportunity that a city offers as a single, whole market is essential. Why? Scale underpins the level of effective business occupier demand, the flexibility to invest in complementary locations and the size of projects that can be assembled.

With city settlement patterns having long spilled over old boundaries, and with spatial form upended by new technologies and economies, and now the distribution effect of COVID-19, governance is the route to optimising the real scale and catchment of the city.

If the city can manage its growth at something close to a 'whole city' scale, it can assemble land parcels of the necessary size to stimulate the market and create attractive projects. It can define a long-term vision and develop coherent planning frameworks and rational land-use policies. This adds to predictability and reduces the risk either of wasteful competition from neighbouring locations, or of asset obsolescence during periods of adjustment. It also provides a clearer investment prospectus for private capital.

A 'managed metropolis' is one where there is strategic control over public land and key infrastructure systems. Cities can leverage their assets to mutual advantage with development partners and have more ways to ensure infrastructure is appropriately revenued. It allows cities to frame the potential for joint investment between multiple parties. After shocks and crises, they are better able to adapt shared spaces and systems to trigger the return of public trust to using the city again.

These scenarios are in the minority. Many cities anchor metropolitan areas with dozens of local governments, with limited co-ordination, weak powers, and oversight only over a few departmental sectors. Such fragmentation slows decision-making, inhibits economies of scale and means cities can become locked into unproductive spatial patterns that reduce flexibility for investors, productivity for businesses and affordability for talent.

# London

London's ability to unlock multiple growth centres has benefitted from numerous incremental metropolitan reforms over the past 20 years. From having no citywide government, London has gradually gained much more ability to guide and steer development as part of a highly negotiated and distributed system.

The establishment in 2000 of an elected Mayor and a lean Greater London Authority (GLA) 'above' the 33 local boroughs, added clear strategic direction to how and where transport, spatial development and housing would be delivered.

The creation of an integrated authority, Transport for London (TfL), gave the city the ability to co-ordinate public and private transport, and the citywide land-use framework, the London Plan, has been a 'strategy of strategies' to densify in 30+ 'Opportunity Areas' and enshrine the principle of optimising development around transport nodes.

London has profited from incremental expansions and the integration of competences at the metropolitan tier – from climate change policy to housing and promotion. These have in turn triggered more responsible leadership from business and civil society leadership networks.

London's metropolitan management remains incomplete. The city still has limited self-financing autonomy, at approximately 7% of retained revenues. Co-ordination of the wider region – the Greater South East – is still absent. Overall, however, London has successfully negotiated a significant upgrade in its management 'toolkit'.

# 3. Fiscal Capacity

**Questions to ask of a city:**

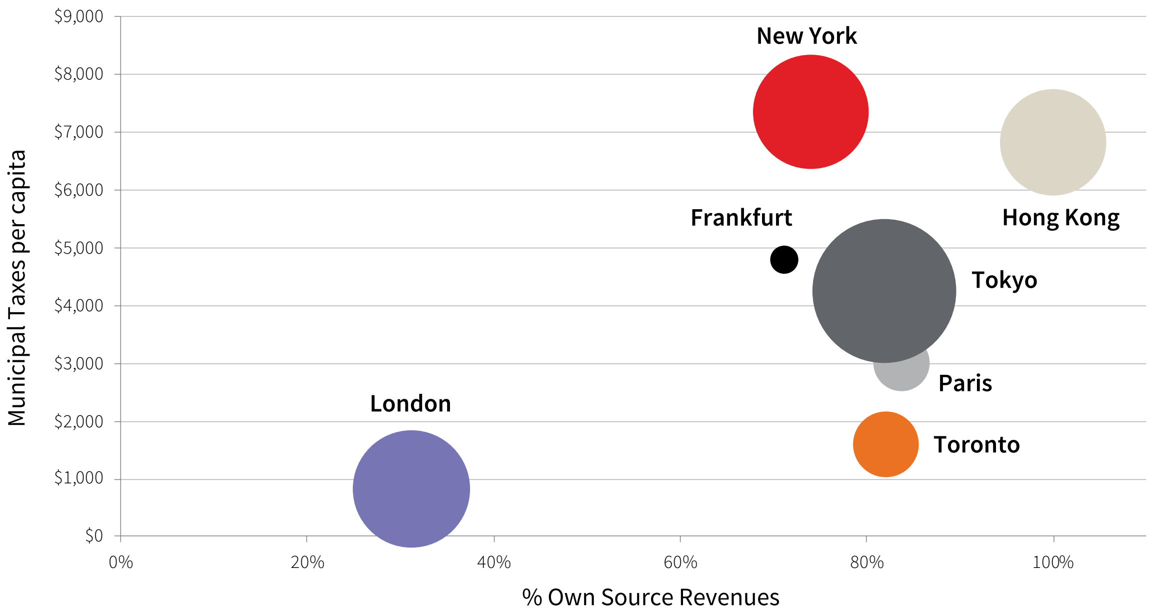
- What is the overall fiscal health of local government and higher tiers of government?
- Is the city improving the tools at its disposal to raise money?
- Do local governments have a clear incentive to accept and service growth?
- Is there a shared recognition that infrastructure can drive economic expansion, tax revenues, and land and property values over a full life cycle?

A key signal of a city's power to recover from downturns and co-invest in its long-term success is its ability to regularly secure public investment to meet new priorities of infrastructure, housing, resilience and quality of life. This will be especially important in a post-COVID context when fiscal burdens on all levels of government will reach exceptional if not unprecedented heights.

Usually national, federal and state-level governments play an essential role in the investment delivery system. They are often primarily responsible for fiscal stimulus in times of crisis, and for co-investing in big-city systems.

Yet, increasingly, the fiscal capacity that allows cities to catch up on urgent deficits revealed by growth depends on city and regional governments and major infrastructure providers having the scope to raise or keep their own taxes, levy user fees, develop new revenue streams, capture long-term value, leverage their balance sheets and borrow money.

**Snapshot of core city taxes and revenue generation**




Size of bubble represents city administration population
Source: E.Slack (2017), 'How Much Local Fiscal Autonomy Do Cities Have?', IMFG Perspectives, No.19

Greater fiscal independence adds certainty and capacity for city and local governments. It allows them to integrate capital investment budgets and plan for long-term investments. Cities can then appraise and prioritise projects in line with strategic objectives.

As more fiscally empowered cities such as Singapore and Hamburg demonstrate, they also usually become more competent partners for private finance and more inclined to support regional projects which may be highly investable as they reflect economic rather than political realities.

Cities that lack stable fiscal resources are usually reliant on others to invest in the infrastructure they need for long-term growth. They may have to compete with other jurisdictions for sources of revenue that come with 'strings attached'.

When a city's local government has few fiscal incentives to promote growth, or to pool risks and resources for the greater good, the result is a reluctance to accept, service and optimise the opportunities of new projects.

A city's fiscal situation is not unassailable: the resourcefulness of cities to innovate with their fiscal and financial toolkit is a positive sign for real estate partners. Recently cities have shown that they are able to increase the rate of investment: São Paulo uses the auctioning of development rights via the stock market to raise finance for infrastructure; Manila is updating the system of local rates and exploring land-value capture mechanisms; and Atlanta has found a way to raise infrastructure bonds. These innovations allow the cities to participate in a wider range of development projects and create more spillovers from them.

# Shanghai and Chinese Cities

Fiscal decentralisation has been a trigger for big increases in large-scale urban infrastructure investment in Chinese cities.

Metropolitan systems have been delivered from mainly local revenues such as public land sales and special financing vehicles. City governments have innovated with market instruments and are usually also the owner and operator of their region's largest infrastructure projects and local financial institutions. As in other nations, China's cities with higher fiscal capacity have made higher levels of investment.[1]

National government is very proactive at supporting adjustments to the fiscal context and indebtedness of China's cities. It is enabling city governments to issue special purpose bonds to finance infrastructure projects and, from 2020, local governments now receive 50% of VAT revenue, as well as a share of income from sales taxes.

The net result has been that many cities now have high-capacity public transport, making it easier to serve businesses and workers across their multi-centre metropolises.

Shanghai has been an early adopter of new financial tools – low-interest loans, Build-Operate-Transfer models, other PPPs, and bonds. The city's modernised infrastructure – including mega projects such as the metro expansion, Yangshan deepwater port and Hongqiao International Airport renovation – have contributed to it having among the most favoured business environments in China. Shanghai also has the strongest fiscal position among provincial regions in China.

[1] https://www.tandfonline.com/doi/full/10.1080/07352166.2018.1499417

# 4. Instruments to Optimise Land and Infrastructure

**Questions to ask of a city:**

- Is the city active in its land management or not?
- Are planning systems able to adapt to optimise the impact of infrastructure investment?
- Does the city have the ability to use a portfolio of public land, anchors and assets to unlock new areas of opportunity and catalyse new development processes?

How efficiently cities use land is a big shaper of the industries they can host, their attractiveness and liveability, their potential to be environmentally and fiscally prudent, and the access they provide for residents to intergenerational opportunity. This is especially important in a post-COVID context when agility is a necessity to respond quickly to changing health requirements, movement patterns and business needs. The demand for flexibility in how buildings, land and streets are used will grow.

In order to foster clustered economies that retain top talent, leading cities rely on land uses which increase intensity, mix and proximity around key business hubs and infrastructure opportunities. Appropriate land-use policies to do this are widely recognised to be essential when allied to the right incentives and to other public and fiscal policies co-ordinated across government.

Yet in many cities, planning systems simply fail to achieve their objectives.[2]

When demand starts to outstrip supply, rigid planning systems can make inequality worse and add to financial instability. Reliance on the discretion and permissions of local governments often sees faster-growing cities fail to keep up housing supply, favouritism towards existing asset owners, and the emergence of policies that promote or subsidise housing wealth accumulation over investment in other assets or wider city goals. It can also ultimately encourage a sprawl model of high car and road dependence that reduces cities' competitive edge as well as the scale and desirability of many real estate projects. Several estimates suggest that reducing supply curbs in a small number of leading cities would have a positive GDP impact of multiple percentage points.[3]

Cities therefore depend on appropriate innovations to expand their land-use instruments and toolkits – such as master planning, accelerated housing zones, public land assembly and partnerships, development agencies, land acquisition powers, and mechanisms to commit partners to pursue development to reasonable deadlines.

The outcomes for real estate will be quite significant between cities that follow such approaches which encourage investment and raise the supply of quality rental housing – and those that adopt distorting regulation (like rent control) or which are unable to manage their programmes.

For cities to test, gain and trust these innovations requires both far-sighted leadership and the private sector to act as a partner and demonstrator.

[2] https://www.oecd.org/cfe/regional-policy/governance-of-land-use-policy-highlights.pdf

[3] https://pubs.aeaweb.org/doi/pdf/10.1257/jep.32.1.3

# Tokyo

Tokyo is one of the established global cities that has been fairly successful at using land-use powers to deliver broad-based affordability alongside new urban districts and major densification.

The city's flexible zoning system allows most development by right, does not impose one or two exclusive uses for every zone, and in effect facilitates more mixed-use developments – for example, apartment buildings in former light industrial zones. This contrasts with many systems in other established global cities.

Delegation of planning powers to prefecture and local governments has allowed Tokyo to deploy land-use regulations, secure land upfront for infrastructure development, and use land conversion mechanisms to integrate new rail lines with higher density suburban housing.

The recent revitalisation of Central Tokyo has been made possible by the deregulation of floor-area-ratio and height control of high-rise buildings. This has seen housing become much more affordable and allowed Tokyo to re-densify its metropolitan core.

# Soft Powers

## 5. Vision and Appetite for the Future

**Questions to ask of a city:**

- Does the city decisively seek long-term success and good growth?
- Is there a clear and persuasive account of where the city will specialise and excel in the future?
- Is the future direction of the city well grasped by citizens, business and other players?

A vision and thirst for success separates some cities from others.

Even if a city has strong 'hard', formal powers, it needs a shared idea and ambition about what it wants to become, endorsed by business, citizens and communities. Appetite for a city's future, especially during and after times of profound setback, stems from a city's own common purpose. It galvanises policymakers to plan with confidence, promoters to build a compelling narrative, and leaders to organise growth.

A compelling vision, which may encompass economic, physical and sustainability goals, also enlists the capacity of the private sector to conceive, design and deliver the kind of developments the city needs – be they multiple urban cores, new housing formats or pandemic-resilient workspaces. And it engages large knowledge anchors to participate in the innovation ecosystems that produce jobs.

Cities which either do not seek or struggle to find a unifying proposition tend also to lack the buy-in to pursue growth and change in the city. This can mean that despite robust growth credentials they are less likely to overcome hurdles to projects and may be distracted by other interests or priorities.

# Denver

Denver's recent success is the outcome of a highly co-ordinated long-term effort to diversify from commodities in the 2000s into technology, healthcare and financial services.

Its metropolitan economic development agency led a cross-sector dialogue on Denver's strategic direction, bringing together universities and business. This led to the formation of trade associations to be formed in science and advanced manufacturing. With successive state governors (as former entrepreneurs) endorsing the region's economic transition, the result is an ecosystem that is unusually welcoming and open to new opportunities.

Metropolitan buy-in resulted in more community appetite to support the CBD as the catalyst for the whole metro area to succeed. Citizens successively voted to relocate major sports, an amusement park, a convention centre and performing arts assets all into the CBD, driving the attraction of millennials seeking quality of life.

With state laws making it difficult to raise finance for infrastructure, local government agencies have relied on collective ambition to make the case for essential new infrastructure. Funding and completion of Denver's major new airport, as well as a rail system with a direct link between Union Station and the airport, have enabled the city to unlock many new business and higher-density residential locations.

Buy-in to a future vision has produced a range of public-private partnerships for inclusive innovation projects, such as free coworking locations (The Commons on Champa) and tech events (Denver Startup Week, now the largest entrepreneurial event in North America). Relationships between the City and the Downtown Denver Partnership are very healthy and have resulted in a business community that is engaged in what local neighbourhoods need.

# 6. Commercial Readiness and Agility

**Questions to ask of a city:**

- Is the city government an open door or a closed shop?
- Does the city proactively engage with corporates and SMEs?
- How transparent is information, data and decision-making?

The experience of real estate in urban markets depends on how nimble a city is in building partnerships, doing deals and ensuring the regulatory environment is predictable, speedy and adaptable.

In some cities, business and real estate are welcomed and encouraged to provide insight and intelligence on decision-making and anticipated future needs. The culture is to draw on distributed insight and to foster participation, even and especially during periods of shock. In others it is not. The city decision-making process may be more single-minded and heavy-handed.

Much of this is a cultural and behavioural mindset that stems from 'can-do' city leaders who are open-minded about opportunities presented to them, are willing to share risks, and demand that the city has a capable and investment-savvy interface with market players. This also produces clarity of who to communicate with. A single 'go-to' figure can be an attractive proposition for business compared with what are often seen as the opaque complexities of councils and local authorities.

Being ready for business also requires transparency about how decisions are made and how data is shared. In the COVID-19 crisis, openness of data between levels of government and with wider society has been essential in marshalling an effective response and leveraging all of the skills of the private sector to solve real-time issues. Transparency and digitisation of systems is also important to harness urban tech solutions at scale.

# Bengaluru

Bengaluru (Bangalore) is one of the leading examples in South Asia where public and private leaders have worked closely to compensate for governance deficits by creating agencies and approaches that are agile enough to serve the extraordinary growth of the IT economy.

As in other Indian metropolises, Bengaluru has long experienced a mismatch between who is responsible for operating and financing services, low levels of local capacity and accountability, and institutions competing for influence.

Yet the state of Karnataka has been very proactive in creating an environment to facilitate domestic and international capital into Bengaluru. This was initially in the form of Special Economic Zones for IT companies. City government boundaries were then extended, stronger local government accounting systems were set up, and a more robust system for property tax was introduced.

The state government also enabled higher density by repealing the Urban Land Ceiling Act.

As the ecosystem needs of Bengaluru's flourishing IT economy evolved, taskforces of business and civic leaders - BATF and ABIDe – were formed to work with NGOs and international agencies to establish more efficient models for land and infrastructure development. Dedicated development authorities with municipal and taxing powers have been created to make major suburban projects such as 'Electronic City' open for investment.

The result, despite ongoing infrastructure and spatial challenges, is a versatile market with plenty of choice and opportunity, including for major tech occupiers to expand, for housing variety and for new entrants to participate in new and emerging locations.

# 7. Brand and Story

**Questions to ask of a city:**

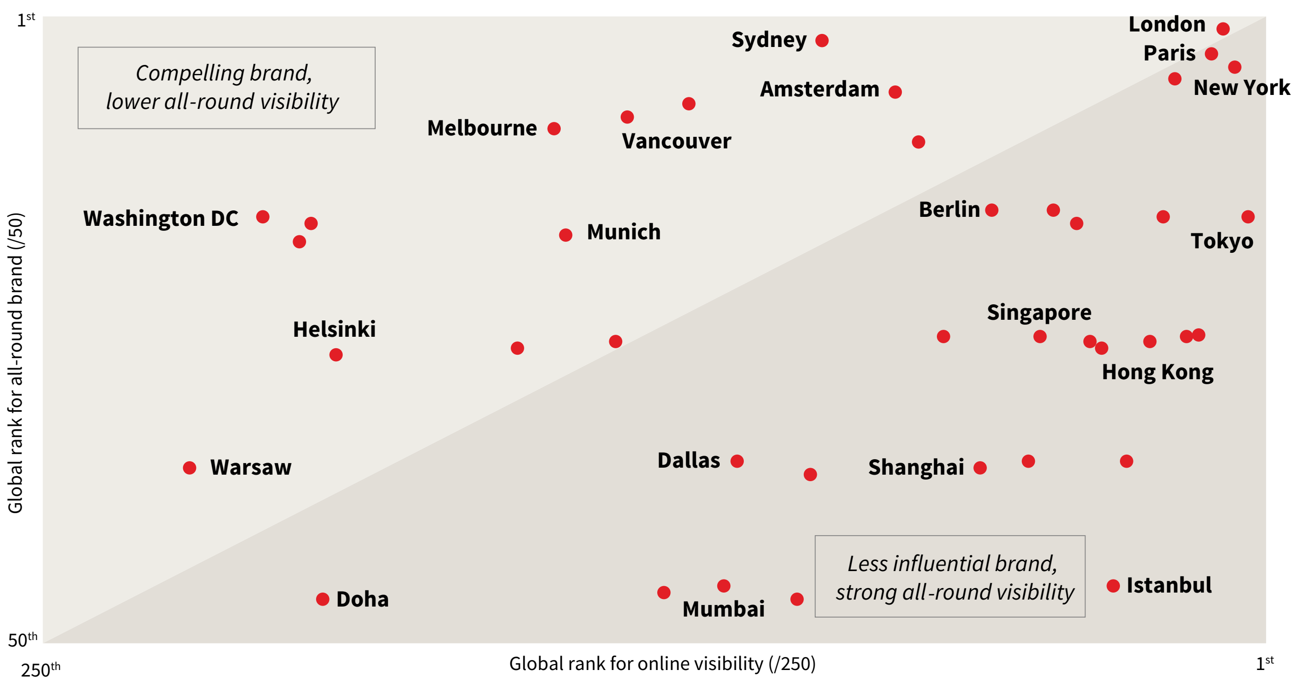
- How distinctive is the city in the global marketplace?
- Is there a shared grasp of the journey and direction the city is on?
- Does the city celebrate the positive spillovers of density and urban growth?

In a crowded global marketplace, and amid the scrutiny of a worldwide pandemic, demand for a city is inspired by its visibility and reputation.

A city whose identity has global reach and resonance and conjures a powerful set of ideas as a place to do business, visit, study and innovate is more resilient against shocks because it has an enduring magnetism to trade, investment and talent.

For many cities, appearing on the global radar of capital demands efforts to position themselves intentionally to worldwide audiences. International decision-makers are, for example, less familiar with the regional differences, inherited assets, or the sports, culture and built environment of 2nd tier cities in large nations such as the U.S., China and India.

**Select cities in key city brand indices**




Source: JLL, The Business of Cities, 2020

Some cities have been on a journey to effectively sharpen and communicate their region's global identity, including after periods of crisis. Those that assemble different partners around a unique, consistent and authentic message can differentiate themselves from other cities. By contrast, many places do not identify their comparative advantages. They run multiple competing campaigns and fail to convincingly tackle current perceptions (and misperceptions) that others have.

This communication task is, however, not only an external one.

A shared story provides the glue that joins people and institutions in a common spirit. It shapes the psychology, the attitudes and the language towards existing development, and the character of the conversations and compromises which surround new development and opportunities.

A significant part of city governance is therefore about agreeing internally what the city stands for. A clear and unified brand captures public imagination, generates citizen confidence, turns on all channels of positive exposure and accrues the benefit of doubt to a city in times of uncertainty and distress. In doing so, it provides a conducive environment for the real estate community to demonstrate both the civic value it can create and its contribution to wider goals.

# Melbourne

Melbourne has been on a 20-year journey to diversify and enrich its reputation in tandem with its physical regeneration of the CBD, Docklands and key sports, conventions and cultural infrastructure. A small central city in a fragmented metropolitan system, it has fostered a potent story about design, urban living and cosmopolitan culture that has unified the whole of Melbourne through multiple cycles of growth and change.

Like many cities further away from international traffic flows, Melbourne's task has been to create multiple reasons to make the journey. Rather than concentrating on mutually exclusive assets, the focus has been on a 'whole of place' offer that resonates across all segments – residents, investors, students, entrepreneurs and visitors.

A key element of Melbourne's brand-building has been to avoid becoming simply a city centre tourism hub, but instead to build the quality of life brand, focusing on the wider experience economy, the arts and culture provision, the diversity and the regional offer. It has developed its reputation as a more sustainable city in Australia, with global values and a strong innovation and design quotient. Educational campaigns also explain to tourists and residents that they want the same end goals.

Like all powerful city brands, Melbourne's is also reflected in real initiatives in the city – a Free Tram Zone, a pro-enterprise agenda, much needed transport investment, a green infrastructure policy, ambitious innovation precincts and generally long-term public investment in a high-quality inner-city environment. The city also depends on a higher level of trust and co-ordination between the state and local government, the convention bureau and other tourism and investment agencies than is evident in other comparable cities.

Keeping up the story in line with the new economy is now an important Melbourne priority in order to lure the talent and capital to serve the advanced knowledge economy the city now attracts. Part of this mission is to apply smart technologies to urban life, including in its COVID-19 response, and to export its urban expertise as it seeks to develop more international influence and soft powers.

# The Outcomes

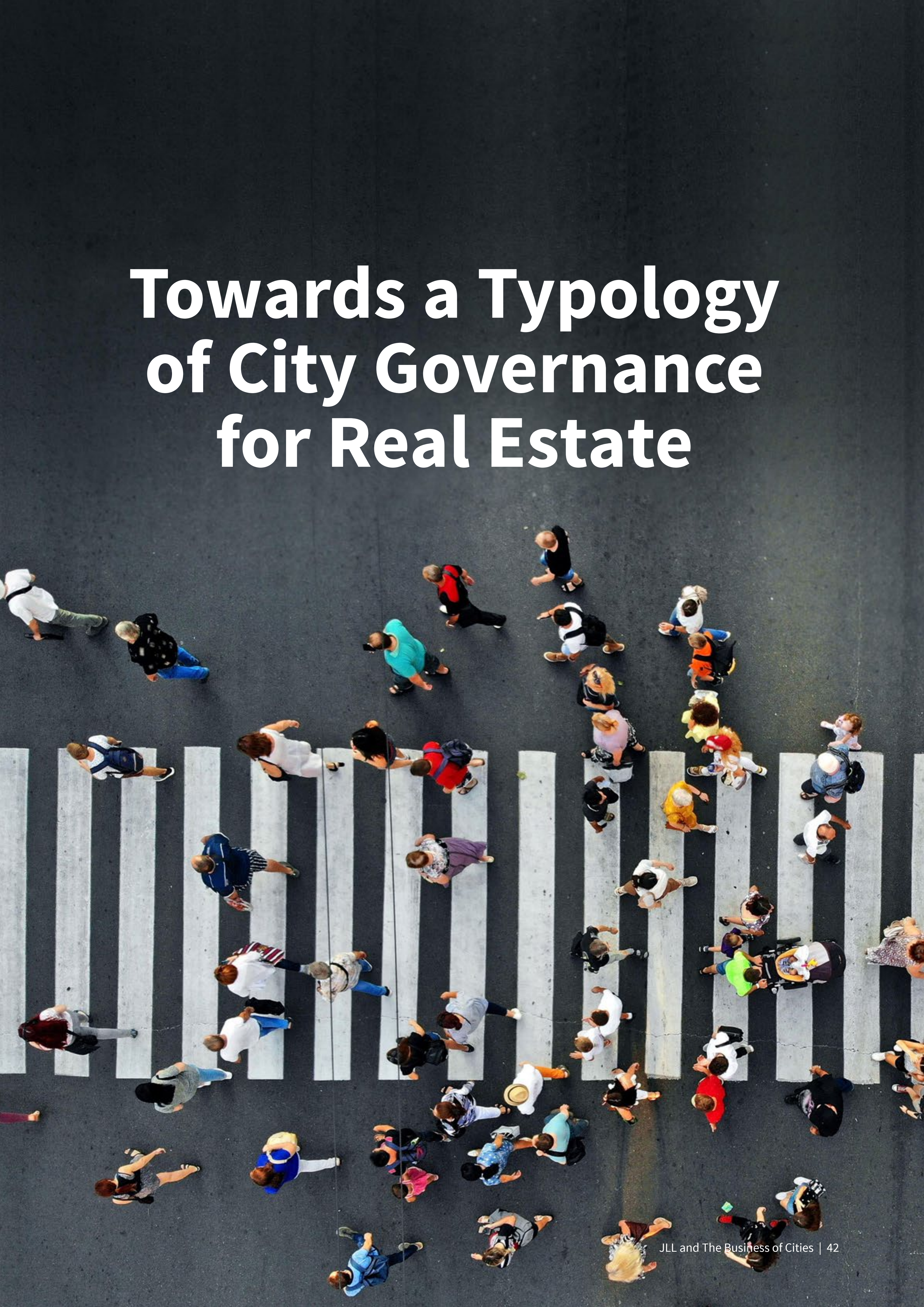
From these examples and the observed experiences of many leading cities, it is apparent that a city's performance and progress in these seven areas of governance will shape how future-proof it can be as we move into the middle half of the century of cities.

A city's 'hard' powers of governance underpin whether it is capable of investing in, legislating, subsidising, incentivising and leading the market in order to accelerate the transitions in building, transport, energy, design and resilience.

A city's 'soft' powers tell us a lot about its instinct and appetite to adapt to new contexts, to find win-win scenarios with development partners, and to mobilise allies to implement strategies at scale.

In the next section we illustrate how these variations appear in practice, and what that means for the on-the-ground experience of real estate operators, investors and developers in the city.

# Towards a Typology of City Governance for Real Estate



# Towards a Typology of City Governance for Real Estate

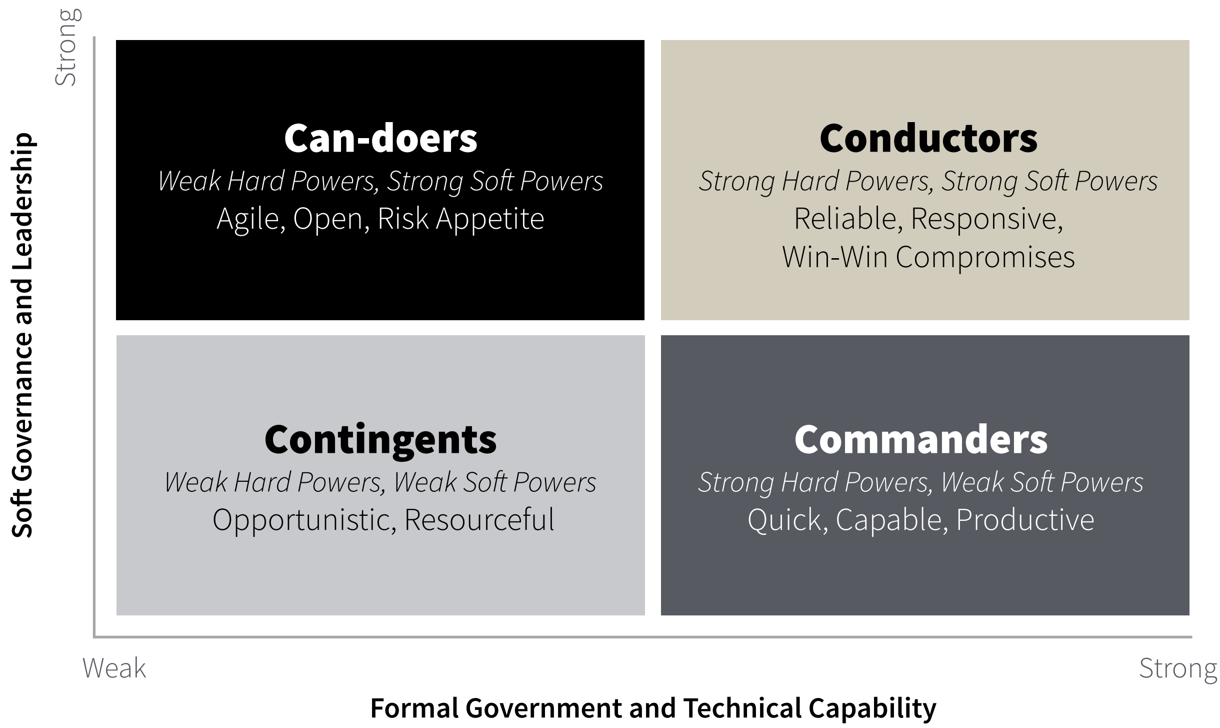
For a real estate occupier or investor, understanding what type of governance framework a city possesses helps to inform in what ways they can interact with the system, and what kinds of advantage or risk it poses.

Of course, city governance is not a linear equation where some cities simply have 'better' or 'worse' governance than others. There are trade-offs.

Using the framework set out in the previous section, we can map cities across two core dimensions:

- **The Hard Powers** – the strength of formal government and technical capability.
- **The Soft Powers** – the maturity of soft co-ordination and agile leadership.

**How different 'types' of city governance model work for real estate**




Source: JLL, The Business of Cities, 2020

# 1. The Can-Doers
# Weak 'Hard' Powers, Strong 'Soft' Powers

A group of cities with inherently fairly weak formal powers that have tried to make up for those deficits with agility and appetite to seize new opportunities and make deals happen.

In some cases, this agility is found in city government itself, where particular leaders have created capable teams around them and are consistently open and nimble in response to enquiries about investment, development and infrastructure.

In others, it is civic society that is very active, with civic and business leaders used to quickly assembling teams and mounting attractive projects. Here it is non-government leaders that have an influencing and example-setting role for government.

Wherever the leadership first comes from, these cities tend to be quite successful at winning opportunities, securing reforms and building a fabric of co-operation across conventional borders. These cities do not tend to go for grand public programmes or strategy processes, because they are too dependent on others. Instead, they thrive when organising around projects and specific time-limited agendas. This instinct can prove especially advantageous in the uncertainty that follows major shocks, such as COVID-19.

# Manchester

One of the UK's largest cities in a nation that has devolved very limited powers, Manchester exemplifies a very distinctive model of persuasive, can-do city leadership which has helped to re-establish the city's strengths in science, culture, higher education, design and sport.

Over 30 years, pragmatic, commercially-savvy public sector leaders have embraced mature partnership with the private sector to unlock international investment, diversify the economy and grow the jobs base.

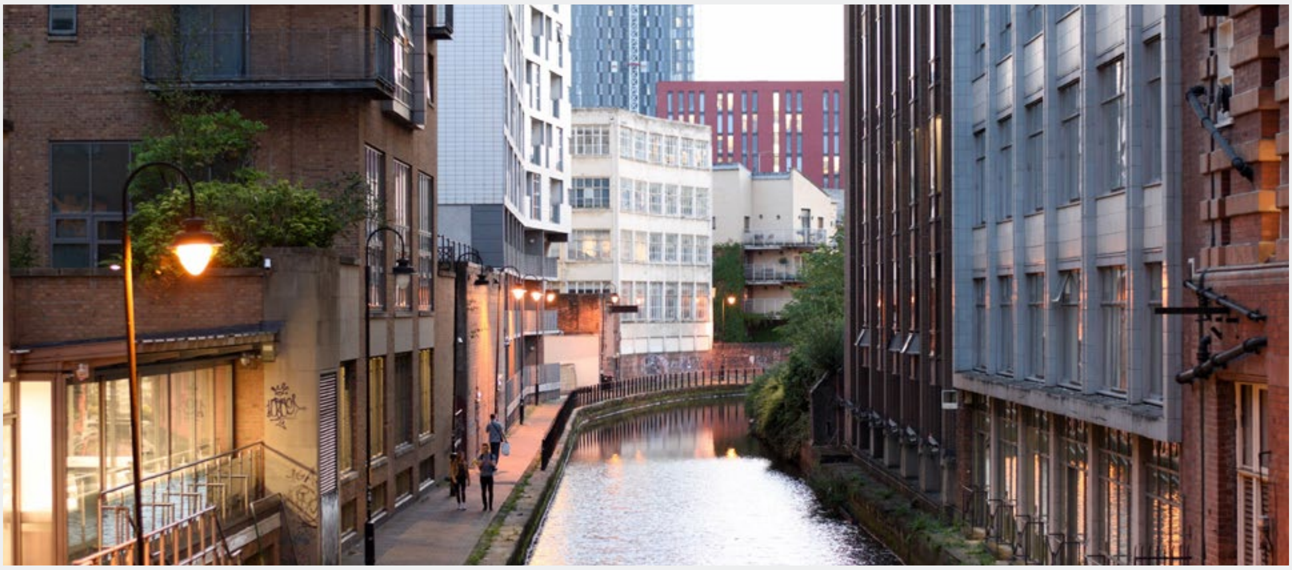
Manchester's leaders spotted that the market processes of investment, trade, enterprise and competition for opportunities respond well if the city management was clear and transparent. The city has consistently prioritised the relationship and communication side of investment, streamlining decision-making processes, taking out risk and uncertainty, and giving investors and employers confidence that the process will respect their timetables and commercial disciplines.

As a result, Greater Manchester outperformed many of its competitors in terms of attracting students, investors, tourists and business locators.

The city quickly became eye-catching in new markets. Major institutional investors such as ADIA have built successful long-term partnerships with the city thanks to effective curation of opportunities and attention to detail in managing relationships.

Manchester's soft powers and influence have also achieved improvements in the city-region's institutional frameworks. Leadership ambition and charisma helped make the case for more devolved powers to deliver public services, stronger investment models and executive capacity at a wider metropolitan scale. Collaboration has driven a shared vision and a unified voice for the metropolitan economy in which member authorities feel they have ownership.

In the most recent cycle, Greater Manchester has a wider set of powers to pursue longer-term goals to become a leading city-region for science, advanced materials, the digital economy and inclusivity in a post-Brexit context. At a larger scale and with a higher calibre of competitors, continuing to distil the DNA of the city-region and leveraging the soft powers of persuasion and self-confident communication have become even more essential.



# 2. The Commanders
# Strong 'Hard' Powers, Weak 'Soft' Powers

There is a significant group of cities whose tight governance arrangements create very strong co-ordination and clarity about responsibilities, a predictable investment system and the calibre of leadership to drive long-term agendas.

These cities have large, high-achieving staff and are quick, capable and productive in responding to opportunities. Powers over land use and transport also mean that they are far better equipped to enter into sustained partnerships with investors and developers. Many – for example in the UAE – are able to invest in their gateway assets with government and private/institutional money, driven by consensus and confidence in their long-term ambition.

The challenge for these cities can be adaptation to altered circumstances, when shocks or new economic imperatives emerge that demand a more participative way of working. A less collaborative ethos with the private sector may cause decisions to be less transparent and bureaucracies to be less navigable, and there may be a tendency to avoid risks.

## Singapore

Singapore's extraordinary 50-year transition into a top-tier global city has been widely attributed to the governance advantages of a city-state.
The absence of support from a powerful national government with a large domestic market has been offset by a highly efficient and integrated city-state government that has been able to mobilise key institutions and assets in pursuit of long-term goals.

Pragmatic leadership, effective public bureaucracy, recruitment of exceptional talent through investment in education, and rapid learning from other cities and countries have all been hallmarks of the journey. Co-ordination failures across government are minimised through a 'whole of government' approach that tries to eliminate silos across ministries. Large-scale interventions into the housing market, spatial development and citizen savings have created a more inclusive development model than in many peer cities.

The city-state has in effect turned the disadvantages of lack of space, economic isolation, and housing and water supply gaps into drivers of innovation and openness to global corporate investment and expertise.

Singapore's hard powers have proved enormously advantageous and it now seeks to develop its soft powers in order to navigate issues of economic restructuring and mega-region co-ordination.

As Singapore looks to expand its own thought leadership and innovation platform, more sustained consultation and co-creation with businesses and non-governmental sources of leadership is being explored. Singapore's global outreach and branding can also leverage multiple kinds of market intelligence in the way that other established world cities do.

# 3. The Conductors
# Strong 'Hard' Powers, Strong 'Soft' Powers

A small number of cities have both very strong formal powers around land, finance and growth management, and the instinct to engage with business and real estate as an ally and partner in the strategy-making process.  In these cities there are usually long-term, well-signalled projects shaping the city, and real estate has the opportunity to form long-standing, durable partnerships.

## Hamburg

Hamburg is a city that has inherited unusually strong powers as a 'city-state' to shape land, infrastructure and skills outcomes, and at the same time has incorporated a wider set of skill sets and inputs to become a highly investable and growth-oriented city.

Adapting its sector mix to globalisation has required strong leadership and deeper intergovernmental co-operation to find solutions to housing supply, congestion and port expansion. Public land has been unlocked to create one of the highest per capita housing supplies in Europe, and a development agency carries out major city-scale redevelopment in partnership with private developers, using public land sales. There is a highly integrated approach to marketing commercial properties and supporting industrial development and regeneration in the eastern districts.

For example, over the last 20 years Hamburg has successfully developed HafenCity, a former harbour area, transforming it into Europe's largest mixed-use brownfield development, with residential, commercial, cultural and waterfront leisure areas. The development has now moved to the next stage in the Kleiner Grasbrook area, which is being developed as a fully-digital, zero-carbon quarter.

In this powerful city, business is still a critical partner, guiding Hamburg's long-term aims for digital, media, renewable energy and maritime.  An 'Alliance for Homes' includes the City and housing industry associations, all in pursuit of an inclusive housing market.  Meanwhile, the Chamber of Commerce very actively implements policy and initiatives to enable the city's rising immigrant population to transition more quickly into the labour market. And Business Improvement Districts have re-energised Hamburg's urban core. The result is a city primed for opportunity.

# 4. The Contingents
## Weak 'Hard' Powers, Weak 'Soft' Powers

There is also a group of cities that can be said, relative to their size, location and potential appeal, are not always able to optimise their situation due to governance fragmentation issues and have limited channels for softer governance to take hold.

In these cities the fundamentals mean they continue to be in demand: talent, companies and investors can still find affordable and good-value options. Many are visitor magnets and their gateway infrastructure may be competitive.

But the inability to plan at scale over the long term, compounded by a lack of clarity, buy-in or leadership about the city's real direction, often suggests that opportunities are not systematic or predictable but arise in specific windows.

Often projects are pursued opportunistically when conditions occasionally become favourable. Such projects are not typically able to drive economic diversification or more serious positioning. However, they offer real estate a chance to lead with demonstrator projects.

## Osaka

A highly liveable and well-connected city, Osaka is an example of a city that has not recently been able to improve its city co-ordination or softer governance mechanisms.

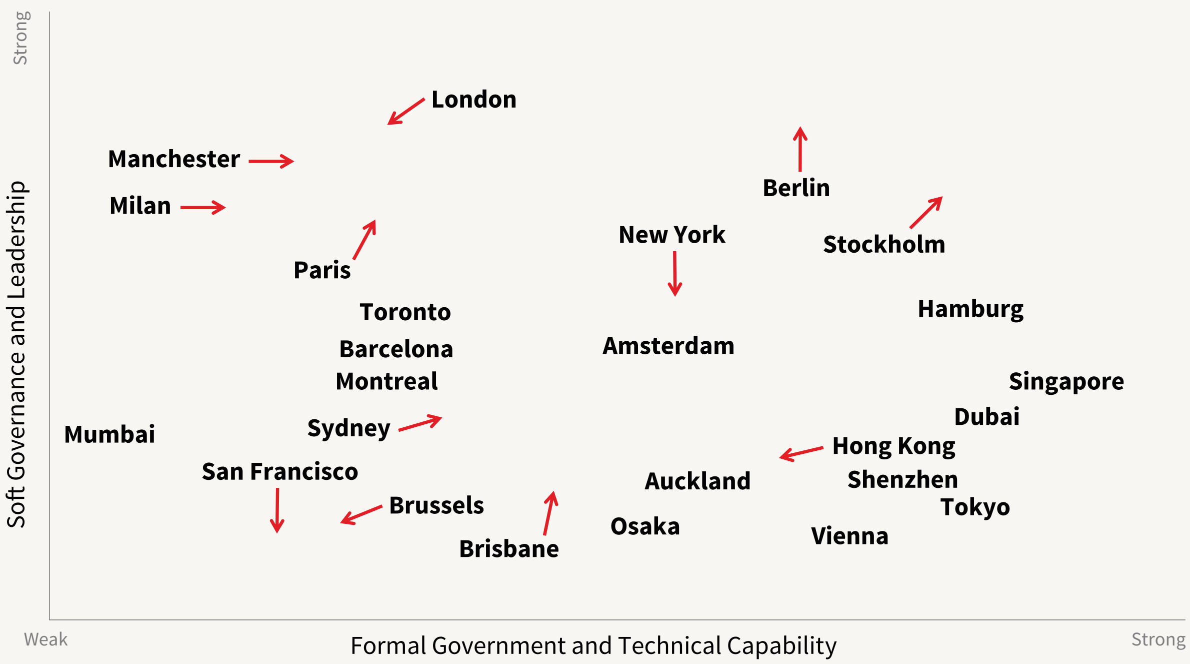
Osaka, Japan's second-largest city, is re-urbanising and is now at the centre of a 19-million people city-region. It attracts significant commercial, office and now residential interest to serve the metropolitan core.

However, the city and its wider metropolis has no co-ordinating mechanism, thereby creating duplication and reducing the ability to plan. The city-owned subway system, for example, does not connect to the wider region despite major commuting flows. A public debt burden and shrinking business tax revenues are a major constraint on its ability to invest. A long-standing ambition to establish the 'Tokyo model' and unify Osaka Prefecture as a single metropolis composed of special wards has been divisive and has stalled for more than a decade.

As a result, Osaka is also unsystematic in gearing up for international competitiveness and promoting itself with a single voice. The city lacks international influence relative to its impressive assets. The private sector is divided and finds few channels to influence a long-term direction.

Yet, there are real signs this is changing and there are opportunities for Osaka to move in a new direction, leveraging its reputation for a high quality of life, quality design and strong environmental credentials. The 2025 Expo is unlocking new locations and accelerating combined initiatives, using real estate as part of its offer with large-scale redevelopment projects around Osaka Station and Osaka Bay.

## Power dynamics: Illustrative positions of cities and their directions




Source: JLL, The Business of Cities, 2020

**About this Chart**
The indicative positions of cities on this chart are based on an overall assessment of their core elements of city governance observed in this paper. They are based not on a single unit of government, but a balance of local, city, metropolitan and regional government, taking into account the relative influence each has on growth and development outcomes in each city.

There is no arithmetic basis for the precise position of a given city, although we intend to develop one in the medium term. The approximate and comparative positions on this chart are informed by:

- Hundreds of national and international datasets relating to metropolitan governance integration, fiscal decentralisation, span of policy powers, and budget sizes produced by the OECD, UN, LSE Cities, UCLG and International Financial Institutions over the last 10 years.
- More than 50 global city benchmarks since 2012 that measure individual aspects of governance, strategy, business and investor friendliness, brand, and smart-city development.
- A 2020 global evidence review of city long-term visions, strategies and delivery targets on economy, innovation and sustainability.
- International reviews we have carried out on global city governance models and outcomes for the Fourth Report of the Global Observatory on Local Democracy and Decentralization (GOLD IV), and for the book ‘World Cities and Nation States’.
- Over 20 years of experience leading City and Metropolitan Reviews of Governance, Competitiveness and Development in more than 50 cities on behalf of the OECD, World Bank, Urban Land Institute, Inter-American Development Bank and Brookings Institution.
- Combined experience chairing and participating in more than 500 city-level and global gatherings of investors, developers, business leaders and city and national governments, observing comparative perspective of cities’ institutional frameworks and leadership propensities.

# A Fast-Changing Picture

For real estate there are advantages and disadvantages in these different ‘types’ of city. Most can be good partners for real estate in the right circumstances. Each can offer different forms of partnership.

Observing where cities sit across this spectrum, it is apparent that cities move over time. They rarely stay still for very long because the internal impulse for change and external conditions are constantly in flux. A city about to move from one governance type to another could be a strong investment target. A global shock such as COVID-19 can be a time for major city governance upheaval and reorientation.

Established global cities such as London and New York have shifted quite dramatically over the last 30 years, not only improving their formal governing toolkit but also empowering their distributed system of leadership.

Emerging global cities like Taipei, Johannesburg and Manila have also seen quite significant shifts, while national changes in orientation have affected the character of Moscow and Istanbul’s engagements with real estate opportunities.

Others, as typified by Milan and Montreal, have rediscovered more of the ingredients of good governance after a period of turmoil, although their systems have been sorely tested by COVID-19. Meanwhile, cities such as Auckland and Toronto have not yet been able to fully build on a previous cycle of reform and have found a co-ordinated growth consensus elusive.

In general, cities with strong soft power elements have a track record of leveraging what they have, and the cities where some of the most progress can be seen are often where soft powers and habits have been accumulating. The positive effects that accrue as cities learn how to influence others, position themselves and react to opportunities, often act as a stimulus for more institutionalised activities and innovations.

# Conclusion

# Conclusion

At this stage it is not yet clear how temporary or permanent the trends observed and practices adopted during the COVID-19 crisis will be. However, it is already likely that the coming years will experience very significant disruptions in at least the following areas:

- **Changes in demand between cities**, depending on levels of health impacts, perceived risks and changing industry dynamics. The assessment others take about how nations and their cities have dealt with the crisis - from a public health, safety, labour market, fiscal and political standpoint – will inevitably shape impressions of which cities will be more or less investable.
- **Changes in location patterns within city regions**, including potential shifts in risk profiles between city centres, suburbs, satellites, logistics assets and other sites of critical infrastructure.
- **Changes in how cities are used**, including more hygiene and space utilisation protocols in public streets and spaces and transport systems.
- **Changes in building use**, including safe workspace formats, adaptive uses and attendant demand for collaborative working.
- **The industry mix within cities** will evolve amid retail rationalisation and omni-channel acceleration, travel and tourism setbacks, and new supply chain requirements and logistics models.
- **Pressures to move to a low-carbon economy will intensify**, requiring fast-track routes to creating green infrastructure and buildings, and embracing the circular economy and mass sustainable mobility.
- **More neighbourhood collaboration required** between district leaders, landlords and tenants will increase to jointly cope with disruption, respond rapidly and collectively when needed, and mitigate ongoing risks.

These trends are likely to substantially alter which cities and which locations attract private capital. Future decisions will continue to be formed by the fundamentals of demographics, dense business clusters, talent and quality of life. Yet these trends also point to the value added by governance. City governance will shape the ability to get deals done, to reduce transaction costs, achieve long-term commitment to a shared vision, and to co-invest and prepare for the disruptions ahead.

Crises such as COVID-19 illustrate powerfully that cities cannot determine their destinies through one-off or unilateral initiatives. In order to prepare, react and future-proof collectively, they have to rely on a high level of mutual trust, symbiosis, transparency and brokerage between governments, corporates, workers, residents and communities.

The alternative risk is that cities become immersed in a culture of blame and recrimination, with governments unable and unwilling to act decisively, citizens and experts accusing each other, and business neither able to achieve adequate certainty nor to influence the city direction positively.

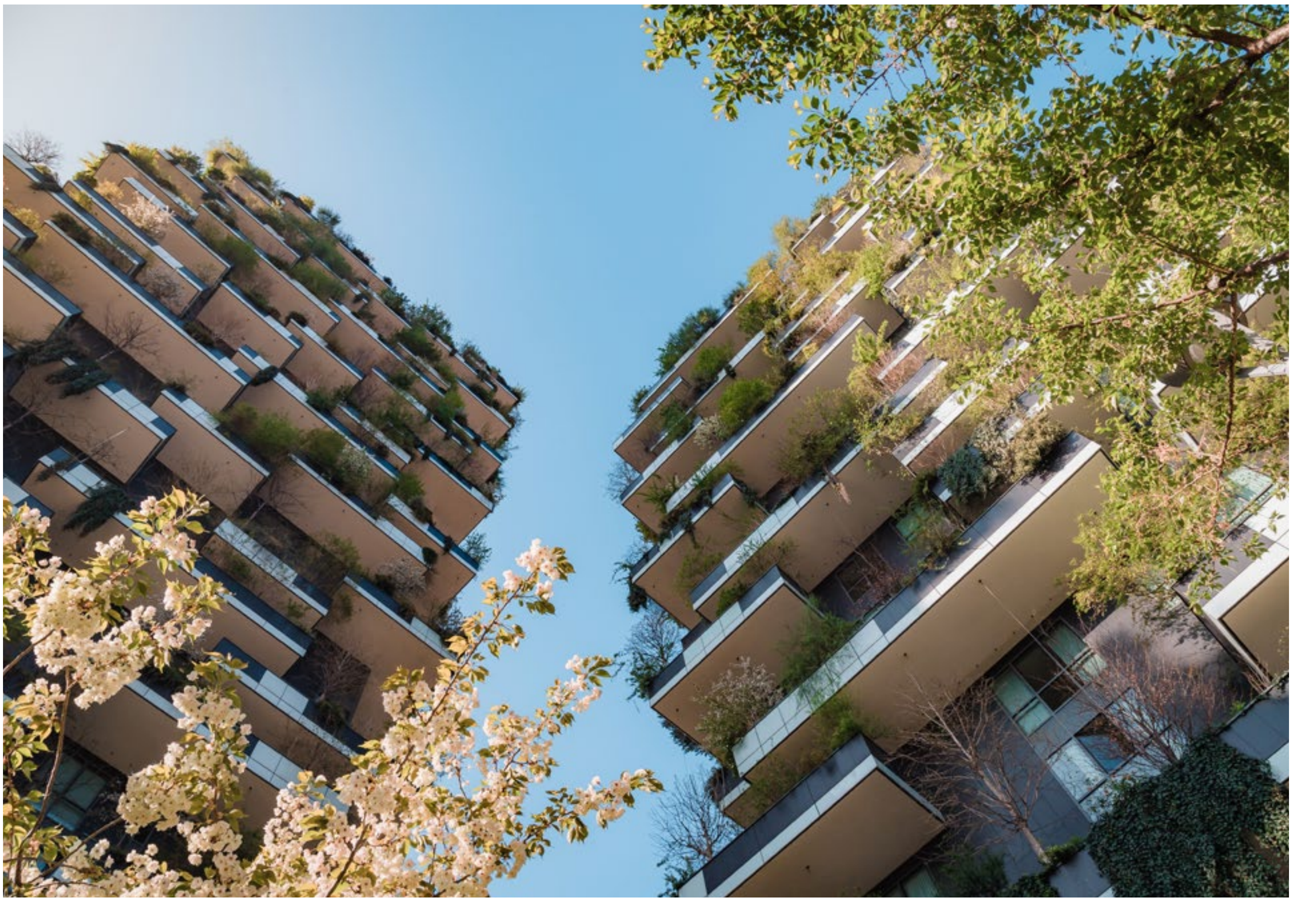
As we have seen through the examples in this paper, and as COVID-19 brings into sharp relief, effective **city governance requires cities to do all components well: management, co-ordination and leadership.**

**Without strong city management**, cities will be powerless to deliver the essential things that underpin quality of life and an effective business environment – everything from waste and tax revenue collection to public transport provision and timely planning decisions. Weak management will affect occupier and investor confidence and then demand.

**Failure to co-ordinate** across city systems and across city borders will reduce the value added that comes from the interplay between land use, connectivity and planning. Duplication and delays will arise which will be very expensive to the developer and investor proposition.

**And if cities lack persuasive and articulate city leaders** who can create a common purpose, the confidence in the sense of journey for citizens and business will erode. Leadership is essential for different functions of the city apparatus to work at their best and to provide genuine credibility and trust when real estate players seek to manage risk.

**By contrast, cities that get all three areas right will, in an uncertain world, win a confidence dividend, a co-investment dividend and an empowerment dividend.**



# Lessons for Governments

What can city (and higher-tier) governments learn about how to optimise for real estate and for long-term growth? We can see the importance of the following:

- Master the hard powers and the soft; and establish a clear sense of who is able and responsible to optimise different parts of the governance equation.
- Understand your gaps and take them seriously.
- Become informed about what the real estate industry requires, and how this alters over time as the character of urban economies and risk changes.
- **View real estate developers, investors and occupiers as a city-shaping partner that can help to achieve goals which would otherwise be difficult.**

# Lessons for Real Estate

**For Occupiers**

- Paying attention to city governance can help identify future threats to cost control, risks of project delays, potential for technology adoption and disruption, and constraints on availability of grow-in space.
- A governance lens helps to focus on future demands and imperatives the city will pursue – around sustainability, workforce health, transport and more.
- There are opportunities to align corporate ambitions with proactive contributions to city governance and longer-term agendas that make the city conducive to talent and innovation.

**For Investors and Developers**

- Investment decisions will become more governance-centric. We will see new metrics being devised to support city evaluation and choices.
- A governance focus can help spot which cities have significant growth and improvement capacity, knowledge assets capable of being commercialised, and propensity to borrow scale from neighbours.
- Identify early the risks of local political disruptions, saturation and changes in growth appetite, and cities for whom single catalysts can trigger a whole positive cycle.

# City Governance and Responsible Real Estate

In an urbanised world after COVID-19, the future of well-run cities will include many roles and responsibilities for the responsible investor and enterprise.

Business will play an essential role in ensuring that workspaces and work practices in cities are healthy, secure and productive; and their built environment responses will help cities become cleaner, more efficient and attentive to well-being, and accelerate towards a zero-carbon future.

At the same time, business will also increasingly become stewards and participants in the distributed system of leading and orchestrating a city.  Successful cities will seek and leverage the market intelligence and skills of business to achieve their strategic, communicational and social goals.

Business can act as a standard-setter, a demonstrator, an eager collaborator and an advocate for long-term change in the shared interests of a productive, sustainable, talent-rich and responsible city.

Responsible investors and businesses will gravitate towards well-run cities, as they look for capable and reliable partners who share their values and have a clear vision for a low-carbon, sustainable, inclusive future.

The journey for business in the century of cities is evolving.  City governance – the common endeavour of making our cities places that are fit for the future – is here to stay as a difference-maker for capital, for citizens and, ultimately, for cities themselves.

## JLL Regional Headquarters

**Chicago**
200 East Randolph Drive
Chicago IL 60601
USA
+1 312 782 5800

**London**
30 Warwick Street
London W1B 5NH
United Kingdom
+44 20 7493 4933

**Singapore**
1 Paya Lebar Link, #10-08
Paya Lebar Quarter Tower 2
Singapore 408533
+65 6220 3888

## Authors

**Jeremy Kelly**
Lead Director, Global Cities Research, JLL
jeremy.kelly@eu.jll.com

**Masha Seymour**
Director, Global Cities Research, JLL
masha.seymour@eu.jll.com

**Dr Tim Moonen**
Managing Director, The Business of Cities
timmoonen@thebusinessofcities.com

The authors wish to thank Prof Greg Clark CBE, Global Head of Future Cities & New Industries, HSBC Group, and Chair, Connected Places Catapult, for his advice at certain stages of this report's preparation.

**About JLL Research**
JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 500 global research professionals track and analyse economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fuelled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

**About The Business of Cities**
The Business of Cities is an urban intelligence firm working with more than 50 cities, companies and national governments worldwide each year. It provides customised strategy, benchmarking and comparative analysis for city, metropolitan, district and business leaders in fast-changing environments such as Sydney, Barcelona, Cape Town, London, Amsterdam, Oslo, Singapore, Brisbane, Philadelphia, Porto and Helsinki. Over the last 10 years its research on city governance, investment, development and innovation has been published by institutions such as the OECD, UN Habitat, UCL, European Investment Bank, Urban Land Institute, Brookings Institution, Nesta, and the World Bank.

To learn more about cities and real estate, visit our website
**www.jll.com/cities-research**