LONDON CALLING Peter Courtney

What comes first, the house or the shop?

London's mayor Sadiq Khan has been in office for seven weeks now, and we are all eager to see what he will do. In his manifesto, he stated that his priority was building sustainable communities with the right infrastructure to equip them for the future, which evokes everyone's favourite boardroom buzz phrase: placemaking.

It is such an overused term that it has lost much of its meaning. Placemaking means more than putting an artisanal coffee shop here or some well-placed shrubbery there, and it is not something a developer can do on its own. Khan must encourage developers to think long term and recognise that although proper mixed-use schemes may take longer to deliver and don't offer the quick bucks of straight residential schemes, they ultimately create more sustainable communities and thus more dependable returns. Meanwhile, developers must recognise the importance of working with all stakeholders from the outset and adopt a holistic approach to delivering real places and integrated communities, not schemes, and cohesive retail and leisure offers are central to this.

Too often the retail provision comes as an afterthought, to fill vacant units or enliven a ground-floor streetscape. However, looking at the recent success stories, it is in those communities where the full picture has been considered that we see the most growth. At Canary Wharf, for example, the offices and retail came (in some cases) almost three decades before most of the residential. Yes, outside the Canary Wharf estate there were crash pads and boxy flats, but there were no actual homes in the estate itself.

> The mayor must encourage developers to think for the longer term

However, my company has been working with Canary Wharf Group since 1997 and there has been a marked shift in the way it is perceived. By attracting the right mix of brands and new food concepts, we have established a seven-day life for the estate. With Crossrail on its way and its population set to double, it is now emerging as a residential hot spot, with thousands more new homes, many for families, now being built.

Of course, Canary Wharf's success is partly due to organic growth. But there are lessons learnt that can be applied elsewhere. It comes back to the old 'live, work, play' analogy, as people want homes where they can actually live, not just work. To deliver this, you need a neighbourhood, which shops and restaurants provide.

There isn't a one-size-fits-all solution, though. The retail and leisure mix of any development should be considered holistically, looking at the target consumer, existing community and heritage of an area. You should work with other stakeholders to consider culture and civic needs such as schools. Only by adopting this approach can you create truly authentic communities.

On this basis, I am a believer in the retail and leisure offer being considered from the outset. It should feature as a central element of the initial design process and shape how public spaces are configured. Of course, having all the space fully pre-let well before any residential investment isn't viable, as retail and leisure trends shift much quicker than residential. But it must be considered and where possible phased, and constantly evolve to help shift consumer perception over time, rather than just initiated as an afterthought. At the next phase of the Canary Wharf development, we have since revisited the masterplan to include more retail and leisure at street level, having recognised the increasing demand.

While I understand that the commercial drivers of mixed-use developments are the things that happen 'upstairs', we should all consider the bigger picture. This is more than just placemaking as a concept – it is about actually creating places and communities. I am now watching this space, as this will be Khan's biggest challenge while in office.

Peter Courtney is head of London at Lunson Mitchenall

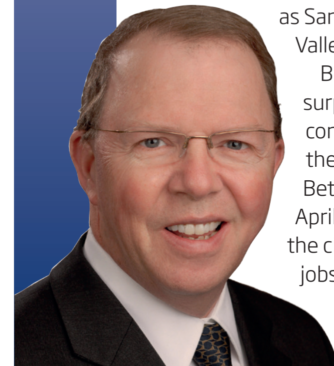
MANHATTAN EYELINE Ken McCarthy

A diverse economy is behind the Big Apple boom

The strength of New York City's economy is its diversity. If one sector falters, others pick up the slack. This is also one of the great attributes of New York's commercial real estate market. The city's talent and institutions attract companies, generate growth and boost demand for space. In the current expansion, this has occurred at a record-breaking pace.

As the US economy has recovered from the recession of 2008-09, the pace of growth has been uneven across the nation. Some metropolitan areas are much stronger than others.

These differences have largely depended on the industries located in these cities. Early on, the rise in the price of oil and the shale-oil revolution led to strong growth in such petroleum centres as Houston, Texas, and Tulsa, Oklahoma. Similarly, the vibrancy of the technology sector has supported strong growth in cities such as San Francisco, California's Silicon Valley, and Austin, Texas.



But one of the biggest surprises has been the consistently strong growth of the New York City economy. Between December 2009 and April 2016, payroll employment in the city has increased by 639,100 jobs. That's more than were added in either the 1980s expansion or the 1990s internet-driven boom.

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The pace of New York City job growth has been breathtaking. Since the end of 2009, employment growth has averaged 99,300 jobs per year. By contrast, in the 1980s the city added 37,100 jobs per year and in the 1990s the figure was 60,000.

This performance was completely unexpected in the aftermath of the recession. After all, that recession was triggered by a financial crisis, and New York City is a global financial centre. Employment in financial services in the Big Apple accounts for 11.6% of all jobs. By contrast, nationwide the financial services sector accounts for only 6%. With this high concentration of jobs in the financial sector, New York City was expected to be one of the hardest-hit and slowest-recovering cities in the nation after the recession.

So what has caused the city's remarkable performance? It wasn't a recovery in the financial sector. There are still fewer financial services jobs in New York City today than before the recession. But that weakness has been offset by expansion in three other areas: tourism; the creative and technology sectors; and education and health.

New York City has become a tourist mecca over the past decade. In 2004, 39.9 million visitors came to the city. In 2015, that had grown nearly 50% to 58.3 million. This huge influx of tourists has led to a surge in employment in the leisure and hospitality sectors as well as the retail sector, adding more than 178,000 jobs since the recession ended.

While tech hubs such as Silicon Valley, San Francisco and Boston remain key to that sector, New York has itself grown as a centre of creative and technology companies known as TAMI (tech, advertising, media and information). As of April, the TAMI sector had added approximately 81,500 jobs since the end of 2009.

Finally, the healthcare sector has been a stalwart of this expansion, both nationally and locally. Nationwide, healthcare employment has increased by more than 2.3 million jobs, or 14.1%, since the recession's end. In New York City, the sector has added 99,000 jobs, which equates to a 17% increase. As the location of many academic medical centres and leading healthcare research organisations, New York City has also seen rising investment in health-related start-ups.

Thanks to the diversity and resilience of its economy, New York City is maintaining strong and steady levels of employment – and that's been the primary contributor to the strength and durability of the city's commercial real estate market.

Ken McCarthy is principal economist at Cushman & Wakefield

INVESTOR'S CHRONICLE Raed Hanna

Just how low can yields go?

As the commercial real estate sector continues to prove a robust investment platform for investors from both local and foreign markets, we continue to see yields being pushed and quality, in-demand assets becoming increasingly expensive in real terms.

The low-interest-rate environment is pushing investors to real estate as an alternative to simply leaving assets under management with private banks and insurance companies.

In recent weeks, we have seen a number of deals that highlight the trend of investing in low-yield assets. As reported by *Property Week* (10.06.16, p5), the record for the highest capital value paid per square foot for a real estate asset in the UK was smashed twice in one week by two separate deals for jewellery stores on London's Bond Street.

A private UK investor bought 169 New Bond Street for £65m, which equates to a capital value of £18,500/sq ft. The deal for the store broke the record set just days earlier by Hong Kong tycoon Ian Ng, who had paid more than £13,000/sq ft for billionaire Nirav Modi's store at 31 Bond Street.

Interest rates and bond prices typically follow each other; when interest rates rise, more often than not bond yields do the same. For real estate, interest rates affect the availability and cost of capital and the demand for investment. The cost of capital influences supply and demand and ultimately can affect property prices. Investors can improve the value of their assets through efficient asset management but cannot influence the prevailing interest rate market.

Where there is uncertainty around interest rates, the increased risk premium associated with a purchase can push up the price. An increase in bond yields does not necessarily mean that real estate yields will rise, but a relationship between the two does exist. At present, interest rates seem stable and are a low-risk consideration.

However, transaction volumes slowed down in the run-up to the EU referendum, with buyers and sellers postponing decisions as they faced uncharted economic and political territory. In these circumstances, the low-interest-rate environment, while a contributing factor, was not uppermost in people's minds.

At Mutual Finance, our clients are price sensitive, and Brexit uncertainty has presented some fantastic buying opportunities. While some people have been holding fire, others have seized opportunities to buy in a market lacking competition.

However, there is an air of expectation that both the Federal Reserve and Bank of England will move interest rates away from these current historic lows, regardless of the outcome of yesterday's vote. Higher interest rates could pose a threat to real estate valuations in the short term, but hopefully any drop in value will be cushioned by increased rental growth and efficiencies of asset management. Over the medium term, commercial real estate should continue giving competitive capital returns so long as the anticipated hike in interest rates is gradual. Investors should ensure they are prepared and take appropriate action via hedging and interest rate management strategies.

Irrespective of the outcome of the referendum, property yields should stay low. The question is how low can they go? And how low can we go? With prime yields for best-in-class assets often at a sub-2% net initial yield, where is the floor? Will we hit 1%? Or even enter negative territory? It's happened elsewhere...

Raed Hanna is managing director of MFL Finance

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