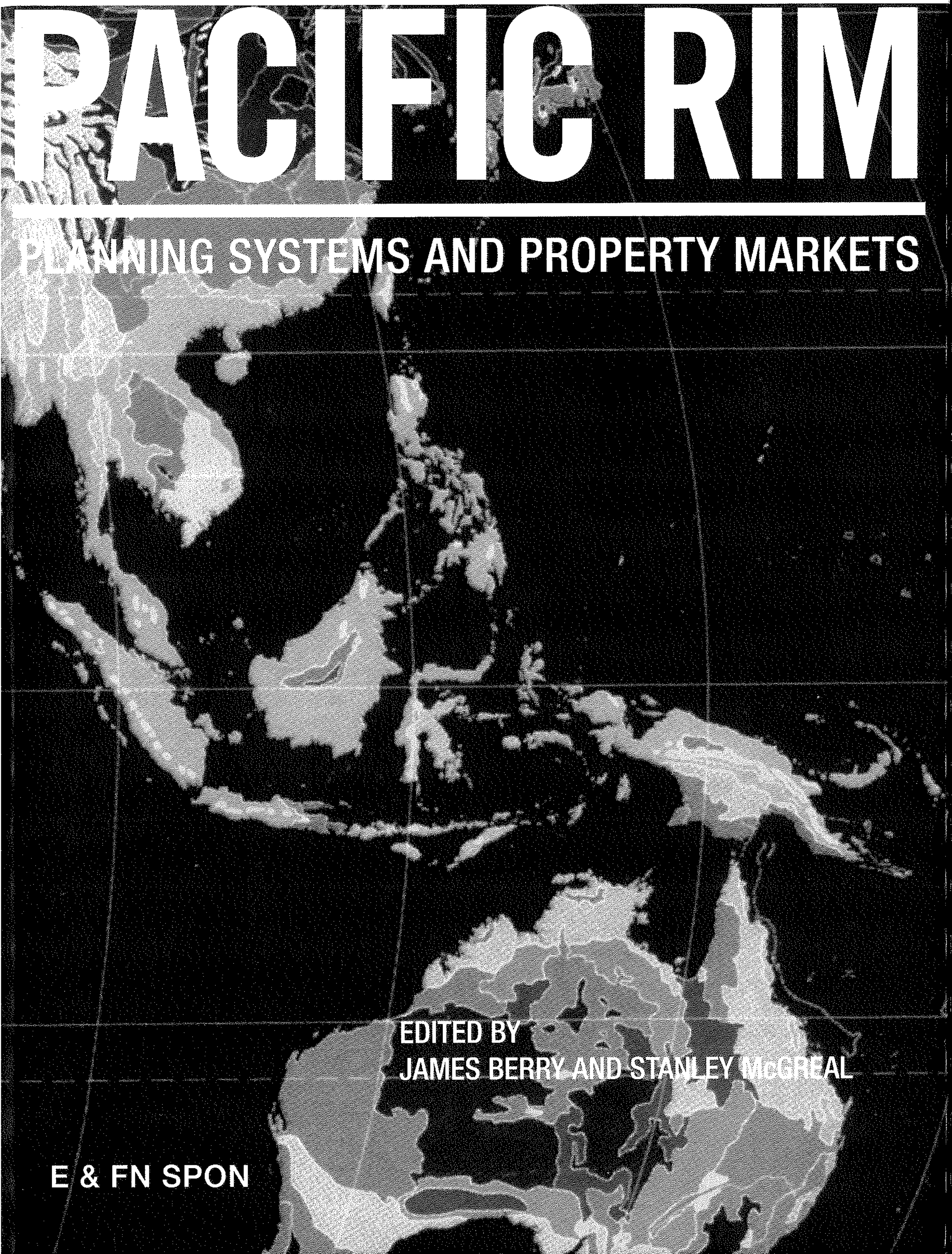
CITIES IN THE PACIFIC RIM

PLANNING SYSTEMS AND PROPERTY MARKETS



EDITED BY
JAMES BERRY AND STANLEY McGREAL

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Pacific Rim cities: the relationship between planning systems, property markets and real estate investment

James Berry, Stanley McGreal and Paul Scales

1.1 INTRODUCTION

Fundamental adjustments in production, resource utilisation and wealth accumulation are driving forces behind global interdependence and the emergence of economic blocs. Deregulation at the national level has been accompanied by re-regulation of the economy at an international level with the establishment of global trading blocs in North America, Europe and the Pacific Rim. In particular, cities in the Pacific Rim have been growing rapidly and transforming themselves functionally and physically. Situated in a vibrant growth region of the world, these cities have been experiencing the full impact of global economic restructuring and enhanced interdependence. These global forces are having differential impacts on cities in the Pacific Rim region and, for some, have heightened their strategic role and importance in attracting economic development and investment. For many of the cities the process of internationalisation will necessitate a strategic vision to enhance identity, upgrade image, market services and facilitate real estate investment opportunity. The global economic system has profound effects on how economic forces feed through into the development process, into social and political effects and into planning policy.

The focus of this book is to consider the interactive relationships between the operation of the planning system and the role and performance of property development and real estate investment markets in Pacific Rim cities. The dynamics underlying these relationships will be considered with regard to efficient management and control structures, infrastructure provision, coherent land use policies, flexible production technologies, environmental awareness, and the attraction of both individual and corporate investment. In this context cities and regions need to develop their inherent strengths and promote themselves in the competition for investment flows. As a consequence of structural adjustments cities in the Pacific Rim have a fluctuating and volatile comparative advantage in terms of cost and technology considerations in the location of production and the attraction of capital. Such restructuring and rationalisation has inevitable impact on property markets and real estate management practice.

Assessing the competitiveness of Pacific Rim cities in the context of market evolution and identifying the location and nature of future opportunities for international investment places the spotlight on three key areas of performance. First, the strength and flexibility of the city's strategic planning machinery and the organisational capacity to formulate and deliver a strategy of long-term relevance to its inherent strengths and position in the urban hierarchy. Second, the effectiveness of the city in the management of its assets and in co-ordinating a programme for long-term investment linked to the achievement of an overall vision and plan. Third, the vision for the city must be capable of translation into a coherent marketing strategy to enable the city to be sold and constantly resold to existing and potential investors (Berry and McGreal, 1995). Within the rapidly changing political and economic climate of the Pacific Rim the interrelationships between planning systems and property markets are fundamental in maximising real estate investment returns.

1.2 GLOBALISATION EFFECTS ON PACIFIC RIM ECONOMIES

The last two decades of the twentieth century have witnessed fundamental changes in the world economy. Through the process of globalisation, economic activity and technological developments have become increasingly complex, interconnected and mobile (Dicken, 1992). A global economy is one that works as a unit in real time at a planetary scale, and where capital flows, labour markets, raw materials, management and organisation are internationalised and fully interdependent (Castells, 1993). The emergence of global markets for finance and specialised services, and the growth in international investment transactions have contributed to the expansion of transnational corporations (Harvey, 1989). Petrella (1996) documents the components of globalisation as the integration of financial markets; the internationalisation of corporate strategies in generating wealth creation; the diffusion of technology, R&D and knowledge worldwide; the transformation of consumer patterns into cultural products with worldwide consumer markets; the internationalisation of regulatory capabilities of national societies into global political and economic systems; and the diminishing role of national governments in designing the rules for global governance. To these can be added the functionality of transnational corporations and the growth of foreign direct investment. The integration of capital markets internationally results in interest rates, wage rates, profit rates and commodity prices converging on international norms (Banuri and Stohr, 1992).

The simultaneous globalisation of financial markets and business strategies are intimately linked and mutually reinforcing. Furthermore the increase in cross-border cash flows that inevitably occurs when business globalises gives rise to a demand for foreign exchange, intensifying the competition between international financial institutions which in turn amplifies the demand for deregulation of financial markets. These effects have contributed to a large degree to the Asian financial crisis of 1997–98. The turmoil in the currency markets has major implications for economic growth in the Pacific Rim region particularly in the emergent markets and on real estate investment and development prospects in the short to medium term.

The Pacific Rim centred on Pacific Asia is recognised within the literature as being one of the most dynamic parts of the global economy (Cook *et al.*, 1996; Le Heron and Ock Park, 1995). For more than two decades the centre of gravity of world economic activity has gradually shifted from the Atlantic towards the Pacific region. The delineation of the Pacific Rim, which generates considerable discussion within the literature, implies an inner geography of homogeneity, commonality of interest, equality of involvement, similar historical backgrounds, a shared vision and mutually determined prospects (Le Heron and Ock Park, 1995). Castells (1998) states that the Pacific region is not an institutionally integrated area compared to the European Union, and it appears unlikely that, regardless of elements of commonality of economic and political interest, any form of institutional integration will emerge in the foreseeable future. Although the region is culturally diverse and communication is made even more difficult by strong nationalist tendencies in most countries, Castells acknowledges that the Pacific Rim is becoming more economically integrated as a consequence of the increase in trading and investment. In this respect a pattern broadly similar to that practised by countries of the European Union, prior to European institutions being established, is emerging. Specifically the region is being integrated by the flows of foreign direct investment and the formation of production networks. Asia's new industralising economies (NIEs) namely Hong Kong, Singapore, South Korea and Taiwan have been prime players in enhancing external trade and direct foreign investment. The increase in trade volumes and investment in the early to mid-1990s by the Asian NIEs in the Pacific Rim were a direct result of restructuring due to global competition (Le Heron and Ock Park, 1995).

Armitage (1996) identifies a number of themes that characterise the nature of the rapid and fundamental change that many of the countries in Southeast

Asia are experiencing. These include such features as a rapid urbanisation in emerging economies; extreme population pressure on resources; accelerating rates of change economically; an increased share of international economic activity; larger domestic markets; social and political tensions; swift adoption of new technology and work practices; and a growing affluence. To these factors can be added a further dimension that has become increasingly prevalent since 1997, that of increased volatility in the financial markets of the Pacific Rim region.

Ratcliffe (1998) argues that the free flow of capital funds can have both favourable and unfavourable impacts. Economic take-off can occur more rapidly, risks can be spread more widely, large-scale projects can be implemented, and expertise and accountability heightened. On the downside, there will be a loss of control over trade regulations, capital movements and economic self-determination. It then becomes increasingly difficult to interpret how capital sources will respond to major macro-economic changes in interest rates, economic growth, the relative attractiveness of capital sectors, international fluctuations and other similar trends. The occurrence of capital flows from one country to another depends on the health of the economy not only in the country targeted for investment but more importantly at the source of the capital. During times of slow economic growth or periods of uncertainty investors will be reluctant to take risks and will prefer to allocate resources towards preserving stability at home, whereas during times of strong economic growth investors will be more likely to expand their investment horizons and explore new markets. In Pacific Asia, the financial crisis of 1997 dramatically reduced economic growth prospects and led to falling asset values across the region. Given that financial markets are interlinked, what happens in the Asian financial market has the potential to affect other large economic blocs such as the USA and Europe. The economic-political crisis in Russia during mid-1998 and the highly volatile stock markets across Europe and North America provide examples.

Exchange rate fluctuations militate against cross-border investment and trade with currency stability necessary to encourage investment. In this respect much of the growth sustained in the 1980s and 1990s in Southeast Asia was due to the linking of most Asian currencies in some form or other to the US dollar. For trade purposes the dollar peg was undoubtedly the correct course of action, allowing manufacturers and traders a stable currency in which to transact with the USA and Europe. However, as the economies of Asia matured and with the development of the financial services industry across the region, the dollar peg allowed for monetary policy to be dictated by Washington while the Asian economies experienced tremendous growth with high inflation. The combination of low interest rates and high inflation encouraged massive dollar financed speculative investment in equities and real estate without in most cases any provision for hedging US dollar exposures. When the dollar pegs were finally broken the result was catastrophic for Asian investors who saw the local value of their US dollar debt soar and the value of their assets plummet. However, the speculative activities of the 1990s would not have occurred to the same extent had Asian currencies been allowed to float or at least move with the Japanese yen when it began to weaken against the dollar in 1995.

The Asian financial crisis of collapsing currencies and plunging stock markets has affected most dramatically the economies of Thailand, Indonesia and South Korea; and exposed the vulnerability of Japan, the second largest economy after the USA. The fundamental cause of the problem is debt as companies in the worst hit countries borrowed vast sums of money as their economies boomed in the early to mid-1990s. The companies borrowed in US dollars because interest rates were much lower than on their indigenous currencies. With exchange rates pegged against the US dollar this reduced the need to earn money in local currencies to pay back loans in dollars, a situation that is obviously advantageous so long as the local economy is booming. From the middle of 1995 the US dollar likewise started to rise against most of the world's other currencies. Asian currencies pegged against the US dollar rose with it, with the result that Asian exports became more expensive and less competitive on world markets.

Two rounds of currency depreciation, which began in May 1997, fuelled the crisis. The first round saw a precipitous drop in the value of the currencies in Thailand, Malaysia, the Philippines and Indonesia. As the currencies stabilised at lower values, the second round began with downward pressure hitting the currencies of Taiwan, South Korea, Singapore and Hong Kong. To counteract downward pressure on currencies, governments in Pacific Asia sold dollars from their holdings of foreign exchange reserves, bought their own currencies and raised interest rates to counteract speculators and to attract foreign capital. However, the higher interest rates, in turn, have slowed economic growth and made interest bearing securities more attractive than equities, with the result that stock markets have fallen. In November 1997, this decline in stock values was transmitted to other markets, although US and European markets subsequently recovered (Nanto, 1998). The recovery was short-lived due to the Russian financial crisis, which caused sentiment in Europe and the USA to turn bearish leading to a global sell-off in equity markets during the autumn of 1998.

The crisis has exposed some fundamental weaknesses in many financial institutions in the Pacific Rim. The economic problems are not only adversely affecting the economies of Japan and others in the region but to some extent could present an underlying threat to the wider global economy. In the Asian economies much of the borrowed money was spent in speculative property development, prestige projects and unneeded factories regardless of market need or demand. The International Monetary Fund (IMF) support packages for Thailand, Indonesia and South Korea included an initial infusion of funds with conditions linked to financial and political restructuring that must be met for additional loans to be made available.

Some Asian countries like South Korea and Thailand have responded favourably to the IMF request for political and economic reform, though Malaysia chose to adopt a more protectionist response through rejection of IMF support and, in September 1998, the introduction of curbs on foreign exchange. This has been seen by many analysts as a means of preserving the power of the existing administration and bailing out companies close to the government. Similarly, market intervention by the Hong Kong government in the stock market was frowned upon by foreign commentators. However, in Hong Kong the moves to shore up the equity markets as a means of defending the dollar peg have met with strong support from leading companies.

Prior to the 1997 Asian financial crisis the economic strength of the region was reflected in real GDP growth rates with the World Bank (cited in Armitage, 1996) anticipating annual rates of between 5.3% and 7.6% compared to 2.7% for richer (OECD) industrial countries during the period 1994–2003. Since 1997 projected GDP rates have been scaled downwards particularly for the emerging economies. In Indonesia, for example, real GDP is projected to decline by 5% in 1998, in Malaysia GDP is expected to grow by just 1.5% – 2.0% in 1999 whereas in China the objective is to stimulate domestic consumption in order to maintain an 8% GDP growth rate in 1998 (JLW, 1998).

1.3 GLOBALISATION EFFECTS ON CITY STRUCTURE

A considerable body of literature addressing the processes of globalisation and the consequences for cities has been published in recent years (Castells, 1991; Carnoy *et al.*, 1993; Sassen, 1994; Brotchie *et al.*, 1995; Healey *et al.*, 1995; Newman and Thornley, 1996). Linked to the effects of global change is the ability of cities and regions to develop the institutional capability to capture global economic flows. Amin and Thrift (1995) argue that the economic success of global centres of agglomeration is strongly dependent on the ability to offer institutionalising processes to support the economic life of firms and markets, to attract flows of investment and entrepreneurship, and to offer a variety of external economies of scope and scale to existing and potential business. It is contended that globalisation will create strategic production centres for the leading economic sectors and trends towards concentration are likely to continue unabated. These studies show that the attraction of investment flows is strongly influenced by the comparative advantage that city markets offer in terms of their relative importance.

In considering the impacts of economic globalisation on cities, Sassen (1995) argues that territorial dispersal of economic activities, of which globalisation is one form, contributes to the growth of centralised functions. For these the control and management of economic operations requires the production of a vast range of highly specialised services, telecommunications infrastructure and industrial provision. The importance of city regions in developing competitive strategies is fundamental in an environment where international integration is advancing. However, the degree to which city regions can successfully compete and the organisational basis of the competition is dependent on factors that include city size, localisation economies based on territorial competition between cities, and urbanisation economies such as the provision of infrastructure, development and investment opportunity, flexible planning regimes and the quality and availability of specialist labour (Budd, 1998).

The significance of localisation and urbanisation economies implies some level of inter-urban competition in activating markets and encouraging the development of activities to enhance property value, the tax base, the circulation of revenue and employment growth. With geographical distance a declining consideration and a lowering of the barriers to revenue flows, the locational characteristics offered by urban areas become increasingly important with regard to the competition for development, investment and employment opportunity. In such circumstances, the institutional, regulatory, physical and infrastructural framework offered by urban localities determines the success or otherwise in attracting the free movement of capital (Berry and McGreal, 1995).

Lo and Yeung (1996) argue that with globalisation and the increase in capital movement, cities in the Pacific Rim have become more economically integrated. Mobility of capital and investment flows requires a worldwide distribution of corporations and a global network of cities. In response to structural change, cities are becoming more pro-active in initiating policies that interrelate with global knowledge networks. The traditionally dominant role of the city as a centre of industrial and manufacturing production is being superseded by knowledge-based activities. In this respect the growth of innovations in micro-electronics and communication services in the Pacific Rim region has been phenomenal. The cluster of new innovations in computers, electronics and robotics has generated an era of telecommunications and information technology which is predicted to continue expanding well into the twenty-first century, particularly in Japan and the NIEs. The internationalisation of production, finance, banking and services, together with the availability of cheap labour and rapid advances in telecommunications has minimised the importance of natural boundaries. From this perspective Pacific Rim cities have been a major beneficiary of globalisation trends. Other factors include the strength of the economy to which the city belongs, its location in relation to rates of growth or stagnation, its attraction as a potential base point for international capital and its political stability.

Within Southeast Asia the city states of Singapore and Hong Kong became models of the new era of urbanisation with manufacturing less evident as labour intensive low-tech activities were relocated to China, Thailand and Indonesia. Financial services and tourism flourished and massive investment took place in infrastructure with both cities seen as transparent markets where business could be done quickly and efficiently. While many investors looked at Asia through Hong Kong and Singapore the situation in some other countries in the region was very different. Indeed corruption and cronyism have hindered the growth of cities, delayed the development of infrastructure projects, leading to high levels of traffic congestion in cities such as Bangkok, and reduced the attractiveness of many cities in the region as tourist destinations. While growth prospects remained bullish these problems were brushed aside and investment continued unabated, further exacerbating the difficulties.

Concerning the role of cities in the Pacific Rim, Lo and Yeung (1996) argue that functions largely determine the relative significance and importance at global, national and regional levels. In a borderless economy, city functions are spatially footloose and therefore sensitive to cost factors and locational characteristics. The importance of a city is directly related to the range of key functions it can attract and provide for in the global division of labour. Key functions include goods and commercial transactions, skill of the labour force, the degree of cultural diversity and the strength of information and capital flows. The interaction between the planning systems and property markets has a key role in encouraging urban economic growth and development. Furthermore, given that the Pacific Rim economies are growing from a much smaller base than the established economies of the USA and Western Europe, the demand for serviced land and buildings remains substantial and invariably focused on the principal metropolitan areas (Armitage, 1996).

The internationalisation of financial markets and the resulting freedom of movement mean that vast sums of money should become freely available for development projects. Throughout the region the outlook in the short term is for falling rents and capital values as the property markets adjust to new circumstances following the currency crisis. The length and severity of the market downturn is likely to vary in different city markets depending on the degree of building, the development pipeline and the liquidity and transparency of the market. It is likely that a recovery will materialise faster in Hong Kong and Singapore which are more mature markets compared with the emerging property markets of Manila, Kuala Lumpur, Bangkok and Jakarta, where the level of oversupply is likely to result in a prolonged recovery (Scales, 1998). Research shows that Hong Kong real estate is more sensitive than other Hong Kong industries to political and economic events. Jones Lang Wootton (JLW, 1998) reveals that Hong Kong slipped from first to sixteenth in the Economist Intelligence Unit rankings of the most attractive economies in which to invest over the next four years (1998–2002), due to the effects of the reversion to China and the financial crisis in Asia. On a similar theme, Ling *et al.* (1998) found supportive evidence to indicate that the effects of the political events surrounding the Tiananmen Square demonstrations in 1989 on the sensitivity of the capital markets was significantly greater for the Hong Kong real estate market than for the Hong Kong non-real estate market.

1.4 PROPERTY INVESTMENT AND DIVERSIFICATION

Historically, investors have tended to target one locality, normally the main city of the country or region, and to invest in the office sector, the most international of the property classes. Nevertheless convincing arguments have been forwarded in favour of diversification at an international level, in particular the reduction in the risk of a portfolio and enhanced performance opportunities. Sweeney (1993), in outlining reasons for cross-border property investment, identifies potential attractions as an under-invested allocation to property, the desire to build on successful experience in domestic markets, the lack of opportunities to expand in mature markets and the wish to be seen as pace-setters in new investment markets. Indeed, the determination of optimal country allocations is considered to be among the primary concerns of international portfolio managers (Eichholtz *et al.*, 1996). Earlier work by Worzala (1994) in a survey of institutional investors identified that 45% of funds included overseas property in their investment strategy, with declared intentions to maintain an active overseas portfolio.

With the globalisation of financial markets and changes in the legislative framework for institutional investment, potential advantages are likely to materialise from pursuing a global investment strategy diversified by asset allocation. Solnik (1991) presents the case that in a fully efficient integrated international capital market, buying the world market portfolio would be the natural strategy. Geurts and Jaffe (1996) argue that as financial markets rapidly globalise and become increasingly integrated, international diversification will become more attractive to institutional investors. The benefits of international diversification for real estate have been documented less extensively than that for equities or gilts even though the globalisation of financial markets has a particular significance for international property investment. Nevertheless a number of studies have examined the risk reduction possibilities of international diversification of real estate portfolios and used portfolio models to determine the optimal international allocation of real estate investments (Sweeney, 1989; Gordon, 1992). The relatively low weighting of real estate in international portfolios in the light of deregulation of cross-border capital movements is surprising, though Newell and Webb (1996) infer that international portfolio diversification benefits may be offset by increased exchange rate volatility and Eichholtz (1996) argues that the lack of knowledge on local markets and the high information costs are mitigating factors. Additional benefits from international investment include a search for higher yields and the spreading of risk, with hedging commonly employed to offset risk (Adair *et al.*, 1997).

The value of most direct real estate is derived from local market conditions and constraints upon the supply and the demand of property. Differences in terms of liquidity, lease structures, transaction costs and valuation practice make international real estate investment between markets less appealing. Furthermore investment in developing countries can be fraught with potential difficulties (Sender, 1996). In the People's Republic of China, which has a legacy of centralised planning and the allocation of land by the state (Walker and McKinnell, 1995), the rights of transfer and the obligations and rights of land users are confused, with potential pitfalls for overseas investors and developers (Ong, 1996). A further difficulty concerns the lack of valuation methodology and techniques in assessing the market value of real estate in China (Kwong and Lai, 1995). Koh (1995), in comparing opportunity, risk and expected returns from a number of Southeast Asian countries at varying levels of economic maturity (mature, developing and emerging), shows that in the less developed/emerging markets the risk factors are those where the procedural aspects, including the development process, titling systems, lack of information availability and poor quality of professional services, affect the expected returns most significantly. Drawing upon experience in the USA, Worzala and Bernasek (1996) recognise that the market for high quality institutional grade investment property will become more efficient as investors gain access to the same data and utilise the same methodology in pricing real estate, promoting a convergence of the determinants of value as leading markets compete for capital investment.

The thorny issue of foreign ownership of land is a cause of concern. Land ownership is restricted to foreigners in many of the emerging markets in Asia. Traditionally the sale of land to foreigners has been perceived as a breach of national security and is strictly controlled by the Ministry of the Interior or other government departments within the fledgling democracies of Asia. Although some Asian countries have legislated to provide foreigners the opportunity to own strata title space in buildings, until a point is reached whereby investors are permitted to own real estate opportunities will be limited to certain countries and to certain types of real estate.

It is widely accepted that to facilitate the development process planning systems need to be responsive to the market and create conditions conducive to the property industry (Berry and McGreal, 1995). While investment in property is frequently based upon transactions involving the existing stock rather than new projects, it is the latter that creates the image of a vibrant city equipped for the needs of modern business activity. If market choice is limited due to restrictive policy or development control procedures the investor may avail of the freedom provided by capital movement and target alternative cities. A city's planning system can portray positive or negative images to potential investors ranging from flexibility to bureaucratic inefficiency. The planning system needs to be responsive to facilitate the emergence of new investment opportunities. Yet at the same time certain regulation is required in that an over-supplied market will ultimately influence investment return. Hence planning systems should be sophisticated, responsive to market conditions and capable of facilitating investment opportunities. However, many of the emergent Pacific Rim countries have developed from agricultural to manufacturing and service-based economies within a decade or two, placing unbearable pressures upon the planning system and creating large bottlenecks. Often the lack of a long-term development plan and proper land use planning encouraged developers to erect buildings that were either too large or in the wrong location without suitable infrastructure access. Cities such as Bangkok, Manila, Kuala Lumpur and Shanghai provide examples of over-building well in excess of user demand.

Yield and rental value are normally considered to be the most diagnostic indicators of investment performance. In the case of yields, demand is created from the level of institutional investment with yields falling as the amount of investment increases and capital values rise. Institutional and corporate buying of property and the need to diversify portfolio structure have led investors to target opportunities internationally, particularly city locations and specific market sectors within these centres. However, a property-based investment strategy needs to consider lease arrangements, liquidity, transparency, tenant demand, identifiable CBDs and an established system of planning and development control. Longer term investment strategies are adapted by mature investors with experience of real estate cycles in some of the faster growing countries in the region. However, much of the investment in real estate was made by developers, investors and speculators who had a short-term strategy that was little influenced by rental returns. Their investment was made with capital appreciation in mind and often the property would be left vacant as it was felt by speculators that the rental return was insignificant compared to the potential gain and that other buyers would prefer vacant property to rented or leased buildings.

In terms of rental value, tenant demand is the driving influence while the supply side is a function of rate of take-up and input created by development activity. The potentially long lead-in time in relation to development, often influenced, among other factors, by the operation of the planning system, frequently means that the phasing of supply can lag market demand. Thus the pattern emerges whereby the realisation of certain development projects occurs after the peak of the property cycle. This raises the potential for oversupply in the market, ultimately impacting upon rental levels and yields as demand slackens. In most Asian-Pacific cities this scenario seems likely to prevail into the early years of the twenty-first century.

1.5 THEMES

This book aims to interrelate, for each of the cities considered, the operation of the planning system to the functioning of the property market. The evaluation of planning systems, differences in development control and development plan policies and how these relate to the distinctive environment within each city raises fundamental issues concerning the use of urban space. In examining the relationship between the planning process and the property market, the degree of mutual interaction and the responsiveness of the planning system, as a public-sector regulator, to private sector inputs emerge as dominant considerations.

Throughout the Pacific Rim there are distinctive differences in planning systems, varying initially on a national scale and, second, on how planning powers and functions are devolved to regional and city authorities. The particular thrust of this book lies at the urban/metropolitan level, though to appreciate fully how planning systems operate it becomes necessary to consider the wider overlay as appropriate, particularly the relationship, if any, between different tiers of administration. Likewise property markets vary in their degree of maturity and sophistication.

Contained within the central themes of planning systems and property markets a number of issues are highlighted in each chapter, depending on the particular circumstances and characteristics of the city, the level of economic advancement and the efficiency and reliability of statistical information. These issues include the following:

1. The operation and efficiency of city administrative and management structures in real estate, and relationships to the political-economic framework.
2. The operation and role of the planning system, framework for development opportunity, planning negotiations and implementation of development, role of property markets and the attraction of property investment activities, development of and investment in commercial/mixed use sectors.
3. The operation of property markets, including the role of key actors and agents, public–private partnerships, development mechanisms and investment incentives, the responsiveness of the planning system to the urban land market including demand–supply side factors.
4. The structure of the property investment market, the flow of investment funds, factors influencing the behaviour of investment decision-making, role of local, national and international investors, legislative controls, taxation and fiscal policy concerning property investment.
5. The performance of the property market on a cross-sectional and time series basis including stock analysis, rate of new construction, rental and capital values, property investment yields, rates of return, rate of

uptake of accommodation, degree of vacancy, relationship of property indicators to macro-economic criteria.

1.6 ORGANISATION OF THE BOOK

While the Asian tiger economies have attracted so much interest in recent years due to their high rates of GDP growth and more recently the sharp economic downturn, the Pacific Rim constitutes a wider geographical area than East and Southeast Asia. In this book the wider interpretation of the region is considered, embracing both the eastern and western spheres of influence. This is reflected in the structuring of the text into two primary parts, namely that dealing with the eastern perspective or the Asian Pacific and that with the western perspective including cities in Australia and on the west coast of North America. The former includes chapters on Beijing, Shanghai, Hong Kong, Taipei, Tokyo, Bangkok, Kuala Lumpur, Singapore and Manila, while the latter incorporates Sydney, Melbourne, Vancouver, San Francisco and Los Angeles. The book concludes with a final chapter that takes a visionary overview of future scenarios of the Pacific Rim during the twenty-first century.

Reflecting the growing importance of China as a leading player on the international stage, the book includes two chapters from mainland China, namely the capital, Beijing, and the colonial port city of Shanghai. In the chapter on Beijing, Chau *et al.* highlight the extensive growth in infrastructure with 50 major projects to be completed by 1999. These are geared at strengthening the city's status as a political and economic centre and enhancing its attraction to foreign investors. Expansion in the size of the urban core is planned as part of this process and policies aimed at reducing pollution will see the relocation of industrial areas and the redevelopment of former industrial sites by other uses. Clearly Beijing is placing itself to be a major economic player in the twenty-first century. Allied to this is the theme of land ownership. The authors discuss land policy and land administration in detail with the reform process, a system of selling land use rights, argued to be a means of encouraging the real estate market in Beijing. However, it is observed that Beijing has lagged behind coastal Chinese cities such as Shanghai in the land reform process and in the development of real estate markets.

The land administration issue also arises as a key consideration in Shanghai, which was in the forefront of the land reform programme in mainland China. Shanghai was designated in 1984 as an open port city and in 1990 the Pudong Development Zone became the focus of China's reform and open door policy. Li *et al.* discuss the transformation of the real estate market in Shanghai and trace this back to the pilot study on land valuation started in 1985, which was to influence subsequent work in the rest of China. The authors highlight, in spite of the rudimentary nature of the real estate market in the city, the substantial amount of foreign investment for property-related projects with joint ventures common in property development, though overseas developers need to register for a business licence. In the real estate market the core interest of international developers and investors has been in the office sector in which excessive demand and the limited supply at the start of the 1990s promoted a rapid escalation in rents with subsequent decline.

In considering the rather special situation in Hong Kong, Tse and Ganesan emphasise the importance of property in the economy: as a substantial contributor to GDP, a major user of bank loans, a dominating influence in terms of property-related shares on the local stock market and a significant contributor to total public revenue. The authors discuss the leasehold form of title and the honouring of existing leases but point to restrictions on usage and the possibility of lease modification. Town planning is seen to adopt a flexible approach which has provided a relatively free environment for developers but exerted little regulatory influence. Investment in property in Hong Kong has historically shown a superior risk-adjusted performance relative to equities, though the authors also emphasise the volatile nature of the market and higher levels of risk relative to the UK, the USA and Australia. Tse and Ganesan highlight that one of the main attractions of Hong Kong is the territory's location and relationships with China. Hong Kong, China and Taiwan are seen to have a high degree of complementarity with Hong Kong acting as the service centre, China the low-cost production base and Taiwan providing technological applications.

In Taipei, the capital of Taiwan, Chang and Lin outline how the urban land development control system is based on the American-style zoning scheme with planning permission not required for development land unless rezoning is requested. However, large-scale developments have to be approved by the Urban Design Review Committee before obtaining planning permits. The authors argue that the current system is perceived by both the general public and professional planners as unsatisfactory with calls for reform. Housing is forwarded as a key market sector but there is a curious paradox with the affordability index significantly above that of western cities while at the same time vacancy rates are higher. In the commercial use sectors the authors suggest that Taipei has avoided the brunt of the Asian financial crisis with rents and capital values in the office market remaining unscathed. In conclusion the authors point to the growing normalisation of relations between China and Taiwan. Regional stability is perceived to be an important influence on the real estate market.

While Beijing and Hong Kong may have certain aspirations to be considered world cities, Tokyo already has this status and with a population of over 32 million inhabitants is the world's largest megalopolis. Indeed as Ghanbari Parsa and Kawaguchi highlight in Chapter 6, Tokyo's GNP exceeds that of countries such as the UK and France. The authors highlight the pressures that such urban growth has placed on the planning system in spite of Japan's long tradition of modern town planning stretching back to the late nineteenth century. In comparison to western cities the authors suggest that planning mechanisms are rather loose and more flexible, with the appearance of a more chaotic form of the built environment. The real estate market is dominated by office property reflecting the growth in the tertiary sector most notably finance, insurance and information services. In emphasising the importance of the office market, Ghanbari Parsa and Kawaguchi outline the substantial growth in office stock during the period 1984–94 and the investment returns *vis-à-vis* stocks and bonds. Likewise the authors highlight Tokyo's land values, the highest in the world, suggesting that these are a function of intensive development and strong economic growth, with GNP increasing 70 fold between 1955 and 1995. However, collapse of the Japanese bubble economy, the consequences of which are outlined by the authors, has seen land and property values decline from the peaks established in the early 1990s.

Unplanned urban growth emerges strongly in the Bangkok chapter. Plumb regards the current pattern of land use as more a reflection of the operation of the free market than any planning framework and documents in detail attempts to introduce a rational plan for Bangkok. Fundamental problems of the existing system in Bangkok are seen as the large number of agencies involved, conflicting objectives, the lack of any effective co-ordination and an urban form that is largely infrastructure led. The real estate market in Bangkok is seen to rival Shanghai as one of the most oversupplied in the world with the collapse of the real estate market a significant component of the economic crisis experienced by Thailand during 1998. The wait and see approach being adopted by investors and the suspension of several projects has left the Bangkok skyline interrupted by incomplete 'moth-balled' projects. Plumb argues that the large imbalance between demand and supply is a reflection of the immaturity of the market, with the lack of an effective planning system a contributory factor.

The theme of rapid economic growth in Malaysia prior to the 1997 crisis is seen as an important factor in the development of Kuala Lumpur, but in common with other Southeast Asian cities, notably Bangkok, the provision of public infrastructure has not kept pace with urban growth. D'Arcy and Keogh in their analysis of the KL market emphasise how for a significant period of the 1990s the property market was viewed as the best long-term investment sector with easy availability of funding for new development reflected in schemes such as the KL City Centre project with its Petronas Twin Towers development. The authors contend that the roots of the subsequent crisis lie with the role played by private sector financial intermediaries in creating unsustainable asset market conditions, particularly in the land and real estate markets. It is argued that controls placed on limiting foreign investment and the emphasis placed on minimum domestically sourced investment requirements may have contributed by increasing exposure to unregulated actions of domestic financial intermediaries. D'Arcy and Keogh highlight responses being undertaken or proposed including significant changes to the planning control system with a greater strategic role for the federal government.

The same authors provide an analysis of the Singaporean market in which control, although strongly regulated, is generally exercised in support of free enterprise. Keogh and D'Arcy stress the important linkage between the property market and growth in the wider economy which has been highly successful over the period since independence. The authors argue that the property market should be regarded as mature, typified by a modern investment sector, institutional stability, highly developed professional support and good flows of information. Strong interactive linkages between the property market and the land use planning system allow for managed flexibility in the planning regime as market conditions change. The outcome is a property market that exhibits a cyclical character but is nevertheless generally regarded as the most robust in Southeast Asia.

In contrast Manila is perceived to be one of the emerging markets of the region, though it is an urban area (Metro Manila) that poses many challenges. The authors of the chapter, Cornelio-Pronove and Cheng, highlight the variability of the planning system and how, in the absence of nationally applied zoning regulations, the dominant land use and design standards at a local level are adapted. Furthermore it is apparent that the process of development can be extremely slow due to the wide range of permits required depending upon the attractiveness and merits of the project. The important role of the private sector in property development is emphasised, particularly due to the lack of government funding, though planned infrastructural improvements are likely to have a considerable impact on the Manila market. The liberalisation of the financial and insurance industry in 1995 is seen as a catalyst in spurring investor interest but the market has been hindered by fragmented ownership, a lack of detailed information and variability in building quality, specification and costs. Nevertheless Cornelio-Pronove and Cheng point to investor confidence during the period 1994–97 and steps taken during the second half of 1997 once the market turned to avoid a Thailand-style meltdown of the property market.

In Australia, Newell and Herborn consider Sydney while Flannigan *et al.* discuss the key themes pertaining in Melbourne. The global status of Sydney is reflected in its position as an international financial centre and location for the headquarters of major trading conglomerates. The planning strategy for the Greater Metropolitan Sydney region is based on a 'compact city' urban form. By Asian standards Sydney is not a compact city although the strategy aims to create a more sustainable environment with liveable neighbourhoods by restraining peripheral growth and promoting redevelopment of obsolete inner city areas. As in the American case examples, strategic objectives include integrated land use and transport planning, increased densities and encouragment of mixed use developments. Newell and Herborn infer that the planning framework for the central activity district of Sydney exhibits complexity and fragmentation as a consequence of legislative responses to *ad hoc* problems. In this context many of the problems are seen as being too large for local government but too small for state government. The authors also argue that the Sydney CBD office market has displayed greater volatility than retail and industrial property based on time series analysis over the period 1985–97. Using an inter-asset correlation matrix for the property sectors and the various asset classes over the time period, Newell and Herborn show that office property nevertheless can provide portfolio diversification and risk reduction benefits in a mixed-asset portfolio with Australian shares and bonds.

In the Melbourne chapter, Flannigan *et al.* indicate that the state government ensures a consistent format for all planning schemes through its Victoria Planning Provisions whilst the mandatory Planning Policy Framework sets a local and regional strategic policy context for a municipality subject to state control. The principal component is the Municipal Strategic Statement which provides the vision and directions for development. The Land Use and Development Plan is the regulation document within which lands are allocated to a zone that reflects allowable land use with linkages to the Local Planning Policy Framework. In considering the interrelationship between planning and property markets, the authors argue that the evolution of Melbourne's commercial, retail and industrial property markets through a combination of economic booms and government-led development rather than through the use of an integrated planning system looks likely to continue into the new millennium. Consequently there is a perceived view that steady economic growth would create the conditions for the implementation of effective planning policies in each of the respective property market sectors of Melbourne. In this regard the stabilising of property cycles and the implementation of planning policies that are effective and sustainable present a major challenge for the future development of the property markets in Melbourne.

In considering the city of Vancouver, Londerville and Finlay discuss the relationship between the Greater Vancouver Regional District, consisting of 20 municipalities, and the Liveable Regional Strategic Plan which sets out the official growth management strategy for the regional level. Vancouver is designated as the primary business centre together with eight regional town centres which are planned for increased commercial development. The main components of the Vancouver City Plan include increased housing choice, integrated land use and transportation planning, maintaining a diverse economy and developing stronger neighbourhood centres. However, as a consequence of the planning system, the high land prices and construction costs impact on the property market sector. The authors point out that the suburban office market, for example, is smaller but faster growing than downtown though absorption rates have tended to fluctuate widely over the past 10 years. Furthermore, mixed use developments are considered necessary to deliver the goals established in the Liveable Regional Strategic Plan (LRSP). With the public having a substantial input to the planning process and a right to object to development projects, Londerville and Finlay tentatively question whether the authorities will have the commitment to implement the LRSP and ensure the economic and environmental sustainability of Vancouver in the future.

In the chapter on San Francisco, Kroll discusses the complexity of the metropolitan agglomeration in terms of the administrative structures, the planning and regulatory context and the key forces impacting on the real estate market. The strong economic base of the San Francisco Bay Area as a leading financial centre and high-tech region has provided a market for extensive real estate development. The author considers the effects of change in financial regulations and in the taxation structure on real estate development activity and patterns of growth by encouraging the spread of multifamily and non-residential use to suburban areas. Trends in real estate markets reflect a combination of factors including changing economic conditions, taxation codes and financial institutions. The amount of new build, availability of existing space and cost of space are influenced by the limited supply of entitled land, strong environmental concerns, infrastructural limitations and the receptiveness of communities to new projects. Kroll concludes that new development will be a costly and time-consuming process. In spite of economic strengths, land constraints may divert to other areas in California or even out-of-state although the utilisation of brownfield sites should help expand the supply of development land.

The multiplicity of municipal authorities and the perceived difficulties in the co-ordination of land use planning across the metropolitan region again emerges as a key issue in the Los Angeles conurbation. In Chapter 15, Syms and Weber provide an overview of the growth of the conurbation, the planning structure and the regulations governing land use at state and local levels. The focus of the chapter is on the effects of land use regulation on urban sprawl and the provision of local infrastructure by developers as a requisite to securing planning permission. Interestingly, Syms and Weber take the debate on the utilisation of brownfield sites further by discussing the extent of the problem and the role of Community Redevelopment Agencies in regenerating blighted areas through tax-increment financing and methods of borrowing. They conclude that most of the financial risk from the redevelopment of brownfield sites can be reduced to the point where there is no discernable difference in the capitalisation rate or prices between sites that have been contaminated and sites at which contamination is not an issue.

In the concluding chapter, Ratcliffe seeks to establish a framework for studying how cities around the Pacific Rim will perform in future years. In doing so, he explores the climate of change within which these cities are evolving, transforming and competing. In particular, he highlights the Asian influence that permeates the cities around the Rim and points to the burgeoning power of China. The driving forces of change are examined using a six sector classification of cultural, demographic, economic, environmental, governmental and technological change. From this, scenarios are constructed that attempt to understand how cities of the Pacific Rim might usefully be typified over the next 20 years or so. Although the future will always be unpredictable, Ratcliffe suggests that by adopting the right strategy, the future of Pacific Rim cities can be imagined, planned for and managed.

1.7 POSTSCRIPT

In assembling the series of cities that form the core of this text it is appreciated that other centres might also have been included. Inevitably, however, any text needs to be selective and can not be all inclusive; apologies are given for exclusions. Nevertheless the cities chosen play a significant role in the region with some either at or aspiring to the title of world cities. It is a vibrant location which has the ingredients for continuing flux and change and is destined to be a dominant player in the twenty-first century.

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