

The Swiss Life Asset Managers' European Thematic Cities Index

Four investment scenarios based on the UK city ranking



The European Thematic Cities Index

In 2021 the Swiss Life Asset Managers research team launched a proprietary Thematic Cities Index that ranks 137 European cities from 29 countries across five city specific themes that drive real estate performance. The index adds to Swiss Life Asset Managers' pan-European real estate research expertise and is a further tool that supports investment narratives and strategies. The five themes are:



City Dynamism

Dynamic cities are best prepared for change and disruption. City Dynamism quantifies a city's ability and means to adapt to and embrace change by offering opportunities to create, innovate, educate and produce. It includes attributes such as economic output as well as several measures of business friendliness and entrepreneurialism. Strength in this theme benefits business as companies have access to funds and face low bureaucratic hurdles.



City Cosmopolitanism

Cosmopolitan cities meet changing consumer demands and support different lifestyles by offering stimulating, varied and diverse options to multicultural residents. Attributes such as amenity provision, entertainment and population diversity are included in the City Cosmopolitanism score. Cosmopolitan cities benefit people as they support a self-determined lifestyle regardless of cultural background.



City Healthiness

Healthy cities build resilience to shifts in climate and are able to support a healthy and sustainable future for the physical and mental well-being of its citizens. Attributes such as air quality, sustainability of industry composition and waste management help to quantify this theme. A healthy city forms the basis for both businesses and people to thrive securely and sustainably.



City Accessibility

Accessible cities connect their citizens seamlessly to the physical and virtual world within and outside of the metropolitan area. Personal mobility, digital access and the provision of a diverse transportation infrastructure are included as attributes to score a city's accessibility. Strength in this theme benefits both business and people.



City Networks

A city with strong networks provides opportunities for communities and professionals to cluster, build and thrive and helps occupiers to access businesses and talent. The City Networks' score consists of attributes such as business density, education offer and labour market growth potential. Businesses in cities with strong networks benefit from a healthy competition for talent.

Methodology and Ranking

The methodology of the European Thematic Cities Index and the overall 2021 ranking are discussed in detail in our white paper and the results can be explored on our website.



Four UK based investment scenarios

This note presents four hypothetical investment scenarios based on the UK city ranking of the Thematic Cities Index. It gives an idea of how the index can be used to investigate and support specific investment ideas.

Scenario 1: UK high growth office locations

Investment strategy: Target dynamic regional city locations aligned to fast growing industry sectors such as life sciences and tech.

Approach: Recalibrate the TCI to exclude London and ascribe a higher weighting towards dynamic, networked and accessible cities. This emphasises cities with greater concentrations of knowledge-based talent, industry clusters and supporting services with excellent digital and transportation connections.

Results: The TCI identifies Edinburgh as a primary locational target followed by Cambridge and Bristol. All three cities host large, young and educated residents with a greater than average propensity to be working in key technologically and scientifically advanced industries. All support a high rate of tech adoption, strong entrepreneurship underpinned by leading universities and dense clusters of symbiotic businesses.

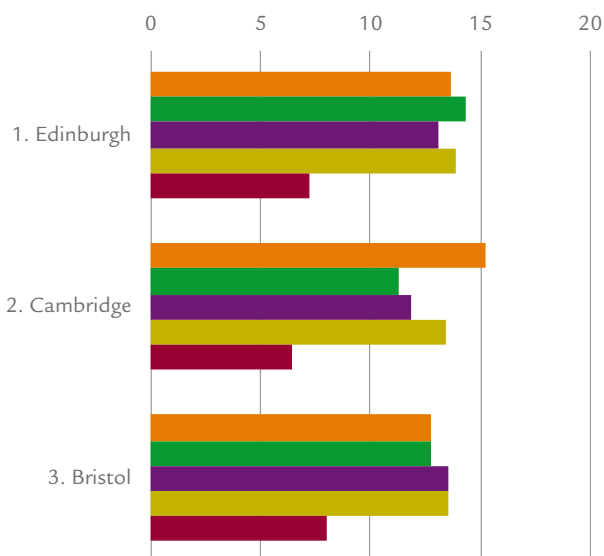
Scenario 2: UK liveable, sustainable office locations

Investment strategy: Environmental sustainability focused investor seeking to target regional cities with the strongest environmental credentials likely to benefit resident and worker wellbeing.

Approach: Recalibrate the TCI to exclude London and promote healthy and cosmopolitan centric cities. This exposes cities with competitive sustainability, wellbeing and community attributes. These cities are more likely to capture demand generated from a growing focus on protecting the environment and enhancing employee wellness.

Results: The TCI suggests that Manchester is the most suitable city followed by Edinburgh and Liverpool. These cities support diverse communities and have greater access to green spaces, cafés and a vibrant night-life. Their adoption of cycle friendly transport infrastructure and superior air quality will help to attract health conscious people and businesses.

Scenario 1 ranking and scores
(maximum possible score per category = 20)



Scenario 2 ranking and scores
(maximum possible score per category = 20)



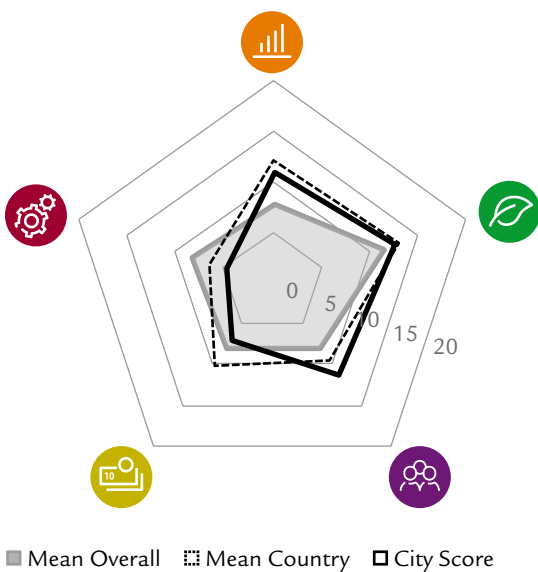


Scenario 3: Leeds

An investor is considering the purchase of an office building in Leeds. The investor is seeking to understand market opportunities and how the asset can best be managed to maximise the income return.

Leeds

(maximum possible score per category = 20)



- Leeds scores well under the business-specific variables in City Dynamism which reflects positively on office occupier demand prospects.
- It scores poorly in City Cosmopolitanism and City Connectivity.
- City strengths include a well-educated workforce, higher knowledge-based employment, high broadband penetration and an active business funding environment.
- City weaknesses include a comparatively low amenity provision such as cafés and restaurants, relatively poor cycle infrastructure and weak local public transport connections.

Strategy recommendations

Strong business appeal: Leeds is an attractive market to occupiers which reflects well on the income prospects for offices. It provides a supportive business environment which encourages entrepreneurialism and offers strong networks. It has solid knowledge-based employment, a concentration of businesses and strong future growth potential.

Transport connectivity: The investor should scrutinise micro-level transport connections to the asset in given local weakness indicated by the TCI. A well-connected asset close to major transport nodes and cycle infrastructure, combined with excellent end-of-trip facilities for cyclists, may out-perform in this market. An asset with poor transport connectivity is a higher risk.

Amenity provision: Given the lower overall amenity provision in Leeds, analysis of the office micro-location should ensure the availability of localised amenity is above average for the market. Alternatively or in addition to this, the creation of amenity within the asset could be advantageous in attracting and retaining occupiers and creating additional income streams.

Environmental opportunity: Leeds scores below average against other UK cities for 'City Healthiness'. The investor could seek to compensate for this by ensuring that the asset has best-in-class environmental credentials. This will allow the asset to prioritise the health and wellbeing of employees and could provide it with a competitive advantage in attracting occupiers.

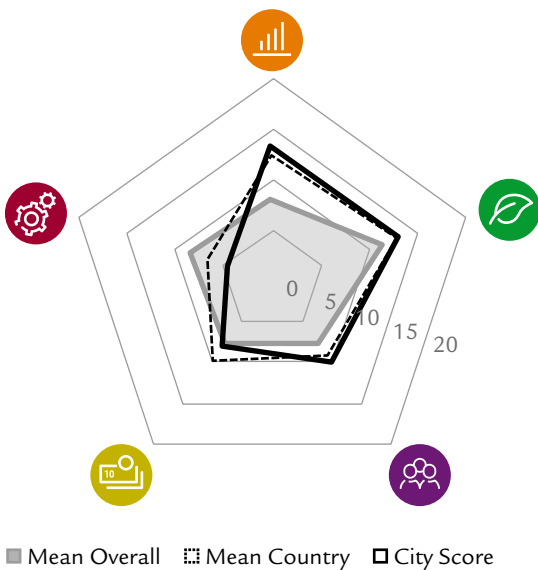


Scenario 4: Brighton

An investor is considering a strategy for an office building they own in Brighton. The investor is seeking to understand methods to enhance the value of the asset or whether to divest

Brighton

(maximum possible score per category = 20)



- Brighton is ranked 14th overall in the UK but places higher than 10th in City Dynamism and City Networks.
- City strengths include amenities such as cafés and restaurants, walkability and robust employment in finance and insurance.
- City weaknesses are focused on public transport infrastructure across all City Accessibility metrics.

Strategy recommendations

Business potential: Fundamental characteristics suggest Brighton makes a strong pitch to business occupiers, workers and residents. This supports investment prospects for holding the right asset.

Micro-location: Poor public transport is a threat to office resiliency. The optimal strategy will depend upon micro transport connections. If the asset is situated close to Brighton rail station it is likely to be at a competitive advantage. If it is situated in an area with weak public transport access, it may be at risk of weaker occupier demand and thus a potential divestment. Cycle and walkable accessibility to the asset should be assessed.

Transport provision: Transport connectivity implies that ensuring the asset provides best-in-class end-of-trip facilities will bolster its occupier attractiveness. Innovative strategies to boost transport connectivity, for example by providing on-demand e-scooters within the building for occupiers to rent, could be beneficial.

Amenity provision: Brighton has a highly skilled workforce with low levels of unemployment. This means occupiers will be focused on offices which assist them to attract and retain the right talent. This represents an opportunity for the investor to maintain or create this type of space.

Visit the TCI website to explore all cities

Find out more about the overall TCI in our white paper: citiesindex.swisslife-am.com

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