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Perception of the Real Estate Investment Environment by Main Actors and Players: The Case of Singapore

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1 Introduction

There is a huge body of literature on globalization, global cities and the impact of globalisation on different sectors of economies (Hall, 1966; Castells, 1991; Friedmann, 1986; Taylor, 1997; Jonas & Ward, 2002; Clark, 2002; Scott, 2000; Sassen, 2000) but little research has been directed toward the real estate sector. In recent years, there has been growing recognition of the importance of the institutional and legal framework in attracting FDI for real estate investment and this has resulted in research exploring methodological approaches to organisational structure and institutions of the real estate sector and the urban business environment (Ball, 1998; Healey, 1994, Healey & Barret, 1990; Keivani, Parsa & McGreal, 2001). Research has also been carried out in Europe to examine institutional barriers to FDI in the real estate (EIU, 1997; Keivani, Parsa & McGreal, 2001; D'arcy, Kaleva, Roulac, Olkknonen & Liikkanen, 2002).

The institutional approach has thus gained importance in explaining the competitive and comparative advantage of cities in attracting real estate investment.

2 Institutional Analysis of Real Estate Markets

The institutional approach has gained importance for analyzing the diversity of economic formations in different localities in recent years. New institutionalism emphasized collective decisions in economic processes as compared to simply focusing on economic explanations. It analyses the existence and importance of political, legal and social institutions, which govern human behaviour within the 'bounded rationality' of agents' decisions (D'Arcy and Keogh, 1996; Healey, 1999; Hodgson, 1998; North, 1990; Powell and Dimaggio (1991).

To North (1990) institutions are 'rules of the game' in a society. Organizations, whether political, economic or social, behave and perform within a framework defined by institutions, which are regarded as both formal and informal rules. Formal rules are laws and regulations while the informal rules are norms, conventions, traditions and customs. Institutions were seen to be the principles found in acknowledged norms, rules of behavior (Healey 1999, Powell and Dimaggio 1991)

Thus, the institutionalist's viewpoint is that economic, social and political decisions cannot be explained merely as expressed in the decisions of individual actors operating independently. Decisions and actions are 'structured' by their interactions with others, their social obligations and networks and their frames of reference (Healey, 1999; Powell and Dimaggio, 1991).

The emphasis is on 'embeddness', that is, economic action and outcomes are affected by 'actors' dyadic relations and by the structure of overall network of relations (Grabher, 1993) and 'institutional thickness', that is a 'plethora of institutions of different kinds to provide the basis for the growth of particular local practices and collective representations'(Amin and Thrift, p. 14). This 'thickness' which, both establishes legitimacy and trust will continue to encourage and foster entrepreneurship and consolidate the local embeddedness of industry.

The real estate market is basically a human construct. It exists and functions within a legal and policy framework. Real estate markets possess inherent inefficiencies and when these exist in a wider context, urban development is greatly complicated by the institutional framework which structures the market as a mechanism of both provision and denial.

As stated earlier, institutions are defined as "the rules of the game" in a society (North, 1990, p.3). Real estate firms, like all organizations, behave and perform within a framework defined by institutions, which are essential for efficiency of production and thus economic growth, as these define a set of incentives and constraints for the firms. Institutionalism identifies actors' interaction as a key factor mediating between demand and supply, given the fact that actors have their priorities and constraints that may not be based upon economic rationality (Healey, 1992; Healey & Barrett, 1990).

The objective of this paper is to analyze the perception of the real estate investment environment by main actors and key players in the Singapore real estate market to assess its competitive and comparative advantage in attracting real estate investment.

3 Research Methodology

A semi-structured questionnaire was designed as a guide for in-depth interviews. The sample for the interview was spread across four broad categories of players in the real estate markets, namely senior public representatives, foreign developers and investors, local developers and consultants. Senior public representatives were drawn from policy groups that catered to and managed the development of the real estate industry. Foreign investors and developers have been grouped together to understand whether there exists a difference in perception between them and the local developers. Within the consultants group, property, financial and legal consultants were interviewed to assess the overall information environment, the legal statutes that govern a development and the extent of development of sound financial market mechanism, respectively. This spread allowed us

to cover a wide range of issues related to real estate development and investment. A total of 33 interviews were conducted (Table 1).

Table 1: Profile of Interviewees

Categories	Profile of respondents	Number of interviewees
Public Sector	Public Respondents	5
Foreign Investors & Developers	Foreign Investors	5
	Foreign Developers	3
Local Developers	Local Developers	6
Consultants	Property Consultants	5
	Financial Consultants	4
	Legal Consultants	5
Total		33

The interview involved both discussion and scaled responses. Also, the questionnaire specifically catered to each segment of respondents, with the underpinning construct of all the interviews being the assessment of the real estate institutional system and the perception of market players on the competitiveness of Singapore as a real estate investment destination. For investors and developers, issues such as investment/development activities of the firm and city competitiveness were discussed. In the case of public representatives and consultants, issues related to real estate market and regulatory mechanism and impact of foreign investment were included in the discussion.

4 Overall Institutional Framework

This section presents a brief outline of the overall institutional framework, which governs real estate development and investment in Singapore.

The real estate institutional framework of Singapore is unique in that it is spread across various ministries that undertake their respective mandates, but collaborate where necessary. The missions of these institutions¹ are focused on the urban development of Singapore and are highly relevant to real estate development.

Figure 1 shows the key ministries and the respective statutory boards that influence the real estate market in particular. The most important would be the Ministry of National Development and its various statutory boards. The cross-functional involvement of the various institutions related to real estate development and investment, which emphasizes the ‘institutional thickness’ prevalent in Singapore, is clearly illustrated in the chart.

¹ For further information on the respective institution’s mandate please refer www.gov.sg

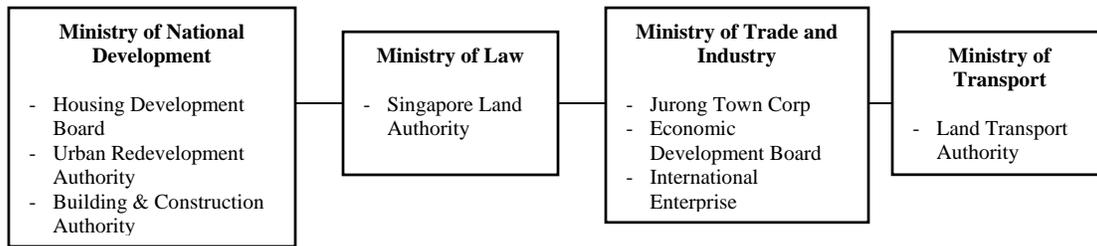


Figure 1 Key Ministries and their respective Statutory Boards

5 Results of Survey on Perception of the Real Estate Investment Environment

The findings of the survey are presented in the following sections, comprising (1) comparative advantages of investing in Singapore, (2) reasons for entering the market, (3) assessment of the institutional system, (4) legislations and regulations, (5) the regulatory framework, (6) investment environment, and (7) assessment of the future of the real estate markets.

5.1 Comparative Advantages of Investing in Singapore

Consultants perceived that the advantages of Singapore tend to be more as a business destination as against being a real estate investment zone. As real estate is seen to be a derived demand product, these positive attributes are seen to have an indirect impact on the real estate market. The overall infrastructure, government and institutional proactiveness and transparency were cited by most as the key pullers for investments. Also, the communication and transportation infrastructure, local and international, is well established. This, when coupled with a systematic and non-restrictive investment mechanism, is seen positively by foreign investors. Furthermore, its stability and security allows them to view Singapore as a low risk zone. Apart from the above, public respondents also cite the availability of skilled human resource and established international links, through trade agreements, as a macro advantage that Singapore enjoys.

The security and stable business environment is directly related to another respondent's view that the yield-to-risk ratio for Singapore was higher than most other countries. As a public respondent mentioned; Singapore comes on the radar for global asset allocation investment destination as and when an investor is considering an investment in the Southeast Asian market, and wishes to invest in a relatively low-risk destination.

In addition, the overall productivity of the labor and capital is seen to be higher than neighboring regions. This is perceived to be the driver for economic growth, and to trickle down to the real estate market. As for the size of the country, it is seen both as an advantage and disadvantage. The advantage is the ability of the institutions to be nimble and responsive, and therefore take quick action on initiatives. One example is the Asian

Financial Crisis, wherein most other countries faced banking problems, which Singapore was able to contain quickly. This nimbleness allows for an institutional system that is 'thick' and which has the necessary depth and breadth to undertake the required strategic initiatives. The disadvantage was the fact that being a small country, the ability to diversify in real estate is limited, as there is very little fluctuation in property prices, when seen in a regional context.

Respondents also mentioned that since foreigners were allowed to own property, with the exception of landed residential property, companies and the expatriates had a clear entry/exit strategy that maybe implemented. Also, the past economic development of the country, coupled with high capital appreciation in the property values, made Singapore a preferred destination for investment. This advantage has since recently been reduced due to the shift in economic growth in North Asia.

One of the public respondents stated that when there is a need for establishing a key sector firm in Singapore, the authorities would assist in setting-up the necessary infrastructure and space for such a company. This was seen positively by investors and potential market entrants in Singapore. Moreover, by providing quality real estate space to the company, there is active involvement from the public institutions in ensuring that real estate does not form a deterrent in the firm's decision to establish in Singapore and instead is an incentive to base their operations here.

5.2 Reasons for entering the Singapore Real Estate Market

The investor and developer segment of the respondents was asked the primary reasons that attracted them to the Singapore market. Factors such as penetration of new markets, broadening of activities, the firm's development strategy, diversification of investment, market potential and geographic location were all viewed as important in their decision to enter Singapore's real estate market (Figure 2). The underlying commonality on all of these factors is the opportunity that the Singapore market provided for a firm that is looking at diversifying its portfolio. The availability of investment capital was also seen to be important in determining entry into the market. On the other hand, factors such as utilizing incentives in both Singapore and the company's country of origin were not seen to be important.

It can be seen that it is not the limitations of the domestic markets which pushed investors/developers to invest in the Singapore market; instead, the reasons are those of opportunities and market potential.

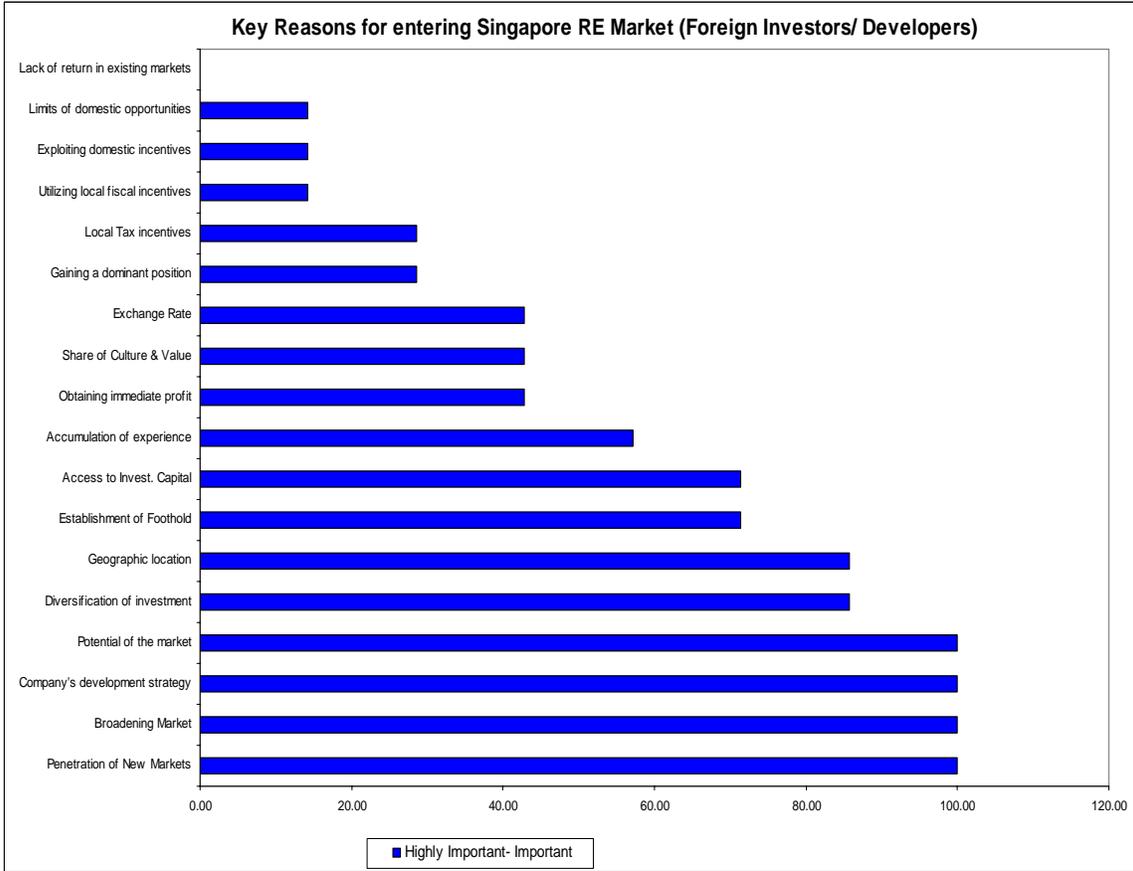


Figure 2 Key Reasons for entering the Singapore Real Estate Market

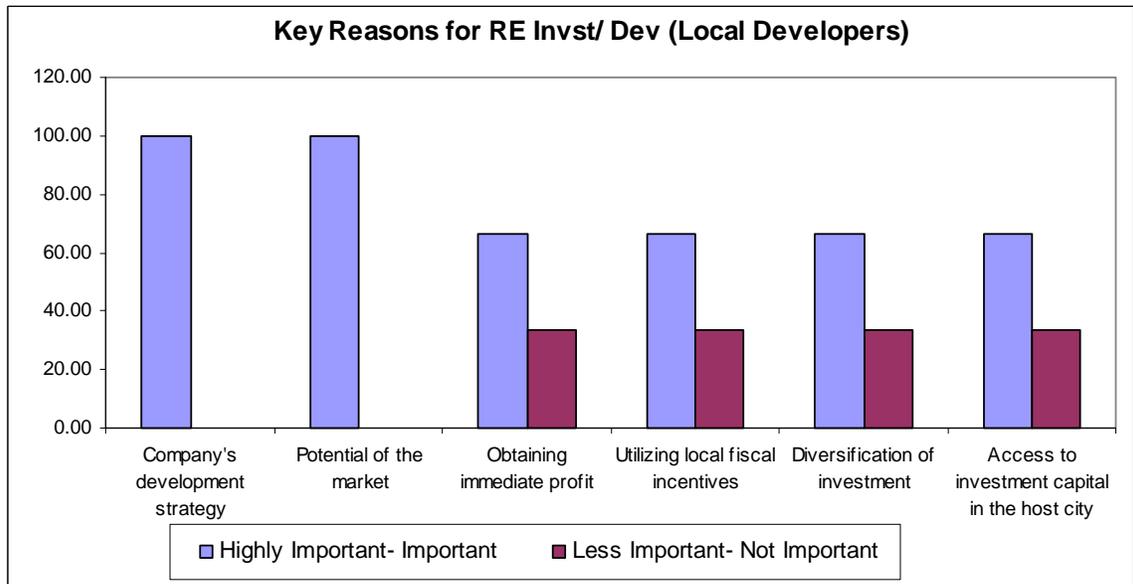


Figure 3 Key Reasons for RE Investment and Development by Local Developers

Figure 3 shows that local developers too viewed the potential of the market as the key factor determining the establishing of their business in Singapore. This attribute was closely followed by the ability to make immediate profit (again relating to the market potential), the utilization of fiscal incentives and the availability of investment capital, which relates to the fiscal policies that favored real estate development.

5.3 Assessment of the Institutional System

o Do city authorities facilitate real estate investments?

In this section we attempted to understand the role that the institutions play in establishing foreign real estate firms, whether there is any encouragement of joint ventures (JVs) and if any preferential tax incentives were available for real estate investors. Responses from the four player groups were similar in nature. A common view held by all foreign investors is that as a fund manager, there is a great deal of support for a company, but there is no special support for real estate investors or managers. Developers stated the same and added that the residential sector was too regulated. As an example of over- regulation, a developer cited the example of planning authorities allocating three times the required space for power grids on a site, which led to higher costs and over utilization of useable space for the developer.

There was recognition of the efforts from the Singapore Land Authority and the Urban Redevelopment Authority in ensuring that the regulations are streamlined. However, the Master Plan was criticized for its rigidity. As a respondent clarified, the Master Plan was designed based on the possible future demand and corresponding development, and therefore current market forces could do little to alter these plans even if required. To overcome this problem, it was suggested that a macro-development plan be retained and the micro-details of the same be flexible enough to incorporate the dynamic market forces.

Consultants, on the other hand, believed that there was far more streamlined planning and development regulation and transparency in the legal framework as compared to neighboring countries. As expected, the public representatives tended to agree with the consultants viewpoint and added that the URA pragmatically addressed the urban development issues.

As for joint ventures, investors and developers perceived that there was not much involvement and/ or encouragement from the public institutions. The Government-linked Companies were seen to be the entities that participated in joint ventures (JVs), and this is seen positively by all the respondents. However, a respondent believed that any JV should be left to the private sector players as that would breed healthy competition and alliances in the market.

All the four categories of respondents lamented the fact that no preferential tax incentives existed for real estate. They added that such tax incentives were limited to firms that had got an Overseas Headquarters (OHQ) status and, since recently, the fund managers. However, as expected, they welcomed any tax benefits that maybe offered to this community and cited the lower tax environment, with no particular property tax incentive, in Hong Kong.

- **Institutional coordination**

The extent of institutional coordination greatly determines the extent to which the institutional system works. With greater coordination, there is greater awareness of the roles and the directions that each of the institution undertakes, and thus a greater possibility of an efficient implementation of processes by these institutions. In Singapore, both public and private respondents shared the view that the institutional system was far advanced as compared to neighboring regions. Most, however, were quick to add that the system was rather formal and therefore, bureaucratic. A majority of the respondents perceived this system to be complementary rather than clear. Citing the point that some of the institutions were under different ministries and therefore had different objectives, an overlap and crossing of functions at times was inevitable. This led to gray areas that private respondents were most wary of. An example to exhibit this conflict was given by a respondent stating that the added supply of industrial space in the market from the Jurong Town Corporation (which is perceivably causing a glut), and the provision of short term leases by the SLA are not in sync with the government actions of withholding the release of new sites to avoid oversupply. Both groups of respondents, private and public, therefore concluded that more was needed for ensuring a clear coordination level from the institution and the consolidation of their services to cater to the market.

- **Receptivity and flexibility**

It is important for institutions to have a feedback mechanism with the market players in order to develop an environment that favors real estate investment. Also, as institutions set the 'rules of the game', feedback allows institutions to gather a multi perspective view on the subject and develop a well informed policy framework. Receptivity and flexibility was rated to be average to high by all groups.

However, majority of the respondents added that the institutions were receptive but not flexible (Figure 4). As a consultant responded, the authorities are seen to be more flexible for non-real estate companies than they are for real estate companies. Building and development control was seen to be the least flexible. Also, the planning system is seen to be constraining by many developers. They said that the overly transparency limited the options to be flexible in case a situation demanded so. It goes back to the rigidity of the Master Plan that was discussed in an earlier section. However, an investor responded that this

inflexibility gave a sense of security in investment decision-making, which was good for them. The developers, however, viewed this as a lack of a market-driven real estate environment in Singapore. This conflict in reasoning can be traced to the differing objectives of the developers and investors group.

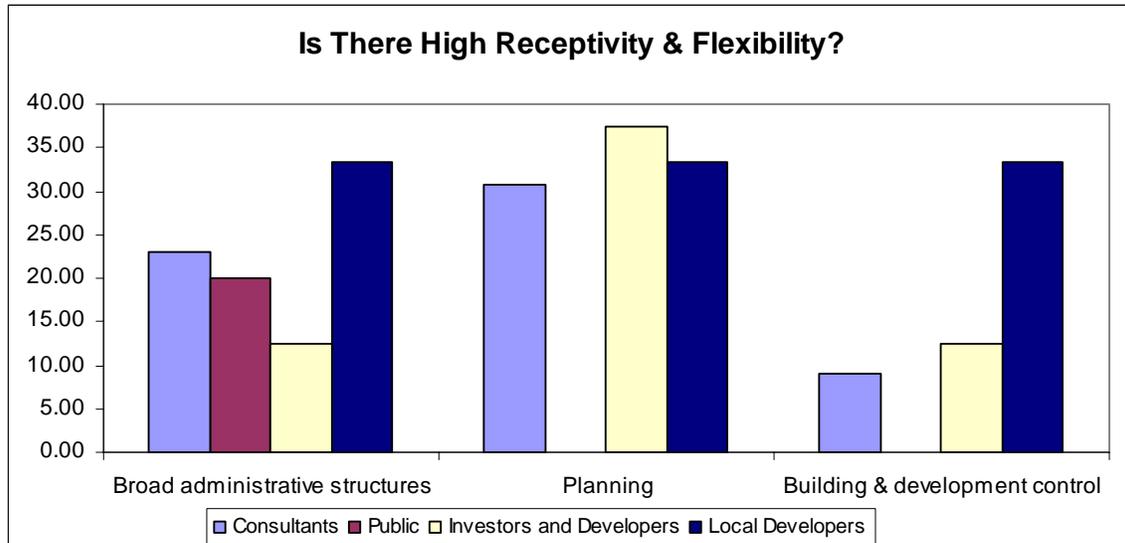


Figure 4 Receptivity and Flexibility of the Institutional System

5.4 Legislation and Regulations

○ Legislations and Regulations Assisting Real Estate Development

Respondents cited a few key regulations that have had a positive effect on the real estate markets. Consultants suggested that the Government Land Sales program allows potential land buyers to view the reserve lists on the land sales, which in turn improves the transparency in the system.

The Master Plan, on the other hand, is seen to contain all vital information with regard to the plot ratio and development details which help developers. Information on recent amendments (which increased the plot ratio in many locations of Singapore and which spurred redevelopment), were made available to developers.

Recent changes in financing policies have also helped the real estate industry. For example, the Monetary Authority of Singapore has liberalized its policies, which has recently led to the formation of Singapore's first Real Estate Investment Trust. This has been received favorably by the real estate community. The relaxation of the Singapore dollar loan is also perceived to have spurred further investments from foreigners as it allows for local borrowing and therefore less exposure to exchange rate risks.

On the other hand, the introduction of anti-speculation measures in May 1996 was seen to be the key policy that negatively affected the investment market. Restrictions on the sale of properties within the first three years of purchase impacted the transaction levels in the market. The institutions enforced this regulation to reduce the real estate bubble that it saw brewing in the market and also the adverse impact that it could have on the financial sector of the economy. However, this rule has since been removed.

○ **Factors Facilitating Functioning and Efficiency of Real Estate Markets**

For markets to function efficiently, key information and services need to be available. Therefore, consultants and the public representatives were questioned on the efficiency of these factors. Favorable responses were secured in all the factors, namely, the existence of accurate data sources, market transparency, existence of professional services and well-established market institutions. Surprisingly, public respondents suggested that the market was entirely transparent (Figure 5), but refused to provide more details.

In the case of professional services, one developer stated that the government permit system was not very efficient. The contention was that the planning authorities delay responses until the maximum allowable time limit and then pose fundamental questions that can be addressed in the earlier dates, which leads to further delays in the planning approval.

Another developer cited that advances in the construction technology have not been adapted to its maximum potential in Singapore. The respondent attributed this to a lack of a critical mass in the demand for new technologies.

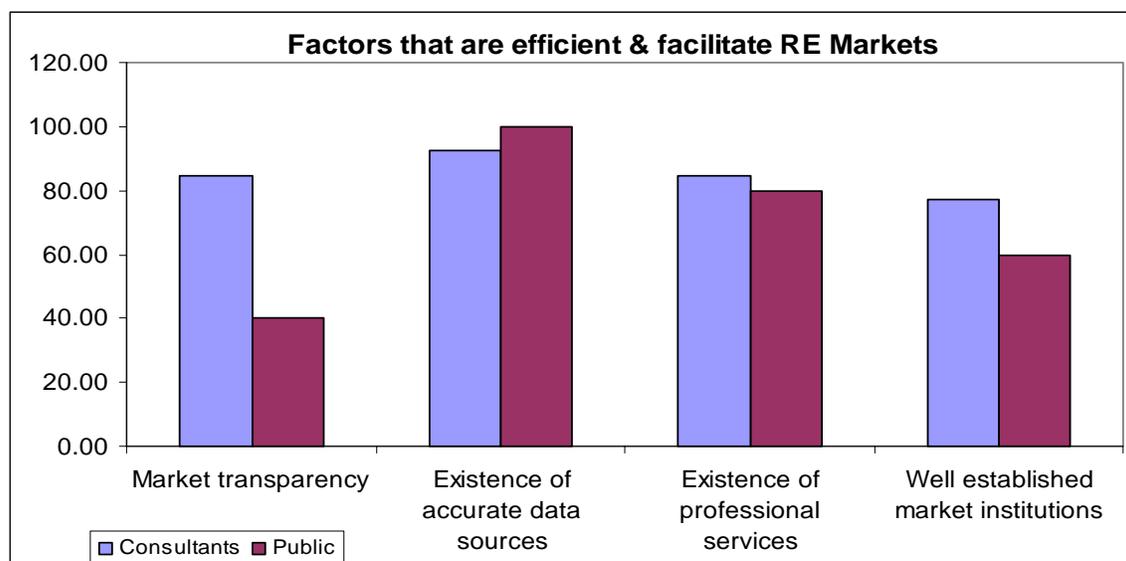


Figure 5 Factors Facilitating Real Estate Markets

5.5 The Regulatory Framework

Having addressed the broad institutional framework of the real estate markets from the consultants and the public respondents, investors and developers were asked to provide their perception on the regulatory framework that governed these markets. The regulatory framework secured high rating by both groups of respondents who were unanimous in stating that the stability and sound framework available for them continued to be one of the key reasons for them to conduct business in Singapore (Figure 6). However, local developers rated legislation on construction and land acquisition lower than the foreign developers/investors. This is probably due to unfavorable experience with the authorities. Overall, the similar perceptions on the institutional environment exhibited by local and international real estate developers further emphasizes the level-playing ground that is provided for the real estate community.

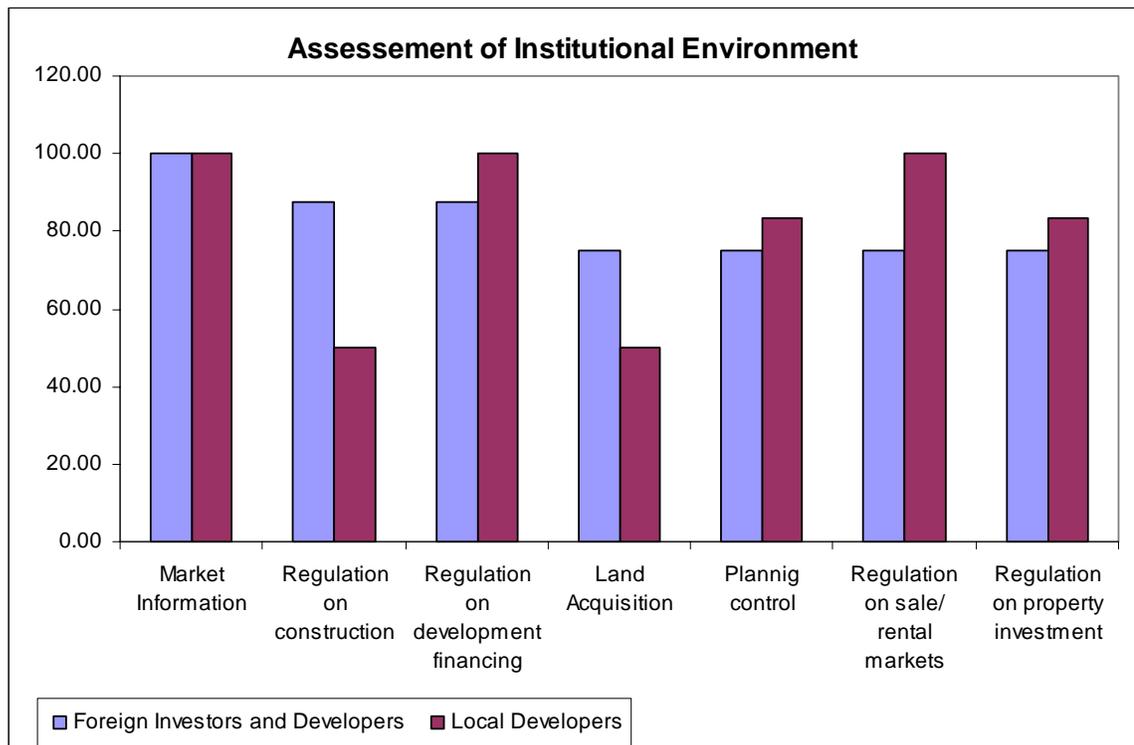


Figure 6 Assessment of Regulatory Framework

o Highly Constraining Factors in real estate development

Figure 7 shows hardly any constraining factor to real estate development. The respondents agreed that clear property rights allows for better real estate development. Also, real estate development requires a smooth site assembly process so as to bring to market parcels of land that are sizeable enough to bring about a feasible development. On the other hand, planning and conservation policies can curb

development at times. But neither of these was found to be a constraining factor in Singapore. Consultants think that limitations on the release of green sites is the least constrained factor, while the public sector points out that this is the most problematic area. The public's concern on the limitations of release of green field sites can be attributed to land scarcity in Singapore resulting in difficulty of releasing suitable sites. One example was the dissatisfaction arising from the new sites released for industrial land in Tuas. The sites were deemed undesirable compared to sites nearer to urban areas.

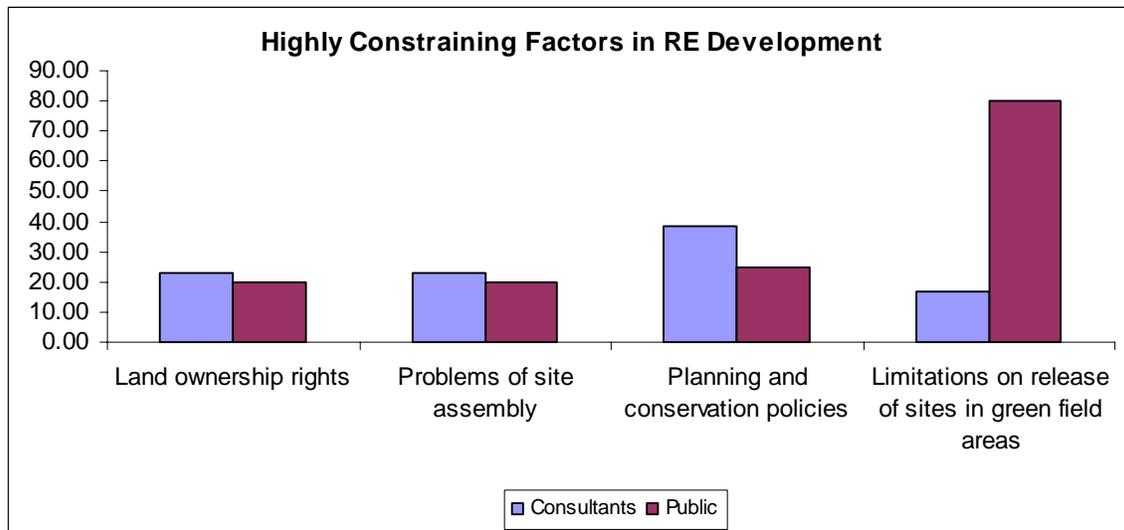


Figure 7 Constraining Factors in Real Estate Development

5.6 Investment and Development Environment

o Strategies and policies to consider when investing

The investors and developers were asked to comment on the key policies and strategies that one should consider when investing in Singapore. There were a few key strategies that were highlighted by the respondent group.

Prospective investors and developers were advised to study the macro-economic institutional structure, Singapore Inc, before making any decisions. This was primary to understanding the local market conditions and the culture. Moreover, partnership with a local partner was recommended to reduce cost and also gather better market knowledge.

Also, within the real estate sector, careful evaluation of the investment type, by studying the customer base and demand, is highly recommended: basically, product type and market positioning. Since Singapore is a small market with few big players, investors are recommended to invest for growth rather than immediate profit. Therefore, one of the investors believed that the strategy to be employed in the Singapore real estate market is to enter sectors that have high

knowledge entry barrier and require adaptation of international expertise in order to create a successful development; for example, retail malls.

Foreign developers in the residential sector cautioned that the regulations should be carefully studied as there are many restrictions in the local market. Also, they added that local players had a competitive advantage in the residential market and therefore the market positioning became all the more important.

Local and foreign developers both stressed the ability to deliver the necessary quality for projects. In addition, local developers maintained that financing, pricing, buyer profile, market and product positioning were important factors to address in a strategy. This segment of respondents also added the need to be able to sustain the real estate cycles in Singapore. Though there are no high fluctuations in property prices, the high capital outlay required is a critical element to consider when entering this market. Therefore, the holding power of the developer is extremely important.

As Singapore is a well-developed market, there are not many foreign developers, as the opportunities to make immediate profits through development are limited. Also, with land ownership mostly being leasehold, being supplied through the Government Land Sales program, there are restrictions that exist in project development. However, respondents added that for investors Singapore can be a lucrative market, given its sound economic and institutional framework. Moreover, as there are only a few local corporations holding most of the private real estate, the liquidity levels are very low. There is hence a need to spread the ownership of property in Singapore. In this aspect, the introduction of REITS is viewed positively as it will open the market for real estate ownership by more people, and at the same time, introduce a new instrument for investment. Also, CMBS is expected to have a lot of potential since the primary mortgage market in Singapore is big, with little options available in the secondary mortgage market. A respondent perceived that in comparison, Hong Kong and London are seen to be more active markets.

- **Factors to note when investing in Singapore**

In any investment/ development there is a requirement for understanding the overall market condition. An unstructured market can lead to higher costs. However, as highlighted by Figure 8, Singapore is seen to have a less problematic environment when it comes to the financial resources, human resources, or project specific factors such as quality control, import of material, etc. The availability of a good resource base in these factors allows for a strong investment environment.

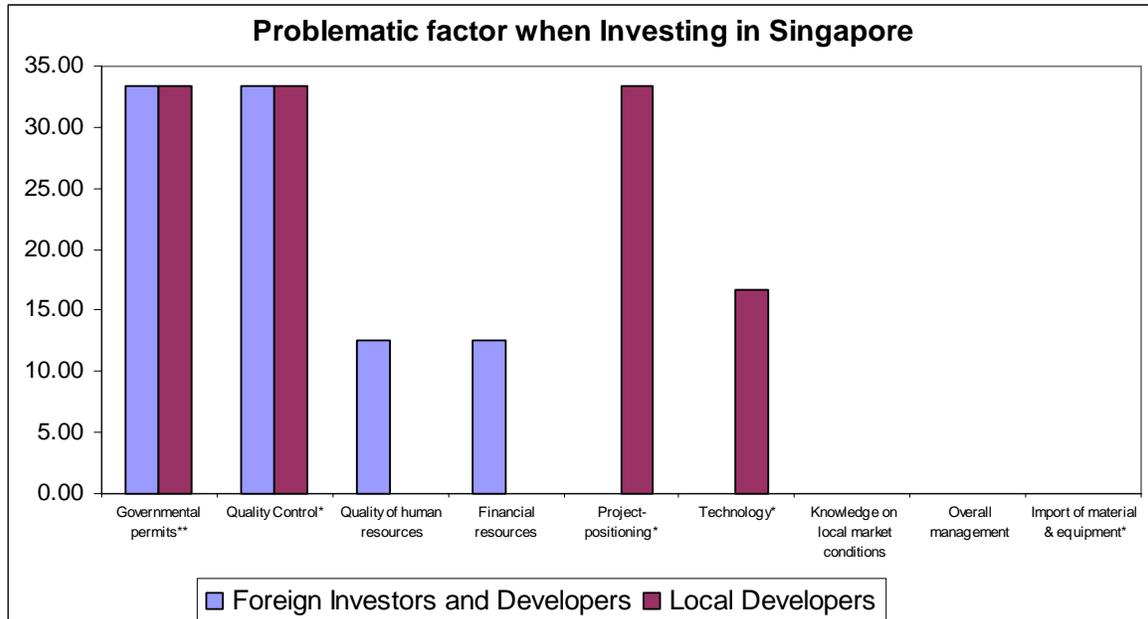


Figure 8 Problematic Factors

5.7 Assessment of the Future of Real Estate Markets

The retail and residential market are the two sectors that investors and developers perceive to have a good future, as shown in Figure 9.

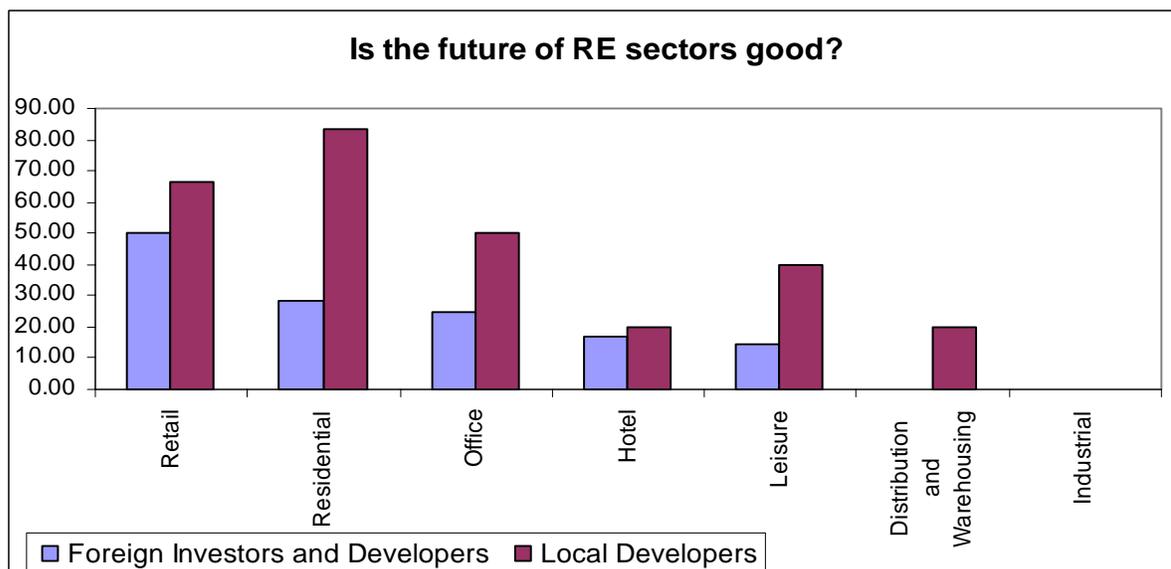


Figure 9 Future of Real Estate Markets

The industrial sector, on the other hand, was seen to have the least favorable future with the hotel industry closely following it. The office, leisure and distribution and warehousing sectors were seen to have a moderate demand. It is

possible that the responses have been greatly influenced by the current over-supply in the market and the economic environment.

6 Conclusion

The objective of this paper is to analyze the perception of the real estate investment environment by main actors and key players in the Singapore real estate market using the institutional approach. It attempts to assess Singapore's competitive and comparative advantage in attracting real estate investment.

According to the investors/developers, Singapore has the advantage of stability and security and has been viewed as a low-risk destination for real estate investment. Another advantage is the ability of the institutions to be nimble, to be able to respond and act speedily. The main reasons for entering the Singapore market are penetration of new markets, broadening of activities, strategy of the firm, diversification of investment, market potential and geographic location.

The respondents felt that there is no special support for real estate investors/managers although great efforts have been made by the institutions to stream-line regulations. They reported that co-ordination by the institutions is very good, although there tends to be some overlap. There was far more streamlined planning and development regulation and transparency in the legal framework as compared to neighboring countries, but this has also resulted in too much bureaucracy. They also felt that although the institutions were receptive, they were not flexible. One view was that the very transparency of the planning system has resulted in inflexibility.

According to the respondents, recent legislations and regulations introduced have positive effects on the real estate market. One example cited is recent changes in financing policies, which have resulted in the introduction of REITS, and perhaps, CMBS, in the near future.

Factors which facilitated the real estate market were the existence of accurate data sources, market transparency, existence of professional services and well-established market institutions. Hardly any constraining factor was cited.

Regarding strategies and policies for investing in the Singapore real estate market, the advice was to study the macro-economic institutional structure and the regulations very carefully as there are many restrictions. Although there is a sound economic and institutional framework, the high capital outlay required and the holding period are critical factors that investors/developers should pay special attention to.

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