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Chapter 1: Introduction

Introducing the Companion to Real Estate Development

Graham Squires, Erwin Heurkens and Richard Peiser

Introduction to the Companion

Real estate development is a significant factor in shaping the built environment. It shapes the way people live and work, and by doing so determines and enables human activity to evolve. Around the globe, real estate development forms a contemporary reflection of societal needs and market demand of particular geographies. Nonetheless, due to globalization we increasingly witness similar needs and demands for space despite institutional differences existing between countries and cities. Within each context real estate development is concerned with innovations, such as introducing new forms of development finance, setting up new types of development partnerships, or incorporating sustainable solutions within development processes. As such the practice and science of real estate development is subject to constant change, reflected in a diversity of topics that are addressed in both academic publications and professional practice. As an applied and practice-oriented science, real estate development studies and provides answers to for current and future societal questions and market needs, and by nature can be seen as a multidisciplinary endeavor. These intriguing notions ask for a better understanding of the real estate development phenomenon in all its complexity.

Nature of the book

The Companion to Real Estate Development introduces the prospect of a new possibility for the study of real estate development on an international scale to enhance both knowledge, understanding and curiosity. This companion provides a more in-depth and selective quality of content on the theme of real estate development, aimed at doing justice to its complexity. It aims primarily is to enhance the depth of learning, plus encourage a stronger professionalization of practice and policy in the built and natural environment. The major difference to “International Approaches to Real Estate Development” (Squires and Heurkens, 2015) is that it is not focused on international comparative analysis and themed in such a way. Instead the companion is a gathering of key themes on real estate development to generate a global in-depth compendium on the subject. This companion forms a science-oriented addition to the “Professional Real Estate Development – The ULI Guide to the Business” by Peiser and Hamilton (2012) and text-book oriented “Real Estate Development – Principles and Process” (Miles et al., 2007). It provides a global coverage of different key current themes in real estate development with each of the original chapters functioning as more accessible versions of journal articles, accessible for a broad audience. Moreover, there was ample space to explore the topic of real estate development in multi-faceted way, since development is central to real estate being initiated, financed, constructed and managed. Thereby this companion is considered a welcome addition to books dedicated to real estate investment such as “Routledge Companion to Real Estate Investment” (MacGregor et al., 2016).

Purpose of the book

This book is intended to be an advanced companion in the area of real estate development, but accessible to readers with little or no prior knowledge of key real estate issues in an international context. It is an essential read for students, professionals and academics/researchers in real estate development and affiliated academic fields and professional domains such as urban planning, design, real estate valuation, investment, geography, economics, and environmental ecology. For the majority of undergraduate and post-graduate programs in the built and natural environment this companion offers opportunities for students and academics to learn about and discuss major contemporary themes and issues in the field of real estate development with global coverage. This text therefore serves any property, planning, land use and real estate courses. Moreover, also practitioners might find this companion of interest as it provides an overview of key current issues in real estate development practices all over the globe with best practices and indicative case studies being incorporated in most chapters. Professionally this text can be used for understanding of real estate development and is a source of knowledge for essential tasks carried out by mid-career policy makers and practitioners.

Themes of the Companion

This book is divided into seven main themes related to real estate development we think are essential in understanding the complexity of real estate development, which are briefly introduced hereafter. Within each of these section selected authors with their specific expertise write about specific real estate development subject in varying global geographic locations, and at national, regional, urban-metropolitan-city, local development scales. In this way the companion provides an overview of original contributions from authors worldwide which covers the broad field and varying features of real estate development, at the same time allowing room for more context-specific information.

1. Social and Spatial Impact of Real Estate Development

The socio-spatial impacts of real estate development are a useful way to understand the various externality effects of development activity on a neighborhood and city scale and on real estate markets. Decisions about prioritizing the (re)development of real estate within inner cities for instance triggers spatial investments and redefines how peoples use space. In this light it is also important to understand the impact of real estate flagship projects or mega event projects across the globe, in terms of the social, spatial and economic added value of such developments. The opposite is also of true, for example infrastructure provision and the people moving to live within cities, directs real estate development and investment. This reciprocal relationship between social and spatial impacts and real estate development is subject of various chapters in this theme.

Chapter 2 focuses on the relationship between metro railway and real estate development in Hong Kong by leveraging property values. Using a framework of new institutional economics it explains why the “rail-plus property” (R+P) development model is more than simply using property incomes to subsidize infrastructure development. The chapter discusses the institutional arrangements necessary to make such combined development model successful and elaborates on spatial-environmental impacts in Hong Kong and the transferability of the R+P model to other countries.

Chapter 3 elaborates on the phenomenon of residential real estate development called “teardowns” consisting of replacing older single-family housing with larger new build variants with the potential to transform the physical, economic, and social character of American suburbs. It reveals property and neighborhood characteristics associated with

teardown redevelopment, examines the spatial clustering of teardowns, and describes how the physical form of teardowns varies across different types of suburban neighborhoods. The chapter concludes with a discussion of the potential for suburban gentrification brought by the phenomenon.

Chapter 4 investigates the relationship between public real estate development projects and urban transformation and in particular flagship architectural projects. It argues for a multi-scalar approach to understand the range of impacts of such projects as a way to legitimize large amounts of public investment for these kind of development. This chapter will assist policymakers to comprehend the wider benefits for competitive positions of cities and allocate scarce public financial resources more effectively.

2. *Markets and Economics of Real Estate Development*

This section of the book focuses on market forces and wider economic distribution of resources that may not necessarily follow market logic in real estate development. Connections to real estate development is made (amongst others) to employment, land, overbuilding, and orientation. Special attention is given to the relation between real estate development and the materials, labour, land, political, financial, investment and occupier market. Moreover, attention is paid to the effects of the latest global financial crisis or great recession that has profoundly influenced real estate development and investment. This section demonstrates the interrelationship between market drivers and economic benefits of real estate development by exploring various geographical contexts.

Chapter 5 elaborates on the investment and development behavior following the Great Recession. It investigates the operation of the global commercial real estate investment management business by comparing the commercial real estate market in the pre-2007 and end 2015 period. Subsequently, insight is given into how changed circumstances influences the investment management of commercial real estate assets. The chapter concludes with a discussion on the prospect of an emerging bursting commercial real estate bubble and the consequences for the business of real estate development.

Chapter 6 focuses on land policy changes and property market evolution in some African countries. More particularly it elaborates on the process of institutional reforms in property rights and land administration Tanzania and Kenya. With market transparency improving the authors argue that regional and foreign investment in real estate is increasing in many African countries providing opportunities for economic diversification of African real estate markets.

Chapter 7 dives deeper into the relationship between residential prices and housing development focusing on the role of construction costs. By making use of a specific database of real estate development projects, and applying an average cost model and new supply model, construction cost – house price relationships are identified. The findings reveal the existence of scale economies in the construction costs, and that extra construction costs in housing amenities increase housing prices.

Chapter 8 contains a retail market analysis for development projects which cope with new frontiers in retailing. It might provide real estate entrepreneurs and developers with the necessary tools to design and develop successful retail schemes within today's competitive and dynamic retail market. By making use of real estate market analysis stages including defining the project's trade area, analyzing competing retail developments, shifts in consumer patterns and estimating project's sales potentials.

3. *Organization and Management of Real Estate Development*

With respect to the organization and management this section puts forward individual and institutional aspects of people and organizations in real estate development. Particular interest is on trends in public-private partnerships engaged with real estate development, development management skills, and strategy-making. Special attention is given to the ability of partnership working as a multi-disciplinary approach to govern real estate development in the changing institutional, market and political environments. In addition, this section contains contributions that look deeper into the necessary project leader and manager competencies to run real estate business and operate successfully within real estate development. This section contains contributions that are original and foremost have a strong forward-looking perspective towards organizational and managerial aspects of real estate development.

Chapter 9 introduces the reader to the increasingly global phenomenon of private sector-led urban development, by sketching the changing roles of and relationships between the state and the market in real estate development. Conceptual characteristics and typologies are supplemented with empirical findings of private sector-led urban development practices in different institutional settings. The conceptualizations and findings offer the opportunity to understand the importance, varieties, and implications of a more prominent role of private actors in sustainably developing real estate and urban areas in cities across the globe.

Chapter 10 zooms in on how to build and lead high performance real estate companies, a subject not widely understood and described in literature. Based on professional experience and conceptual insights this chapter forms a welcome contribution in identifying necessary managerial skills and organizational capacities to operate successfully in real estate business. Some critical ingredients of building and leading real estate companies are explored such as acquiring personal managerial skills, building competitive strategies to access capita, hiring and developing talent, and creating a sustainable high performing organizational culture.

Chapter 11 introduces strategic management systems for real estate development that enable development organizations to respond to internal and external strategic issues during development processes. These management systems include proactive, reactive, planned and ad hoc variant which can be adopted by different types of developers. Based on a survey in Hong Kong this study indicates that understanding emerging strategic issues and anticipating threats and opportunities are critical for the success of real estate developers.

Chapter 12 deals with the topic of organizing public private partnerships for real estate development through urban finance innovation. Despite increasing interdependencies between public and private organisations in achieving sustainable urban development, misunderstandings, delays, controversies and failures seem to be part of everyday practice. Given this, the chapter presents an alternative PPP-approach by applying finance innovations to support integrated urban real estate development projects that are both financially feasible and can render public favoured externalities.

Chapter 13 analyses the institutionalization of the so-called organic urban development strategy in the Netherlands by building on the concept of the self-organizing city which recognizes the importance of new types of actors like local communities and entrepreneurs in (re)developing real estate and urban areas. By using theories from institutional change the chapter provide insights into understanding new planning and development practices and aims to identify to what extent they exceed the threshold of institutionalized behaviour in one city.

4. Finance and Investment for Real Estate Development

This section explores an indispensable development finance and investment aspect of real estate development. It demonstrates some contemporary instruments and mechanisms on offer that are appearing in various practices. The section starts by retracing some models of finance for real estate development that have been used over the past decades. Then, special attention

is given to recently appearing and promising future financing instruments and applications for real estate development. Examples include in financing mechanisms for affordable housing provision and value investment approaches supported by concrete practical applications in variety of contexts.

Chapter 14 offers a historical evolutionary and cyclical perspective on models of development finance from the 1950s to present day. It introduces the reader to the traditional model of incremental debt funding and repayment, and its dependency on market conditions and property cycles. In addition, alternatives are discussed by explaining the workings of forward funding/equity sharing partnerships, non-recourse or limited recourse loans, and shares, bonds and commercial paper issuing. The author elaborates on the relationship between finance and development by making an argument for the trend towards large scale development projects as a result of the broad availability of global development finance.

Chapter 15 explores the future of finance and investment of real estate development and introduces a changing approach for a new structural trend towards walkable mixed use urban real estate. This chapter reveals and challenges the mismatch between real estate as a long-term asset class being evaluated and underwritten using short-term finance techniques. It proposes a structural shift in development financing by means of educating the investment community, upgrading development/asset management skill sets, place-based inventory, trends and performance metrics, amongst others, to 're-tool' finance and investment.

Chapter 16 introduces mechanisms for financing affordable housing development in times of austerity. It provides lessons from the San Francisco City and Bay Area case study which are of relevance and importance given the affordable housing issue numerous cities are dealing with. Direct, fiscal and monetary types of mechanisms are put forward in the shaping of affordable housing development markets covering a multitude of finance vehicles and instruments. The chapter concludes with a combination of 'weighted-blended' plus 'tiered level' finance as an appropriate mechanism frame for developing affordable housing.

Chapter 17 presents a value investment approach to real estate development, in an era of increased importance of redeveloping and adapting existing real estate to changing (flexible) uses and tenants needs. By presenting a case study from Berlin and using an securities analysis model the authors compare the value investment approach to the core investment approach of institutional investors and conceive it as a contrarian strategy for developers, independent of location and cycle.

5. *Environment and Sustainability in Real Estate Development*

Sustainable real estate development is critical to cover contemporary debates about environmental, economic, and social problems and solutions. This section elaborates on current sustainability and resiliency issues within different real estate sectors on different built environment scales. Most notably since the millennium, research and practice in real estate development and adjacent fields show an increased concern with the environment and realizing property in a sustainable manner. It has become a central and crucial aspect of real estate development. This chapter contains original contributions about the transformation and redevelopment of offices, the importance of rating systems, drivers and opportunities for sustainability, and resiliency measures within development communities.

Chapter 18 discusses the importance of sustainable real estate transformation through conversions are part of the existing real estate stock. Within the context of predicted climate change and areas undergo change causing obsolete land uses and vacant buildings, reuse is an inherently sustainable option as it reduces the amount of waste and raw material usage. The chapter investigates the nature of office conversions in Sydney, as well as drivers and barriers for useful conversion, resulting in key lessons applicable in other market and urban contexts.

Chapter 19 focuses on the sustainability of office buildings. As holistic building sustainability assessment systems are becoming the norm, certificates for the sustainability performance of office buildings is increasingly popular. However, quantitative data on the financial cost-benefits ratio is scarcely available. This chapter investigates the main financial drivers, construction cost premium, and payback period for investments in sustainable office buildings, based on academic and professional research. The lessons can be beneficial for real estate developer and investor decision-making concerning sustainable office development.

Chapter 20 explores how public policy can influence redevelopment during the post-disaster recovery for real estate development. It looks at the case of the 2004 hurricane season in Florida and resulting establishment of the Low Income Housing Tax Credit projects. More specifically it investigates the construction locations of the LIHTC projects in terms of their resilience to storm surges from category 3 or 5 hurricanes. The findings reveal that proactive site planning from both public and private stakeholders is necessary to diminish vulnerability to flooding and real estate development and investment risks.

Chapter 21 investigates the drivers and opportunities of sustainability in real estate development. It looks at the increasing pressure from society and tighter regulatory framework which have placed the real estate industry's contribution to sustainable development at the forefront of discussions, especially with regard to reducing GHG emissions. A number of instruments and solutions are introduced that could assist the real estate development sector to deal with climate change events and simultaneously ensure long-term business success.

6. *Design in Real Estate Development*

Design has always been an essential activity of real estate development. Design concerns the visualization or conceptualization of ideas for and by different stakeholders involved in real estate. Therefore, good design is often subjective, although it is often argued that good design sells and that it represents a certain (economic) value. Within real estate development various actors have different views on what good or valuable design entails, and the creative process and methods to achieve it are often ill-understood. As such, this section aims to conceptualize how we can perceive of good and valuable design related to real estate development.

Chapter 22 discusses actor perceptions of good design from a professional viewpoint. Good design increases the economic value of a real estate development project and its intrinsic value to its community, but good design is in the eye of the beholder and often conflicting interests from various actors exist in any development project. To clarify things, this chapter considers good design from three perspectives: high vs. functional design; the monetary vs. intrinsic value of property; and what users of real estate really want. An example of achieving good design is illustrated with a high-rise condominium project in Chicago.

Chapter 23 elaborates on the principles of good design for real estate development that would help avoid creating 'generic cities'. The chapter discusses this causes for this global phenomenon, the pivotal role that developers and designers play in being responsive to societal needs and local circumstances in order to be innovative in designing buildings. Based on years of experience and expertise in the field of real estate development, 27 principles for generating unique designs and developments are then introduced, followed by key examples.

Chapter 24 concentrates on a framework for value creation in design and real estate. Design and real estate are inherently intertwined, but this linkage is not easy to dissect or analyze without encountering the obvious danger of oversimplification. This chapter analyzes value-adding strategies through selected case studies and dissects conceptual overlaps and differentiations between design and real estate, and examines divergent perspectives in evaluating design and value creation in real estate development.

7. *Land Use Policies and Governance of Real Estate Development*

The final section of the book deals with the relationship between land use policies, governance and real estate development. A continuing neoliberal orientation of planning and land use policies across the globe eventually affects how real estate development is shaped, regulated or stimulated in specific places. Policy directives on property will be put forward, whilst providing the general shift in governance structures such as the continuing devolution to lower levels, as exemplified by a move towards localism in many cases. This section covers land use policy and governance aspects in relation to real estate development as diverse as governing vibrant city centers, challenges for effective future governance, local politics and land use controls, and trends in land use and government policies.

Chapter 25 offers insight into public-private development perspectives as a governance vehicle to foster urban revitalization in U.S. city centers. It elaborates on project-level and strategic-level approaches that could assist in attracting market investment in weak and strong city centers. Moreover, arguments are made to prioritize the development for the service sector companies over the development of public amenities within policies, to increase the vibrancy of inner cities, as these constitute the most viable part of the metro economy's base.

Chapter 26 explores the challenge for effective governance of real estate development in a future urban world. As the twenty first century is a time of dynamic global change and cities are the places where this change is most fundamental, it is important to understand the part that real estate development plays in supporting their functioning as centers of productivity and innovation. The chapter concludes with pressing challenges for sustainable real estate development and offers a governance agenda for the coordination of policies, regulatory mechanisms and decision-making to address urbanization and real estate development issues.

Chapter 27 elaborates on the relationship between local politics, land use controls and real estate development. The chapter provides an overview of the real estate development process from setting community goals to seeing actual development on the ground, and examines the political, legal and economic context in which development actors must operate. Finally, cases in New York, Chicago and Philadelphia illustrate how a real estate developer, a mayor, and a city planner can play a leading decisive role in real estate development.

Chapter 28 deals with trends in land use and government policies affecting real estate development in the U.S. It shows examples about the increased regulation and policies at regional and state levels that affect real estate development projects particularly if these have significant economic and fiscal impact. In addition, the chapter presents an overview of a number of recent changes affecting development finance, both on the private and public side. The examples offer the reader insight into new and future trends related to real estate development finance and regulation.

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