

Real Estate Development in the New Millennium

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Year 2000 was greeted with all the singings and dancing. Arrival of the new millennium is earmarked as a completely new era of development of mankind. But what are indeed ahead of us? Are we progressing into 'a brave new world'? In so far as our profession is concerned, how is our future affecting property development, and more generally, our built environment?

It is a common knowledge that property development is a forward-looking activity. Putting it boldly, real estate is not concerned about the present; it is about satisfying future needs. The built environment is an element of our society. As such, one needs to understand the future development trends of our social world in order to manage property development in the coming age.

So, what are going to happen in the next millennium? Without a crystal ball, no one can tell for certain. But, by summarizing the analyses of some 'futurologists'¹, it is possible to identify several interesting themes below.

- **Globalization:** Undeniably, we are now living in an increasingly smaller world. Physical distance becomes much less frictional to the flows of people, goods and information. Events happening elsewhere and far away from the vicinity can nonetheless create local consequences. As Giddens once said, 'There are no 'others' in this globalized age'. Hong Kong is an integral part of the global community. Openness of our local economy to the international economic system creates opportunities as well as threats. Inter-urban competition becomes more intense. Successful practices are easily and quickly replicated elsewhere. First-mover advantages quickly dissipate.
- **Reflexivity:** People are now exposed to a far greater amount of information than their predecessors were at any time. Information technology vastly expands the boundary of social awareness. Some of you might know the personal particulars of Li Ka-Shing, Bill Gates, Michael Jordan, Bill Clinton, etc. far better than about your neighbors, who are staying next door to you. What do all these lead to? First, there are more chances for self-reflection and self-questioning. Obsession with the body figure is one example; and this explains the rapid emergence of downtown gymnasiums and fitness clubs. Authority, tradition and convention provide a poor guide for the future. Second, human interactions become immensely intense, spontaneous and swift. Lead times for decisions, reactions and counter-reactions are short. As a result, markets are having greater volatility. Boom-bust cycles become more frequent and unpredictable.
- **Polarization:** Unfettered market forces, if left alone, tend to widen social and economic inequalities. Market competition is ruthless. It creates by destroying the existing practices. Human skills and knowledge become obsolete quickly. There is a growth of jobs at both ends of the employment spectrum. The middle class is under stress and is shrinking within the

¹ To name a few of these 'futurologists' whose ideas are outlined here: Prof. Anthony Giddens, Director of London School of Economics and Political Science (LSE). Prof. David Harvey, LSE Milliband Fellow and world-renowned sociologist. Prof. Manuel Castells, Professor of Sociology at University of California at Berkeley. Prof. Saskia Sassen, Professor of Sociology at the University of Chicago. Mr. George Soros, institutional investor, philosopher and philanthropist.

social structure. At the company level, mergers and acquisitions lead to mega-sized multinational corporations that are economically more powerful and resourceful than some Third World countries. Concomitantly, there is also an emergence of numerous small up-start businesses, a handful of which may rise in prominence within a short period of time. Spatially, dilapidated urban slums juxtapose new development enclaves, reflecting differential degrees of capital injection.

- **Flexibility:** The past two decades witnessed a rapid advancement in technological development, especially in the application of information technology (IT). No longer are goods produced, consumed and exchanged in the previous fashion. Technology brings convenience to human life and creates wealth. It transforms the conventional ways of living, travelling, studying and working. More important, technology revolutionizes our society by encouraging greater diversity and flexibility in many aspects of human life. For instance, no longer are you constrained by the TV timetables set by the broadcasters; you can watch the news and other TV programmes whenever you like. *The Economist* magazine suggests that 'narrowcasters' should in the future replace 'broadcasters'. Different, specialized needs of the individuals can now be flexibly met in a cost-effective manner. Standardized solutions are often sub-optimal and inefficient.
- **Mobility:** Castells once said, '*Space of Flows* replaces *Space of Places*'. Fixity often leads to depreciation in value; circulation adds value. Under the same logics, people and objects, which are physically or socially 'immobile', would find themselves increasingly vulnerable in this rapidly changing world. By the same token, an open society is more vibrant and valuable than a closed society. Enhancing the flows of people, information, goods, services and so on, creates values to the society. Transforming previously immobile products into tradable assets, which can reach out to and circulate within an immense larger market, creates new business opportunities. For instance, securitization of mortgages adds new vitality and dynamism to this traditional type of investment by the banking industry. Virtual space on the internet commands greater value growth potential than real property space.
- **Sustainability:** People are now conscious that our environmental quality is under threat. We live longer but not necessarily healthier. Deteriorating environment now becomes an obstacle to sustaining economic growth. There is now a growing public consensus about environmental protection, although no solid agreements have been reached by all on the appropriate means to proceed. Material growth must not be obtained at the expense of our environment. There is a need to bring environmental assets to the foreground in considering future development strategy. Environmental protection has emerged as a growing business. To improve our environment involves costs. But people in the developed world are now willing to pay for a better environment. It therefore makes perfect business sense for the industry to invest in the environment, which can be sold as a product, to the consumers.

How do all these social and economic forces affect our built environment and property development?

I would focus on one major issue identified by the political economists in the advanced capitalist society: **overproduction**. It is argued that, a combination of commodification, marketization, technology and competition has now led to an oversupply of commodified products, ranging from daily necessities (e.g. food), comparable goods (e.g. cars), finance (e.g. cross-border hot money) and labour (e.g. university degrees, graduates, professors, surveyors, lawyers, and so on) in the developed world. Real property does not appear to be an exception. The outcome is devalorization. The crisis facing developed cities is not scarcity but the problem of abundance.

Think about the vacant housing space, new office space, obsolete industrial space lying around in various locations of the territory.

Is real estate a faded glory then? The answer depends on whether the real estate industry is able to transform itself to accommodating the changes in the coming era. Social and economic restructuring necessitates a fundamental re-orientation in how real property is designed, promoted, developed and sold to the ultimate consumers. Local property developers are acting fast in shifting their capital into hi-tech ventures and e-commerce business. They are also not slow in providing the state-of-the-art technological facilities, such as smart card, satellite TVs, broadband connections etc. in their new properties for sale to the market. These are all very well. But it appears to me that property developers could probably do better in the following areas.

In essence, there should be a shift from mass production to mass customization of real estate provision. It is possible these days to fully utilize the capacity of IT to achieve just-in-time (JIT) production in meeting with a group of consumers with diverse preferences. Mass production and developer's promotion of real property is no longer an efficient way to serve the market. For instance, why can't 'mass housing unit' be custom-built for each individual homebuyer, just like the motor car? Why can't homebuyers' specifications be well and swiftly incorporated at a very early stage of the development process? This idea requires a closer-than-ever integration between production and consumption, and a more intimate interface between developers and consumers.

The value of real property in the future does not lie in bricks and mortar any more. Quantity no longer counts. The value-added of property comes from the quality of service it inherently contains. For instance, to what extent does the property reflect the preferences and tastes of the buyers, in terms of cost, time, quality, and convenience? Why can't the show flats in the pre-sale be shown as a virtual space using IT? Further, wouldn't it be more satisfying if the prospective buyers can fiddle around various alternatives, which can then be fed into an intelligent architectural and building design system that generates the plan of the ultimate building? Our information age is about assembling these small bits and pieces of information and transforming them quickly into finished, tailor-made products.

The future trend of real property is that it should have extremely flexible, modular design and layout, so that each floor could easily be divisible into units and re-assembled to serve different buyers and users. This requires significant improvements in building technology to bring forward these changes. The major obstacle, as I can see, does not necessarily come from the conservatism of the development industry, but rather in the inflexibility of government development control policies. But I believe these regulations would have to be changed in any event if the current obsolete building stock is to be successfully regenerated and transformed. As property developers have always been adventurist, innovative and powerful, I do not see why they cannot push forward for the advancement of the entire industry in such a direction. The future is about 'making dreams happen'.