Real estate development

An overview

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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 and its evolution. Around the globe, real estate development forms a contemporary reflection of societal needs and the market demand in 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 are 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 provide answers to 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 Routledge 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 knowledge, understanding, and curiosity. This Companion provides in-depth and selective content on the theme of real estate development, aimed at doing justice to its diversity. Its intention is to enhance the depth of learning, and encourage a stronger professionalization of practice and policy in the built and natural environment. The Companion builds on work from specific and comparative analysis in International Approaches to Real Estate Development (Squires and Heurkens, 2015) by gathering key themes on real estate development, in order to generate a global in-depth compendium on the subject. This Companion also forms a science-oriented addition to the Professional Real Estate Development: The ULI Guide to the Business (Peiser and Hamilton, 2012) and textbook-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, for a broad audience. Moreover, there was ample space to explore the topic of real estate development in a multifaceted way, since without development, there is no new real estate or redevelopment. Development is a core part of all aspects of real estate. Therefore this Companion should be a welcome addition to books dedicated to real estate such as the Routledge Companion to Real Estate Investment (MacGregor et al., 2017).

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 should be a useful addition to the libraries of students, professionals and academics/researchers in real estate development and affiliated academic fields and professional domains such as urban planning, architecture and design, real estate valuation, investment, geography, economics, finance, and environmental ecology. For the majority of undergraduate and postgraduate programs 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. In addition to university courses, practitioners should 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 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 the seven main themes related to real estate development that we think are essential in understanding the complexity and diversity of real estate development. Within each of these parts selected authors write about specific real estate development subjects in different global locations, and at national, regional, urban-metropolitan-city, and local development scales. In this way the Companion provides an overview of original contributions from authors worldwide that covers the broad field and varying features of real estate development, at the same time allowing room for more context-specific information.

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 people use space. In this light it is, for instance, also important to understand the impact of real estate flagship projects in terms of the social, spatial and economic added value of such developments. The opposite is also true, as for example infrastructure provision and the people moving to live within cities direct real estate development and investment. This reciprocal relationship between social and spatial impacts and real estate development is the subject of various chapters in this section.
Chapter 2 by Bo-sin Tang focuses on the relationship between metro railway and real estate development in Hong Kong in 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 models successful and elaborates on spatial-environmental impacts in Hong Kong and the transferability of the R+P model to other countries.

Chapter 3 by Suzanne Charles elaborates on the phenomenon of residential real estate development called “teardowns” consisting of replacing older, single-family housing with larger new construction variants with the potential to transform the physical, economic, and social character of American suburbs. The chapter 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. Suzanne Charles finds that teardowns with the lowest ratio of new house floor area to original area are smallest in very affluent suburbs, with much larger ratios in middle-income neighborhoods. The chapter concludes with a discussion of the potential for suburban gentrification brought by the phenomenon.

Chapter 4 by Nadia Alaily-Mattar, Johannes Dreher, Fabian Wenner, Alain Thierstein 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 kinds of development. In doing so, the chapter will assist policymakers to comprehend the wider benefits for competitive positions of cities and allocate scarce public financial resources more effectively.

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 between real estate development and (amongst other areas) employment, land, overbuilding, and orientation are made. Special attention is given to the relation between real estate development and the materials, labor, land, political, financial, investment and occupier market. Moreover, attention is paid to the effects of the latest global financial crisis, or Great Recession, that have 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 by Raymond Torto 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 periods. Subsequently, insight is given into how changed circumstances influence the investment management of commercial real estate assets. The chapter concludes with a discussion on the prospect of an emerging commercial real estate bubble and the consequences for the business of real estate development.

Chapter 6 by Moses Kusiluka, Sophia Kongela, Karl-Werner Schulte 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 in Tanzania and Kenya. With market reforms and transparency improving, Kusiluka, Kongela, and Schulte 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. With annual growth rates in GDP in the 5–7 percent range, Africa will continue attracting more investors from around the world.

Chapter 7 by Paloma Taltavull de La Paz, Raúl Pérez 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 by Petros Sivitanides contains a retail market analysis for development projects which cope with e-commerce, multi-channel marketing, and other new frontiers in retailing. It provides real estate developers with a four stage model for more accurately projecting retail sales in new shopping centers. Sivitanides discusses how e-commerce’s increasing share in total retail sales and the resultant competition with bricks-and-mortar retailing changes the role of physical stores so as to complement the shopping experience. Making use of real estate market analysis stages including defining the project’s trade area, analyzing competing retail developments, shifts in consumer patterns, and volume of online sales, he demonstrates how to make more accurate projections of a project’s true sales potential and supportable square footage by line of trade in a way that takes into account all crucial new-frontier aspects.

**Organization and management of real estate development**

This section puts forward individual and institutional aspects of organization and management in real estate development. Particular interest is devoted to trends in public–private partnerships engaged with real estate development, development management skills, and strategy-making. Special attention is given to the ability of a working partnership as a multidisciplinary 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 a 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 by Erwin Heurkens 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. Insight is given into the variety of private sector actors that can lead urban real estate development projects, ranging from real estate developers, investors, communities to corporations. The conceptualizations and findings offer the opportunity to understand the importance 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 by Frank Apeche zooms in on how to build and lead high performance real estate companies, a subject not widely understood and described in the 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. The chapter explores the critical ingredients for building and leading real estate companies, such as acquiring personal managerial skills, building competitive strategies to access capital, hiring and developing talent, and creating a sustainable, high performing
organizational culture. He discusses the stages of evolution that entrepreneurs must go through in order to compete successfully and the patterns of communication flow that mark the difference between low-performance and high-performance companies. He explains how to develop a high-performance culture that maximizes the strategic competitiveness of the overall company rather than individual departments.

Chapter 11 by Paul Ho 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 variants that can be adopted by different types of developer. 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 by Michael Nadler deals with the topic of organizing public–private partnerships for real estate development through urban finance innovation. Despite increasing interdependencies between public and private organizations 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 financially feasible and can render public favored externalities.

Chapter 13 by Edwin Buitelaar, Erwin Grommen and Erwin van der Krabben analyzes the institutionalization of 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 such as local communities and entrepreneurs in (re)developing real estate and urban areas. By using theories from institutional change the chapter provides insights into understanding new planning and development practices and aims to identify to what extent they exceed the threshold of institutionalized behavior in one city.

Finance and investment for real estate development

This section explores the development finance and investment aspects of real estate development. It demonstrates selected 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 new and promising financial instruments and applications for real estate development. Examples include new financing mechanisms for affordable housing provision and value investment approaches supported by concrete practical applications in a variety of contexts.

Chapter 14 by Colin Jones offers an historical, evolutionary, and cyclical perspective on models of development finance from the 1950s to the 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 such as forward funding/equity sharing partnerships, non-recourse or limited recourse loans, and shares, bonds, and commercial paper issuance. Jones 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 by Christopher Leinberger explores the future of finance and investment of real estate development and introduces a significant structural trend towards walkable mixed-use urban real estate. This chapter challenges the mismatch between real estate as a long-term asset class being evaluated and underwritten using short-term finance techniques. Leinberger 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. Walkable communities with mixed-use developments require more equity, especially patient equity, than most developers think. New underwriting standards as well as fundamentally different business strategies that emphasize place-management are needed to deal with the increasingly popular mixed-use forms of development.

Chapter 16 by Graham Squires introduces mechanisms for financing affordable housing development. It provides lessons from a San Francisco City and Bay Area case study. 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 by Stephan Bone-Winkel and Karim Rochdi 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 a securities analysis model, Bone-Winkel and Rochdi 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. They emphasize the life cycles of all real estate, including core office properties and discuss the opportunities of upgrading business parks and industrial buildings for small- and medium-sized businesses that dominate the market. They illustrate their approach with a case study of a multi-tenant and multi-use business campus in Berlin, which they turned around into a highly successful investment through branding, revitalization, landscaping, and re-tenanting.

Environment and sustainability in real estate development

The collection of chapters on sustainable real estate development covers contemporary debates about environmental, economic, and social problems and solutions. This section elaborates on current sustainability and resiliency issues within different real estate sectors and 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 new building and community developments.

Chapter 18 by Hilde Remøy and Sara Wilkinson discusses the importance of sustainable real estate transformation through conversions of existing real estate stock. Within the context of predicted climate change and areas undergoing 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 markets and urban contexts.

Chapter 19 by Sofia Dermisi focuses on the sustainability of office buildings. As holistic building sustainability assessment systems are becoming the norm, three primary certification systems have emerged in the United States, Europe, and Canada for rating the sustainability performance of office buildings. However, quantitative data on the financial cost–benefits ratio is scarce. In this chapter, Dermisi investigates the main financial drivers, construction cost premiums, and payback periods for investments in sustainable office buildings based on
academic and professional research. The chapter provides insight into the reasons developers, tenants, and owners pursue sustainable development strategies, the financial incentives and grants, regulatory issues, assessment of true market benefits, and developer objectives. The lessons are beneficial for real estate developer and investor decision-making. However, they are influenced by construction costs, certification rating systems, and market rents and valuations that differ depending on jurisdiction, location (urban versus suburban), and building type.

Chapter 20 by Elaine Worzala and V. Lynn Hammett explores how public policy can influence redevelopment during the post-disaster recovery period. 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 by Sven Bienert and Rogerio Santovito 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.

Chapter 22 by Richard Reed examines the concept of sustainability and why it has now been fully embedded into the built environment with reference to new and existing buildings, rather than viewing sustainable attributes as “optional” or a sustainable building as “different.” Reed acknowledges that although most stakeholders in the real estate market are typically profit-seeking with the underlying aim of “maximizing shareholder returns,” sustainability can now contribute both directly and indirectly to bottom line profit rather than cost.

Design in real estate development

Design has always been at the core of real estate development. The quality of design determines the extent to which a project successfully serves or fails to serve its target market. 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 conceptualizes what differentiates superior design from pedestrian design and how it contributes to value creation in real estate development.

Chapter 23 by Peter Brown 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. Brown 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 24 by Alex Duval elaborates on the principles of good design for real estate development that would help avoid creating “generic cities”. The chapter discusses the causes
for this global phenomenon and 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. Duval presents 27 principles for generating unique designs for differentiated real estate development. Examples of superior design by prominent developers are then presented for office, residential, industrial, retail, and lodging in five US cities.

Chapter 25 by Bing Wang presents 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. Wang analyzes value-adding strategies through selected case studies and dissects conceptual overlaps and differentiations between design and real estate. The chapter examines divergent perspectives in evaluating design and value creation in real estate development beginning with aspects of value creation, and then elaborating on four different methodologies for measuring real estate value with respect to design. The chapter concludes with a framework for guiding value creation through design thinking: the emotional narrative, critical thinking and cultural production, key components of city making, urban scale and context, social change and equality, and environmental ecology.

Land use policy and governance of real estate development

The final section of the book deals with the relationship between land use policy and 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 countries. 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 26 by Emil Malizia offers insight into public–private development perspectives as a governance vehicle to foster urban revitalization in US city centers. It elaborates on project-level and strategic-level approaches that could assist in attracting market investment in weak and strong city centers. Malizia argues that export/traded sector companies should be given priority 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. The chapter features different financial mechanisms that cities can use to subsidize selected types of development and concludes with a case illustration showing how different public options for improving feasibility affect the rates of return.

Chapter 27 by Kathy Pain 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 28 by John McDonald 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 29 by David Hamilton and Richard Peiser deals with trends in land use and government policies affecting real estate development in the United States. Hamilton and Peiser provide 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 impacts. While regulation remains primarily a local government prerogative, major gateway cities are creating regional air quality and water quality districts to oversee negative externalities that affect the environment. In addition, the chapter presents an overview of a number of recent changes affecting development finance, both on the private and public side. Examples such as EB-5, crowdfunding, private equity funds, and REITs present a broad array of equity sources. The chapter concludes with examples of mechanisms for public–private development such as community benefits agreements and tax increment financing that offer the reader insight into new policy trends related to real estate development finance.

References