The challenges for effective governance of real estate development in a future urban world

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Abstract
The twenty-first century is a time of dynamic global change and cities are the places where this change is most fundamental. Cities are increasingly interconnected in a networked world in which they are now the major locations for international commerce and economic production. Understanding the part that real estate development plays in supporting their functioning is vitally important. Real estate development has an increasingly powerful role in facilitating the circulation and accumulation of financial capital in a global economy that is transforming structurally with most of the growth coming from the service sector. In a world of volatile international capital flows, real estate-led development of commercial offices occupied by multinational firms in the business districts of major cities has come to be regarded by entrepreneurial governments worldwide as critical in creating both the physical infrastructure and the “global” atmosphere essential for inward investment, employment and economic growth. This century is the first in which humanity is becoming a predominantly urban species and, increasingly, it is cities that promise opportunities for work, access to resources and services, and for prosperity and well-being; in turn, urban work increases global productivity and innovation, and boosts GDP. As the world continues to urbanize, real estate development challenges will be increasingly concentrated in and around large business cities. This chapter focuses on the major global and local drivers that real estate and cities are caught up in, in a changing world, and the consequent pressing challenges for effective real estate development governance.

Introduction
Real estate development has an increasingly powerful role in facilitating the circulation and accumulation of financial capital in a globalizing economy, especially in an economy that is transforming structurally with most of the growth coming from the service sector. In a world of increasingly mobile international capital flows, real estate-led development of glittering
commercial office towers occupied by multinational firms in the financial districts of major business cities has come to be regarded by entrepreneurial governments worldwide as critical in creating the physical infrastructure and the “global” atmosphere essential for inward investment. Indeed, in a neo-liberalizing political-economy, governments in fierce competition for foreign direct investment (FDI) have become active agents in the co-production of iconic “starchitect”-designed financial landscapes and the commodification of urban space (Knox and Pain, 2010). Deregulation, tax breaks, and land use zoning are often employed to encourage FDI through real estate development. Meanwhile, oversight of how fiscal, taxation, and monetary policies, and spatial and economic planning together influence the development process in a macroeconomic context, is generally absent.

The twenty-first century global space of cross-border real estate activity contrasts with the territorially bounded space of nation-state government institutional structures. Furthermore, the challenge for effective processes of real estate development “governance,” as distinct from those formal structures (Heywood, 2000, p. 19), is compounded by a lack of coordination of institutional interventions.

A major challenge for sustainable development is an appreciation of the role of real estate as a conduit for flows of international finance. First, as a physical entity, real estate provides the city-based offices where business actors as international financial and linked business actors generate major capital flows in the global economy as property occupiers. Second, as a service provider, real estate brings together the economic agents that globalize urban space; it facilitates the international flows of finance capital required to create that space and to trade within that space. Third, as an asset class, real estate has in itself become a financial product that generates growing international flows of capital through increasingly fragmented property investment and ownership (Lizieri, 2009).

By considering the interrelated roles of real estate in the case of commercial office property, this chapter will illustrate the key challenges for the governance of development in a globalizing and urbanizing world and why these matter. As argued by Ball (1998), in commercial property research institutional analysis, the interactions of all of the social agents involved in the real estate development process are relevant and must be taken into account. First, the chapter focuses on global macroeconomic changes that are leading to the financialization of real estate and its integration in international financial services. Second, the role and concentration of commercial office real estate development in global cities is considered as an outcome of social practices that need to be taken into account by real estate research. Finally, new spaces for the governance of real estate development are examined against the backdrop of an unfolding new geometry of the global economy in an era of unprecedented world urbanization.

The globalization of real estate investment

Consideration of structural macroeconomic changes is necessary to understand the drivers of contemporary real estate development and the challenges for its governance. However, up until now, the interrelationship between economic “globalization” and real estate has mainly been of interest to real estate and management consultancies as opposed to academics in the real estate discipline.

A globalizing economy

In the social sciences beyond real estate however, the concept of globalization has been a subject of much discussion for more than half a century (Murray, 2006). The meaning,
existence, and implications of globalization have been keenly debated in the international literature by academics with diverse “globalist,” “traditionist,” and “transformationalist” perspectives (Cochrane and Pain, 2000, p. 23), reflecting “continuity” and “disjunction” positions on global change (Pain and Van Hamme, 2014, p. 4). Of particular relevance for real estate development, the consequences of globalization for systems of economic governance remain contested. A “strong globalist” perspective points to a paradigm change in local–global economic relations, arguing that due to late twentieth-century intensification of international trade and investment, “distinct national economies have dissolved into a global economy determined by world market forces” (Thompson, 2000, p. 89). On the contrary, a more skeptical “traditionalist” perspective argues that while the development of multinational enterprises (MNEs) and increased international trade have led to growing global economic integration, this has not undermined the power of states to manage national economies (Thompson, 2000, p. 89). A third, transformationalist, perspective of global change, on the one hand, acknowledges the interdependency of capital flows and global economic integration promoted by increasing openness to international trade and FDI but, on the other hand, suggests that this does not necessarily mean the loss of all state control of economic management within countries (Thompson, 2000, pp. 85–126). It is this last view of global economic change that proves especially pertinent when considering real estate development governance. Ultimately, this chapter will make the case that local real estate markets and economies are increasingly intertwined globally, yet the local sphere of real estate development and its governance remains critically important. In consequence, the words of Barkham are salient:

real estate research is only likely to produce accurate forecasts when it is fully cognisant of the influence of geopolitics on asset market performance. As globalization proceeds, real estate outcomes at the city or even neighbourhood level are ever more influenced by politics and economics on the other side of the world … Real estate research that does not imaginatively and creatively deal with these themes runs the risk of being irrelevant.

(Barkham, 2012, p. 17)

Global economic change and real estate financialization

Economic globalization has been accompanied by the internationalization and financialization of real estate development, especially in the commercial office sector that is concentrated in major business cities. Attention to macroeconomic market conditions and development drivers is therefore essential when seeking to understand local real estate markets and investment behaviors. Geographically fixed office towers have become progressively more liquid and tradable internationally as innovative financial vehicles such as real estate investment trusts (REITs) have become popular in recent decades, posing the analytic a priori question whether listed real estate equities are actually physical real estate or intangible stocks (Ling et al., 2015). Examining the impact of globalization on the real estate industry in the USA, Bardhan and Kroll observe that real estate,

is among the least “tradable” of products, in the sense of being physically unmovable, even though it can be bought and sold both domestically and internationally. This combination of local knowledge and predominantly local tradability was the primary reason why discussions of globalization in the 1990s and earlier, overlooked the real estate industry as a possible participant in the ongoing phenomenon of increasing global economic integration.

(Bardhan and Kroll, 2007, p.1)
The creation of specialist financial services, increased data availability, the digitization of capital transfers and the securitization of real estate through REITs, have together opened up access to property as an asset to investors worldwide. These developments have swept up real estate in new types of cross-sector and cross-border interdependencies in a more integrated global financial system, especially in the commercial office sector. Important in comprehending their significance for real estate governance are the changes facilitated by advances in information and communications technology (ICT) that have been in progress in the organization and operations of city-based international financial and business services, including real estate services, since the latter decades of the twentieth century. Real estate development makes possible investments in the office space that advanced producer services, including real estate services, occupy and own, directly and indirectly (Lizieri, 2009), and this space constitutes the infrastructure of the networked world economy in which cities are the nodes for capital flows.

The virtualization of trade in these “advanced producer services” that include wholesale finance, insurance, accountancy, management consultancy, and advertising, has been theorized as generating a global inter-city “space of flows” (Castells, 1996) in which real estate has become increasingly integrated. When commercial offices are transformed into tradeable securities and futures, cross-border, liquidity, and fungibility are lent to the urban built environment. However, the financialization of real estate thereby presents a conundrum for the governance of development by nation states whose powers are limited by their boundaries within a geo-political “space of places” (Castells, 1996). In his famous turn of millennium Reith lecture, sociologist Giddens described the loss of national sovereignty associated with globalization as heralding an out of control, “runaway world” (Giddens, 1999). The urban organization of the world financial system in economic globalization, calls into question the authority and power of states to manage and control development that leads to cross-border capital flows facilitated by real estate’s three interrelated conduit roles.

Financial services and real estate development integration

While the financialization of real estate development would seem to present transformative challenges for governance, it can be argued that this process has in reality been in emergence for at least half a century. Radical 1960s and 1970s UK publications documented the growth of insurance companies and pension funds as “powerful groupings of financial interests” in property development (CIS, 1973, p. 1). Marriott’s 1967 The Property Boom, described the formation of a new UK property development “system” as insurance companies and development companies between 1945 and 1967 became “interlocked”:

With the end of the credit squeeze straightforward borrowing became easier again and the insurance companies decided that they would climb on to the developers’ bandwagon and, in return for lending the vital finance, share in the profits … From 1959 onwards they made more and more equity links with the developers in return for a commitment to provide finance.

(Marriott, 1989, p. 40)

A decade later, in their 1975 book The Property Machine, Ambrose and Colenutt drew attention to the increasing interdependence between property development and finance capital in the UK. The authors traced the growth of large property companies measured by their share valuation on the stock exchange in the changing development industry post-World War II, and new associations between financial institutions, property companies, and property investment
companies: “it is almost impossible to draw the line between property companies, construction companies, banks, insurance companies and investment trusts” (Ambrose and Colenutt, 1975, p. 38). The deepening interrelationship between finance capital and property development described reflected the growth of complex networks of economic actors in the development process: “construction firms, land owners and financial institutions trading in stocks and shares, government bonds, and currencies, and … providing services such as insurance, pensions, hire purchase and mortgages” (Ambrose and Colenutt, 1975, p. 41). Ambrose and Colenutt also pointed to ties between property development and finance capital that go beyond the completion of a development project, challenging government intervention in the development process: “Commercial buildings are extremely valuable financial assets and like any others are traded for investment and profit. Such is the value of buildings that they are sometimes sold in pieces to different investors” (Ambrose and Colenutt, 1975, p. 41). They argued that, “Any intervention by the government in the property market is closely followed by the financial institutions and any move which threatens their interests is quickly and vigorously blocked” (Ambrose and Colenutt, 1975, p. 59).

These accounts of early financial services and real estate development integration suggest that in advance of later ICT developments, the UK “opening up” to foreign competition in the 1986 “Big Bang,” and increased take up of innovative real estate financial products, finance–real estate independencies were already eroding the power of the state to manage the development system within its national borders. Post twentieth century, real estate development is more interlinked than ever before in global economic changes (growth and recession, and interlinked financial boom and crisis) and macroeconomic–real estate interlinkages are most evident in cities. Although inter–city flows of finance are challenging to measure and map (Pain and Van Hamme, 2014) and the real growth of FDI since 1980 has been debated (Thompson, 2000, pp. 107–109), large business cities are the locations where openness to MNE and transnational corporation (TNC) capital flows and FDI are most notable (Pain and Van Hamme, 2014). The urban origins and destinations of major international financial flows in the networked world economy coincide with the geographic locations of international commercial office real estate concentration. Hence, an appreciation of the global drivers that increasingly shape, and are shaped by, real estate development in cities, is critically important in informing the governance of that development and of the capital flows that it facilitates.

**Real estate development as social practice**

Viewing real estate as having interrelated conduit roles within a world network of financial cities, offers a framework for understanding how global capital flows and the local development of urban space intersect through the working practices and interactions of economic agents – financial and real estate actors. Property consultancies and banking, brokerage, wealth management, insurance, and construction companies are increasingly globally networked yet, together with other advanced producer services, their key actors and functions are clustered in the financial districts of major cities; furthermore they are concentrated globally in a select group of those cities with deep social networks.

**Real estate development and global cities**

In 1991, Sassen labelled such cities, “global cities,” noting for the first time the strategic role of certain cities in the world in dual geographic global dispersion and concentration of advanced producer services. Sassen thereby contributed to the understanding of key structures of the
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global economy beyond the earlier theorization of “world cities” by Hall (1966) and Friedmann (1986) simply as the world locations for important economic, financial, business, and government functions. In the 1990s, Taylor and co-researchers further advanced understanding of these key structures by developing a methodology to measure quantitatively the interlinkages between cities that are generated by advanced producer services in a “world city network” (Beaverstock et al., 2000; Taylor, 2001; Taylor, 2004). The methodology involves computing data on the importance of functions undertaken in each of the city offices of global firms in each of the advanced producer services sectors, to calculate the connectivity and position of cities in the world network associated with the organizational and functional activities of these economic agents. Real estate is not only the physical fabric of this network of city-based commercial offices but, on account of its interrelated conduit roles, real estate is also a powerful facilitator of economic globalization within that network. Real estate allows that physical fabric to be traded globally as an asset through pension funds, private equity, and investment trusts, and it facilitates interactions between the economic agents in the network who generate financial flows beyond property investment.

Theorization of the economic role of global cities by Sassen and of the global network structure of those cities by Taylor and colleagues, allows the powerful roles of real estate in the development of the world city network in a macroeconomic context, to be recognized. Important, this world city network is shaped not only by tangible fabric and intangible flows in commercial offices but by the presence and social practices of real estate actors in the network. Urban real estate development has a powerful influence on the functioning and vitality of the world city network and the world service economy. Towering high-spec “Class A” office blocks are cultural symbols of that capitalist economy and they are the places where advanced producer services command and control functions in global production networks and supply and value chains are located. As a geographically situated infrastructure and asset, real estate development is at once a major component of Castells’ space of places and of the space of capital flows (Castells, 1996). It opens countries up to FDI and it shapes the contours of the networked economy that is located in cities. Densely clustered in global cities, real estate development and practices make possible interactions between multiple actors in financial and linked advanced producer services within deep social networks.

The co-location in cities of advanced producer services, including real estate services, that are traded globally, occurs because their business operations are critically interlinked; they not only provide services to other businesses and governments, but they are dependent on the services of each other and thus on close proximity (Pain, 2007). In contrast to firms in manufacturing, their capital is specialized knowledge that is vested in highly skilled people, who are also present and concentrated in global cities. The urban and sociology literature of the 1980s coined the term “FIRE” to describe the interdependency between “finance, insurance, real estate” in post-industrial, global cities of London and New York (Tabb, 1982; Fainstein, 1994). It is through the interlinking of real estate and finance in the advanced service economy, which is especially concentrated in global cities, that commercial office development has been turned into a divisible asset, both as equity and debt, that can be purchased indirectly via REITs (Lizieri, 2009). REITs provide the funding for and spread the risk for large-scale global city developments. Furthermore, REITs are “heavily involved in many activities related to the physical asset, from land assembly to design and construction to building management” (Bardhan and Kroll, 2007, p. 5). The conduit roles of real estate activity in the development process are enabled by the immersion of its key actors in those cities in the world city network where concentration provides access to multi-actor economic and social networks. The global organization of these locally situated networks diffuses information, tacit knowledge, and
innovations in the public and private real estate–financial services supply chain. Recent real estate analysis of REITs and private direct investments performance in the USA by Ling et al. (2015) appositely focuses on illustrating how the performance of fund managers shapes investment flows and fixes capital in economically successful cities. Along with other actors necessary to this process of flow-shaping and territory-fixing, fund managers are shown by Lizieri and Pain (2015) to be concentrated in “elite” global cities.

**Global cities real estate concentration**

Lizieri and Pain’s (2015) analysis of data on the top 1000 commercial office deals in the world recorded by Real Capital Analytics (RCA) for each year from 2007–2014 (in all, 8,000 deals with a capital value of US$1.25 trillion and an average value of $158 million per building) shows investment to be dramatically concentrated in just a few cities worldwide. Even though, as a consequence of the global financial crisis, there was a fall in sales values by 65% from 2007 to 2009, investment that did take place concentrated on global cities strongly connected to capital markets in the world city network (Lizieri, 2009; Lizieri and Pain, 2015). Notably, inward investment flows converged on London in the years 2007–2010 (Pain et al., 2012) suggesting a “flight to safety” that reflects investor confidence in ongoing London international business concentration and liquidity in global capital markets (Lizieri and Pain, 2014).

The dominance of a small number of brokerage firms worldwide is reflected in a significant geographical concentration of the headquarters (HQs) of firms involved in 53% of sales activity and 96% of (known) sales brokerage in just ten cities. Importantly, these HQs hold the command and control functions in firms’ worldwide networks and beneficial ownership of profit streams revert to them (Lizieri and Pain, 2015). Nearly 30% of all deals occurred in London, New York, and Tokyo, and 11.5% of transactions, worth $107 billion, occurred in London alone. Fifty percent of transactions by value took place in just nine global cities; some $437 billion of investment and 76% of the total value of sales ($648 billion) took place in 30 cities that represented just 11% of all cities included in the database (Lizieri and Pain, 2015). The data provide evidence of a global city-centric concentration of real estate financial intermediaries. In the years 2007–2014, 276 brokers were acting for sellers but, by value, activity was dominated by a small group of global firms. The top ten brokers by value of activity were global chains of real estate agents and surveyors; they were involved in 45% of all sales and 79% of sales where a seller broker was recorded (Lizieri and Pain, 2015). Just two firms acted for nearly a quarter of all transactions by value and for 43% of the sales where a seller broker was recorded. Furthermore, the analysis may under-record subsequent concentration levels as a number of independent national-focused agents have joined global chains in consolidation since the global financial crisis. Only the US broker HFF had a predominantly domestic focus indicating that Ling et al.’s observation of a fixation of US fund managers on investments in US “gateway cities” does not reflect the wider global geometry of real estate investment in the commercial office sector (Ling et al., 2015). Investments in local office markets take place within a global capital markets system that is shaped by the concentration of global occupiers of urban space within that system.

Ling et al. have investigated which US Metropolitan Statistical Areas (MSAs) are the focus for real estate investment portfolios, National Council of Real Estate Investment Fiduciaries (NCREIF), and REITs, by property type. Data on quarterly means of NCREIF NPI returns, and the difference in means, for gateway and non-gateway cities were analyzed for the periods 1996–2001, 2002–2007, 2008–2013, and 1996–2013 for four property types that included commercial offices. Over the 1996–2013 period, gateway markets were found to outperform
non-gateway markets by 26 (106) basis points quarterly (annually) for all property types. However, the most significant difference in performance between gateway and non-gateway markets was in the commercial office sector, which outperformed non-gateway offices by 44 (177) basis points quarterly (annually). During the period 2002–2007 when there was rapid expansion in commercial real estate markets, the return difference was significantly larger, with gateway office markets outperforming non-gateway markets by 96 (387) basis points quarterly (annually) (Ling et al., 2015, pp. 14–15). It can be speculated that this finding reflects the globalization of real estate commercial office capital markets, their managers and their occupiers.

Despite increasingly fragmented investment, the contemporary commercial office real estate development process is made possible by proximities of economic actors who are co-located in global city clusters and are embedded in social networks in those clusters. However, it is important to be mindful that those local social networks are transnationally constituted since real estate finance and investment actors are economic agents within international firms with global office networks. An inter-city, macroeconomic perspective is therefore essential in understanding and comparing local office markets.

**Real estate economics and urban sociology: Mind the research gap**

As already discussed, up until now, research into the interrelationships between globalization and real estate has generally not been prominent in the academic real estate discipline. As Lizieri (2009) complains, real estate economics literature has come to focus on increasingly elaborate quantitative micro-economic and econometric analysis and modelling; these do not take wider globalization processes and global cities research into consideration. The actual reasoning behind decisions of different actors that are determinants of market change, are therefore necessarily speculative in much real estate research. There is a failure to take into account and explain, holistically, the global drivers and influences that shape the behaviors of real estate finance actors and their responses to the practices of other global economic agents. Commercial office real estate as a physical stock, an asset class and a service, is concentrated in the same cities as other specialized international financial and business services. As global city commercial office suppliers, occupiers, and investors, real estate and financial services are linked into the complex of transnational economic agents in the world city network and into the mix of global and local drivers that shape FDI. Evidence from qualitative interview research on London–Frankfurt relations for the UK European Union (EU) Economic and Monetary Union (EMU) fourth economic test on the likely effects of entry to EMU for the competitiveness of London, demonstrated just this point (Pain, 2008). The research found that, as theorized by Bourdieu in his 1980 *Logic of Practice*, social capital is commutable to economic capital in the advanced producer services networks that link global cities, giving those cities complementary economic relations (Pain, 2008). Understanding the economics of real estate development and the challenges for governance, demands an appreciation of its “soft” social co-construction by interactions between multiple actors in global cities, to complement sophisticated micro-economic modelling.

In the same 2014 issue of *Regional Studies* in which Lizieri and Pain illustrate the aforementioned London flight to safety response of investors during the recent global financial crisis, Henneberry and Mouzakis speculate that investor “familiarity” with the London market explains apparently economically irrational investment decision-making that ignores real estate economics evidence on the value of regional yields in UK cities (Henneberry and Mouzakis, 2014). Drawing on quantitative world city network analysis, Lizieri and Pain (2014) point to a correlation between the geography of financial services and office real estate investment
concentration in response to the global financial crisis. Evidence from qualitative research eliciting views of senior actors in transnational advanced producer services firms located in London since the year 2000, reveals the critical importance for their global operations of access to specialized international labor, and nurturing relationships, trust, and knowledge exchange (Taylor et al., 2003). These are fundamental requirements to be a “global player” and are made possible by local proximities in places where scale and depth of infrastructure are the basis of agglomeration economies in worldwide business networks (Pain, 2007). Social networks through which heuristic information is gleaned to inform real estate investment that continues to focus on London, discussed by Henneberry and Mouzakis (2014), extend beyond real estate actors, encompassing actors in other advanced producer services.

In contrast to advantages of sectoral specialization in business clusters for some other types of economic activity, multi-sector clustering is essential in vibrant financial districts. In the case of London, real estate investment market intelligence comes from the connectivity of its social networks within the transnational informational cluster where global coordinating functions shape revenue streams in the world city network. Lizieri describes the “interlocking of occupation, ownership and finance” in global cities; firms that occupy office space “are the same firms that acquire offices as an investment asset (directly and indirectly) and who provide funding for the creation of new office space” (Lizieri, 2009, p. xi). Governance of real estate development requires an understanding of investment decision-making in local contexts as not simply economically but socially constructed, by complexes of multiple urban actors.

New spaces for sustainable real estate governance

As real estate and finance firms, and investment flows, are globalizing in response to macroeconomic changes, global economic structural change is shaping unparalleled world human settlement mega-trends that have critical relevance for real estate development and its governance. First, world urbanization has escalated during the past century (Harrison and Pain, 2012) and this is set to continue because, increasingly, it is cities that promise opportunities for work, access to resources and services, prosperity and well-being. Second, physically extensive “mega-cities,” and emerging “mega-city regions” consisting of a number of spatially separate but functionally interconnected cities and towns of different sizes, are becoming the worldwide poles for mushrooming populations of 10 to 20 million people. The twenty-first century is experiencing and will continue to experience historically unprecedented global clustered settlement change.

Urbanization implications for real estate development

As the global population grows towards ten billion by mid-century, with increasing human movement from rural to urban areas, it is estimated that up to three-quarters of the world’s inhabitants will become urban dwellers, mostly living in developing countries, representing a doubling of urban population in the past 100 years (UN DESA, 2014, 2015). United Nations projections indicate that the proportion of city dwellers in the world will increase from 54% in 2014 to 60% by 2030 and 66% by 2050 (UN DESA, 2014, 2015). Between 2014 and 2050, 2.5 billion people are projected to be added to the world’s urban population, with the major growth occurring in emerging markets; India alone is projected to add 404 million urban dwellers and China 292 million by 2050. Together, China and India are contributing more than one-third of world urban growth and generating a growing middle-class population (UN DESA, 2014, 2015). A consequence of this urbanization mega-trend is that 700–900 million
square meters of residential and commercial floor space has been predicted to be required in India and 1.6–1.9 billion square meters in China, every year for the next 20 years (McKinsey & Co., 2011, 2013). Eighty percent of global GDP (gross domestic product) is already generated by the world’s urban population and as rural to urban migration proceeds, growing urban employment is expected to increase productivity and to boost GDP, contributing further to unprecedented poverty reduction and social progress since the beginning of the century (UN DESA, 2016a, p. 4). However, the delivery of the physical infrastructure, services, financial mechanisms, sustainable construction, etc., to support this major urbanization trajectory presents a huge challenge for real estate development and its governance in the context of changing patterns of urbanization, associated consumption and pollution, natural resource depletion, and environmental and climate change.

**A new geometry of the global economy: The example of China**

Pre-dating the paradigm change presented by twenty-first century urbanization, Friedmann’s “world city hypothesis” (1986) depicted the geography of the world financial system located in cities as the outcome of a Northern Atlantic framed “core–periphery” model of industrial capitalism (Pain, 2017). However, the rise of the tertiary advanced service economy is changing this geography substantially. In contemporary economic and real estate globalization, the development of cities is less linked to their domestic hinterlands than to their integration in a worldwide network of informational and financial flows that were not conceived of in early twentieth century urban location and systems theories (Pain, 2011a). As a consequence of structural changes and integration in the world economy with the growing dominance of city-based advanced producer services, and linked neo-liberalizing approaches to urban development by governments competing for FDI, there has been an unprecedented repositioning of cities in the world city network.

Running alongside major Chinese urbanization and “open door” policy reforms, the rank positions of Shanghai and Beijing in terms of their world city network connectivity (Pain et al., 2012), increased from positions in the top 30 cities in the world in the year 2000, to rank 7 and rank 12 respectively for all advanced producer services, and to rank 5 and rank 8 respectively for financial services, by the year 2010 (Pain and Van Hamme, 2014). State central and local government agencies determining the openness of China to economic globalization influence the pace and the location of real estate development that supports this urban advanced producer services growth trajectory. The rising concentration of advanced producer services both requires and leads to a critical mass of office space in a selection of globalizing Chinese cities. The case of China exemplifies how government bodies seeking to promote economic growth through urban development do retain agency in the space of inter-city investment flows despite being territorially grounded. Regulatory and tax regimes give the state leverage in encouraging inward investment by city-based advanced services that add value in wider primary and secondary sector global production networks and value chains (Pain and Van Hamme, 2014). Since 1979, China has introduced a series of reforms and measures, and a collaborative governance model that has rolled back state regulation in order to attract FDI and upscale national exports. Initially, the priority once given to territorially balanced development has been replaced by an efficiency strategy that has allowed the concentration of FDI by advanced producer services in the Chinese cities of Shanghai and Beijing (Shi et al., forthcoming). In 2006, prior to the most recent world economic recession, China’s wholesale financial services sector was estimated to be growing at nearly three times the pace of that of developed economies (Corporation of London, 2006). Political-economy change and
increasing global integration that are repositioning China in the world through urbanization, demand continued agile governance to assure the delivery of sustainable real estate development and growth. Sustainability priorities are environmental, natural resource, food and human health security, and the effects of development on the socioeconomic gradient of China’s population as a whole. Moreover, these governance considerations apply to countries in developed as well as emerging economies.

**Governance of new urban landscapes for real estate development**

The second major trend associated with global economic change which has critical relevance for the governance of real estate development is that the global urban demographic just described is focusing in on large cities in the world that are spreading out physically and, in many cases, merging them with proximate cities, functionally. In 2014, one in eight people lived in 28 “mega-cities” in the world, each with more than 10 million inhabitants (UN DESA, 2014, p. 1). It has been predicted that the number of cities in the world with a population of 10 million or more will increase to 41 cities in 2030, and the number of cities with a population of up to 5 million inhabitants will increase from 417 in 2014 to 558 cities in 2030 (UN DESA, 2014, p. 1). Furthermore, the macroeconomic changes that are occurring as nation states worldwide embrace the post-industrial global economy by opening up to direct foreign competition are impacting at the local level around big cities that are gateways for inward FDI.

Since the latter decades of the twentieth century, there has been recognition that the economic growth of metropolitan areas can extend across large city-regions (Jacobs, 1969), crossing government administrative jurisdictional boundaries. In 2001, Scott predicted the coming of a new reality: the economically developed “global city region” constituted by global flows active at a city-region scale. Such urban formations will have a “deepening role” in the economy because they are places where globalization conspicuously “crystallizes out” on the ground; in other words, the global role of cities noted by Sassen (1991) is conferred on global city regions. Scott foresaw that these urban entities would have increasing agency to shape the geography of economic globalization and would be the principal world locations through which the world financial system operates. Building on the global city region concept, empirical research by Hall and Pain (2006) introduced the term, the “global mega-city region” (Pain, 2008), to describe such post-industrial regions with an emergent “polycentric” or multi-center spatial and functional form. Now identified across the world, such regions are characterized by interdependent globalization and regionalization processes (Pain, 2011b, c). In these regions, global, national, and local markets and firms intersect as networks and investment strategies of advanced producer services firms unfold across urban landscapes where separate towns and cities are becoming functionally connected and interdependent. Urban and economic growth at this new scale is introducing new divisions of labor, socioeconomic gradients, and land use, mobility, and work–life patterns with environmental, social, and human health costs. Cross-cutting inter–city travel, urban congestion, and carbon emissions are presenting major challenges for coordinated land use and economic planning for sustainable real estate development. Global mega-city regions span multiple metropolitan and regional government administrative areas and policy silos; meanwhile, policies for regulation and taxation, and land use and transportation planning in mega-city regions are commonly fragmented and policy objectives are often contradictory. Strategic planning and policy oversight is needed to frame local planning initiatives.

In China, mega-city region development and socioeconomic change are being assisted by centrally planned entrepreneurial government strategies and direct investment (DI). Investment
programs in education, skills, IT, high-tech and high-speed transit development, are intended
to upgrade economic activity with advanced services and logistics supporting advanced
manufacturing and advanced agriculture, through sustainable real estate development, for
example in the vast Beijing Bohai Economic Rim (cctv-america, 2015). A 2016 United
Nations report on the state of the world economic situation, post-2007/8 global financial crisis,
highlights the enormous challenges faced by governments worldwide to stimulate investment
and global growth more than seven years later (UN DESA, 2016b, p. vii). While the tertiary
service sector, which adds value to primary and secondary production and trade in mega-city
regions of emerging economies, has remained relatively constant post-crisis, macroeconomic
“major headwinds” present challenges worldwide. Notably, the report highlights a growing
“disconnect between finance and real sector activities” as significant in holding back revival of
the world economy. Summers is cited as blaming low real interest rates “which encourage
excessive risk-taking by the financial sector” for this disconnect (Summers, cited in UN DESA,
2016b, p. 23). In consequence, the report identifies a critical need for policy coordination at
national, regional, and international levels and integration between monetary, exchange-rate,
and fiscal policies in the context of “ever greater complexity in the financial market.” Siol
policy approaches to objective setting for economic, social, and environmental policies need to
be resolved at the domestic level (UN DESA, 2016b, pp. 40–41). But despite the economic
slowdown reported by UN-DESA in China, East and South Asia are expected to remain the
world’s fastest-growing regional grouping (UN DESA, 2016b, p. 23) with this growth
continuing to focus on global mega-city regions (UN DESA, 2014), reinforcing its need for
policy coordination.

Conclusion

Globalizing forces constrain, but do not annihilate, the agency of states in the governance of
real estate development; states remain sites for national and sub-national decision-making that
shapes the development process. Domestic and international fiscal, taxation, and monetary
policies that provide the context for investment in real estate, both as an immobile physical and
a fungible asset, are generated by national governments. Equally, the location and form of
development remain to a considerable extent socially and culturally produced and determined
by public and private agents and actors with a presence in local settings. However, government
interventions are generally not framed by a holistic appreciation of the multi-faceted macro and
micro influences on local development outcomes. Meanwhile, attempts to model the
development process from an institutional perspective (Ball, 1998) have lacked an appreciation
of the complex global–local social construction and fluidity of real estate investment drivers
and flows.

The pressing agenda for the governance of sustainable real estate development is the coordi-
nation of policies, regulatory mechanisms and decision-making to address interrelated
urbanization and economic globalization dynamics through collaborative state institutional
structures and public–private partnership arrangements. The commodification of urban space
in which entrepreneurial states are complicit, requires an overview of the sustainability of real
estate development in new landscapes of urbanization. Real estate research has an important
role to play in informing the governance agenda by unravelling for decision-makers the multi-
dimensional ways in which real estate acts as a conduit for changing agglomeration geometries
on a macro-scale and investment strategies at a micro-scale. The warning of Ambrose and
Colenutt when discussing the research needed to inform key decision-makers on the outcomes
of the planning and property development process in 1975, remains pertinent: “What we need
is research which questions the present structure and which focuses on the operation of the system, not on its output” (Ambrose and Colenutt, 1975, p. 187).

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References

The challenges for effective governance


Pain


