

The Role Of Real Estate In Society

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- ◆ *Special Preview of From Good to Great to Best-in-Class*

Friends & Colleagues:

As we head into fall, replete with completing the budgeting process for next year, wrapping up various calendar year initiatives, setting goals and establishing key business strategies for 2012...this is a good time to pause and reflect. This is the perfect moment to reflect on why you chose a career in the real estate industry, the basic tenets and reasons why your company exists, and the valuable role real estate (in all its many products and services) has had and continues in our world and society.

To do this, I have presented the Introduction of my new book From Good to Great to Best-in-Class, the third edition of which will be available through the Institute of Real Estate Management (IREM) in the first quarter of 2012.

From Good to Great to Best-in-Class

Introduction

Margaret Mead once said, “...**great opportunities are brilliantly disguised as unsolvable problems.**” The Greek statesman and orator Demosthenes observed, “Small opportunities are often the beginning of great enterprises.” The real estate industry was founded in response to both opportunities and problems in need of an asset-based solution. Throughout ancient and modern times, those who conceived, built and/or maintained real property assets were the first real estate entrepreneurs. Towns, cities and megalopolises were created and shaped by real estate development and land use planning. Reflecting the prevailing government priorities...current and emerging market trends/conditions and overall societal direction became the original demand generators for those pioneer real estate practitioners. From the Egyptian traders of 3000 B.C. to the high tech pioneers of the 21st century, **real estate entrepreneurs have been at the epicenter of every historical transformation and event.** Real estate professionals are both visionaries and realists...men and women with innovative solutions to social challenges. Real estate practitioners were change agents before the term was coined and popularized.

At times, the challenges brought about by rapidly changing global, demographic, financial, political and societal factors can be overwhelming. However, **throughout the ages, real estate entrepreneurs have successfully harnessed the challenges and harvested the opportunities created by others.** From caves to condos, from an agrarian to an information society and from single to multi-story properties, real estate professionals have shaped the world as we know it today. The real estate industry is a local business governed by planned or unexpected outcomes of national and global events. **The real estate industry has become a global historian of the consequences which occur in the time continuum.**

Megashifts 50 Year Perspective

Category	Historical				Forecast
	1970 - 1979	1980 - 1989	1990 - 1999	2000 - 2009	2010 - 2019
Geography	Local	Regional	National	Global	Without Boundaries
Competition	Many Competitors	Some Competitors	Few Competitors	Strategic Competitors	New Competitors
Business Strategy	Focus On Location	Focus On Design	Focus On Operations	Focus On Customers	Focus On Customers Of Customers
Goals	Market-Driven	Capital-Driven	Performance-Driven	Relationship-Driven	Knowledge-Driven
Market Dynamics	Fighting Over Sites	Fighting Over Money	Fighting Over Marketshare	Fighting Over Talent	Fighting Over Customer-Share
Operational Focus	Collecting Reputation	Collecting Assets	Collecting Competitors	Collecting Clients	Collecting Relationships
Leadership	Personality-Based	Functionally-Based	Service-Based	Solutions-Based	Strategy-Based
Organization	Few Teams	Appearance Teams	Necessity Teams	Reoccurring Teams	Virtual Teams
Brokerage	A Representative	A Broker	A Specialist	An Advisor	A Confidante
Founder	An Entrepreneur	An Executive	A Leader	A Coach	A Collaborator
Growth Strategy	Growth From Market Dynamics	Growth From Abundance Of Capital & Financial Engineering	Growth From Consolidation, Securitization & Digital Economy	Growth From Customer Connectivity, Talent & Capital Shifts	Growth From Globalizations, Generational Shifts, New Urbanism & Greening

There are entrepreneurs, visionaries, skilled professionals, dedicated specialists and leaders at the core of every real estate solution. **The boundaries of a real estate organization have and continue to be shaped by an adherence to a set of non-negotiable core values**, depth of talent, proprietary knowledge, valued relationships, and the quality of its business model. In an age of uncertainty, change, transformation and unexpected events, an abundance of opportunities exist for the true real estate entrepreneur. **The real estate industry, as it has for thousands of years, continues to provide positive and lasting value to society and the lives of individuals.** The real estate industry is a composite reflection of those who have aspirations, imagination, talent, determination and a blueprint for success...while governed by a set of principles that positively shape the lives of others.

The Role of Real Estate in Society

Real estate is both a business and an integral part of our past, present, and future. Every activity in our daily lives involves and/or is impacted by real estate. From the Greeks to the Pilgrims to the owners of skyscrapers along New York City's Fifth Avenue, the real estate industry has always been characterized by nine factors:

1. Providing market-driven solutions that respond to shifting economic, political, demographic, generational and societal changes.
2. Creating investment opportunities that add value to the fabric of daily life.
3. Conceiving projects and properties that are *a part of* rather than *apart from* the communities and neighborhoods in which they exist.
4. Fostering collaborative environments where shared knowledge, aligned goals and common purpose can manifest.
5. Establishing valued, recurring and trusted relationships with all Stakeholder groups involved with and impacted by the real estate-based decisions that are made.
6. Hiring, motivating and recognizing the achievements of outstanding talent. Giving individuals an opportunity to realize their dreams.

7. Understanding and creating asset and service-based solutions for owners and end-users of real estate assets.
8. Acknowledging the contributions of others and believing that behind every challenge, question, issue or event, there is a solution that requires a real estate asset or service provider.
9. Enhancing the value of the communities by remaining vigilant on protecting the environs for future generations in which it provides solutions.

The role of real estate in society transcends the ordinary and represents the intuitive understanding of the synergies that create success for all Stakeholders. Real estate is built on trust and relationships based on mutually shared goals, expectations and outcomes. However, it hasn't always been a smooth ride.

Wars have been fought over real estate; battles have been waged for and against development; and reputations have been established or ruined over the real estate products created or decisions gone awry. Real estate has been a savior and a villain, a source of opportunity, a political football, and, at times, a regulatory nightmare. Personalities and cult-like figures have been created, featured, celebrated, and discredited by real estate. Fortunes have been made and lost because of real estate. Families have benefited from and have been torn apart because of real estate. Entire industries and companies have disappeared because of real estate. A passion for some, a job for millions, a hobby for others, and a source of income and wealth creation for many, **real estate has been a convenient forum for blame as well as—more often—a source of personal and community pride.** Literally no other industry today has so many working parts, conflicting priorities, risks, and rewards. No industry is as integral and essential to our lives. **Real estate is a part of everyone's DNA.**

The real estate industry is one of the foundations of America's heritage and the unfinished business of society. Real estate is the stewardship responsibility of each generation and the cornerstone of every nation's history. The home has become the symbol of independence, self-determination, and perseverance. The workplace has become America's unofficial town hall for connecting, socializing, and shared financial purpose. Retail centers have evolved from a place to shop to entertainment and exploratory destinations. Industrial and warehouse/distribution buildings have moved from locations by rivers and rail stations to sites more proximate to seaports and airports. Residential communities have become concentrations of those who share similar values, opinions, and lifestyles. Medical office buildings now provide highly specialized care for patients in need. Hotels offer properties and amenities catering to specific user groups. **The real estate industry has become an America laboratory for innovation and social solutions.**

America's towns and cities always have been defined by the character and characteristics of their developed and undeveloped real estate; and these have become the fulcrum from which a society bands together for common causes, interests, and values. The utilization of real estate—improved and undeveloped—defines societal values, shapes culture, and impacts user dreams and aspirations of what is possible. **Real estate has created the environments and experiences in which we live, work, shop, play, and stay.** Real estate defines the vitality of each community and the attitudes of the tenants, residents, guests, and customers it serves. However, it is not the buildings that define real estate. It is what goes on inside and between buildings that counts the most.

Most buildings are developed to be torn down, redeveloped, readapted, and retrofitted to meet the ever-changing needs of society. Some buildings are reflective of times past and are meant to be preserved. The impact of real estate is measured not by the number of buildings developed, number of square feet managed, or size of one's portfolio, but by the quality and level of the environments created, sustainability, its impact on our communities and daily lives, and the quality of the talent and values of the organization that created these assets. **Real estate today is in a fishbowl, constantly moving while contained by current events, and under the watchful eye of many.**

As the real estate industry approaches 2020 and beyond, the need to reestablish the industry's (and each respective real estate company's) valued and often dominant role in the transformation and transition of our society must become a priority for everyone leading or involved in the processes of investing, transacting, developing, leasing, managing, acquiring, financing, and/or constructing real estate. **To prosper over the next decade, the real estate industry must get back to its roots, its values, and its role in connecting diverse cultures** as well as enhancing the "live, work, shop, play, and stay" needs of our country and the world.

It is important to remember that America's first inhabitants from the "Old World" came here for better control over their destinies by owning/controlling their land. A revolutionary war was fought over this nation's land. The Louisiana Purchase in 1803, the Homestead Act of 1862, the purchase of Alaska in 1867, and the post-World War II population shift to suburbia, were land deals and movement that shaped and continue to shape our society. The industrial revolution, the migration west, the Gold Rush of 1852, and the creation of a transcontinental rail system were real estate driven. Every downtown, every suburb, every destination has been formed by the vision (or lack of vision) of real estate entrepreneurs. **Real estate, more than any other industry, has shaped and guided the growth and prosperity of our country.**

Many industries are created, then prosper, and suddenly disappear; and still the real estate industry never goes away. However, the real estate industry is often the "one to blame" when things go wrong. When there is an economic downturn or recession, overzealous real estate borrowers are cast as one of the main contributors. Hollywood films often cast real estate developers as villains who are out for personal greed. Why has there been literally no "positive" real estate-based legislation in the past 30 years? Why have some in the real estate industry failed to anticipate and proactively react to emerging societal needs? The answers are simple. Some in the real estate industry have drifted away from their roots and lack clarity of purpose, vision, and focus. Some have placed momentary events and outcomes ahead of lasting values. And some cast the real estate endgame as a determinant of winners and losers. **While real estate hasn't changed, there is an increasing need for real estate firms capable of becoming Best-In-Class and personifying the valued principles upon which the industry was founded.** Will your firm embrace that opportunity?

As it has for hundreds of years, the real estate industry has indeed responded to geographic and demographic markets in a state of transition and transformation, shifting from what was to what will be. For real estate organizations and leaders such as yourself, there are only three questions to answer: (1) What role do you want to take in order to capture the opportunities created during these times of transition and transformation? (2) Do you want to watch from the sidelines and follow the actions of others, or lead the revolution of change? (3) Are you willing to dedicate the time and resources necessary to provide solutions that will achieve meaningful results and outcomes for all Stakeholders? Failure to take any action today will result in confusion, conflict, financial risk, and crisis tomorrow. Any inability or unwillingness to change will result in the emergence of the "re" words (e.g., repositioning, restructuring, remarketing, rebalancing, rebranding, refinancing, revitalizing) in business strategies. **The challenge facing the real estate industry, and frankly every real estate company in existence today, is defining its reason to exist—its purpose and role in the growth and prosperity of our country.**

As long as real estate leaders define success by the size or value of transactions completed or the amount/value of assets owned or controlled, an irrelevant role will persist. Only when real estate organizations and their leaders embrace the values and tenets of the real estate industry's origins and the valuable role real estate has in changing lives, improving the human condition, and exhibiting good stewardship of natural resources will the reason for its existence become quite clear.

How to accomplish this is simple. **Real estate organizations must: revisit the basics, the roots and strategies that resulted in a legacy of success; and deploy contemporary business models in order to bring real estate back to its former leadership role in society.** Understanding the real estate industry more clearly—how to survive and how to prosper—requires a focus on the basics. And the basics begin with the acceptance of the unthinkable.

The Unthinkable

“Here today... gone tomorrow” is a recurring theme within the real estate industry. The icons of the past are being replaced and there are fewer and fewer Founder-led real estate organizations. The commoditization, institutionalization, securitization, and globalization of real estate are well under way. The “local” business of real estate is now subject to the global nature of capital. **The results and consequences of the economic and cultural polarization resulting from the 2007-2009 recession will continue to transform the real estate industry, real estate investing and real estate opportunities.**

Real estate has become a recognized investment class and is consistently outperforming the stock market, but today more and more real estate organizations are facing difficulties and challenges reaching far beyond the events of traditional economic cycles. Historically, real estate firms reacted to emerging trends. Today, these same firms find themselves struggling to establish strategies and initiatives that anticipate future trends. Mergers, acquisitions, public-to-private transactions, break-ups, legacy exits and bankruptcies have reaffirmed that the only constant in today’s operating environment is change, accelerating at an even faster rate than ever before. The dramatic leadership changes and consolidation that have occurred and continue to occur within the real estate services sector, the increasing number of mergers of public and private real estate firms and the rise in new, highly capitalized enterprises that seek market and customer share at any cost are all indicators of a new normal.

The emerging signs of the considerable changes, or “megashifts,” that lie ahead have further compounded an already uncertain future. For some real estate organizations, surviving or keeping up with one’s competitors is a key strategy. For others, getting ahead and seizing the opportunities created by economic, demographic and market changes is the goal. However, **for most real estate firms, the acceptance of the unthinkable, that “the old ways of conducting business no longer apply in today’s and tomorrow’s business environment,” is now a fact of life.** It is difficult to prepare for and enter the future while still anchored in the past. For many the road to future success is an unknown and moving away from the past is a discomfoting feeling. However, **the real estate industry is transitioning and transforming itself as it evolves from a reactor to change into a creator of change, and from being apart from to being an integral part of tomorrow...an evolution of unprecedented challenge and opportunity.**

History has shown that real estate, real estate leaders and entities do indeed shape and transform our communities and society. Mindful of the distinction between what was, what is and what could be, the real estate industry is on the precipice of a new era of opportunity. To participate in today’s New Normal will require the real estate industry to harness and harvest its incredible talent foundation and continue to build upon the previous legacy set forth by those who preceded us.

Closing Comments

I encourage you to share this newsletter with your entire company, your peers and all who share your passion for the real estate industry. If you’d like to share your comments, insights or ideas with me, please email them to newsletter@celassociates.com. I look forward to your feedback.

Regards,



Christopher Lee

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Prospects For A Real Estate Recovery Could Wait Until 2013

<http://www.celassociates.com/onlinenewsletter/ProspectsForRealEstateRecovery-SA-K082211.pdf>

Tomorrow Has Already Arrived

<http://www.celassociates.com/onlinenewsletter/TomorrowHasAlreadyArrived-SA-K062711.pdf>

Age Of Consequence & Opportunity

<http://www.celassociates.com/onlinenewsletter/AgeOfConsequence-SA-K050611.pdf>

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