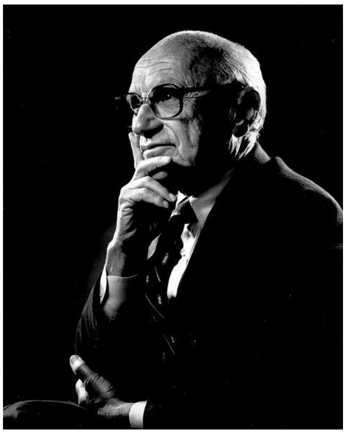
REAL ESTATE AND A SOCIAL RELEVANCE

Milton Freidman (1912-2006) was a fine economist, writer and commentator, with a vast biography of books, monographs, scholarly articles, papers, television programmes and lectures. However, one of his most cited articles was not in fact a scholarly one, expounding some obscure aspect of economic theory, but an altogether lighter piece published in the *New York Times Magazine*. [1]

Drawing on his 1962 book, *Capitalism and Freedom*, the 1970 article was a rallying cry for free market capitalism, and sought to counter a growing popular sense that corporations had a 'social responsibility'. He argued instead that managers should be solely focused on enhancing shareholder value.



> *… there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*

Profit maximisation over all else. Freidman's statement came to mind recently when considering the changing role of the real estate sector.

Urbanists from Patrick Geddes to Lewis Mumford to Jane Jacobs all railed against the inhuman nature of modern urban development. Ebenezer Howard founded the Garden City Movement, while Patrick Abercrombie oversaw the post war reconstruction plans for London, including attempts to combat urban sprawl by settling people in distinct, self-sufficient communities connected by an improved network of roads.

All this before the dead hand of institutional investment entered the market in the 1960s. From this time through to the financial crisis in 2008, real estate was provided in a pretty uniform way; one which paid relatively little heed to wider social goals and one which, for many years, forgot that it had customers.

In 1974 City of London rents peaked at £20 sq ft, and the 280,000 sq ft Commercial Union building was worth over £100 million, which Ambrose and Colenutt observed was more than industrial firms such as Pilkington Glass and Plessey, and twice as much as the capitalized value of British Leyland. More particularly:

> *To the finance world the principal interest in office buildings such as the Commercial Union is its value as a financial asset. Its value as a social or environmental asset is almost irrelevant unless that happens to influence the financial value*. [2]

Profit maximisation over value.

But we now live in a truly digital era: navigating our way via knowledge work to a weightless economy, to experiential consumerism, in which the expectation is that artificial intelligence will lay waste to huge swathes of today's jobs. Under these circumstances, we cannot continue to invest in, build and manage real estate according to the same tired model. We have to move on. And while this means many things, in the post-Pandemic world, it means above all else social relevance.

We need new, innovative approaches to the design, delivery, occupation and management of real estate. As such, the built environment profession itself must evolve. And this applies to all buildings, whether for working, living, shopping, enriching, relaxing, learning or healing. Clinging on to the *'way we have always done things*' is not tenable. The built environment professions must learn and adapt, quickly, to remain relevant: to customers and to wider society.

But what does 'social relevance' mean? Below I make five suggestions.

Relationships and culture Step one will be to recognise that those organisations that occupy commercial buildings are customers. The feudal language of 'landlord and tenant' must cede to modern, B2B language: 'owners and occupiers' or 'operators and customers. The 'let and forget' era must be replaced with relationships that reflect mutual interest.

The real estate process – lease negotiation, management, renewal, review and disposal – is structurally adversarial. The culture is one of 'landlord *versus* tenant' as surveyors on both sides slug it out. This is contrary to the commoditisation of real estate and to the service culture required in the emerging market (see below), both of which demand a relationship-based culture.

From technical to management function The real estate industry today reflects nineteenth century social structures and is riven by fragmentation: labyrinthine silos of activity, each with their own practices and arcane lexicon. The supply process is focused on the highly fragmented delivery of technical skills.

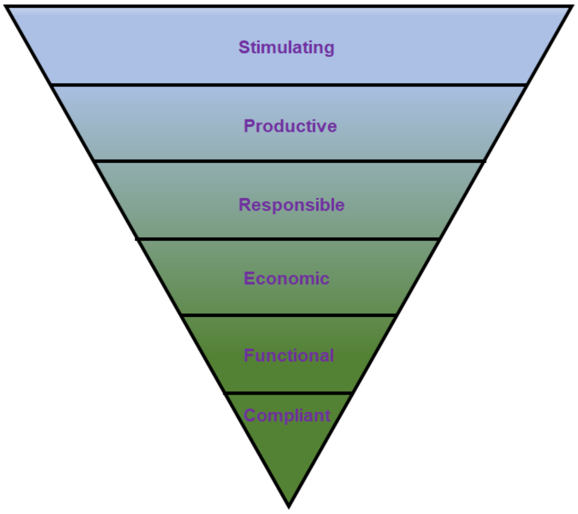
To be socially relevant, real estate must reverse its focus on technical issues and learn how to support customers with a management-facing service.

Customer focus One of the most important challenges is to place the customer centre stage. An occupier business should not have to become part of the real estate industry in order to manage its occupation. Real estate is a bi-product of economic activity, not an end in itself – a fact laid bare by the weightless economy. It is an operational resource to support economic activity; and those engaged in economic activity are customers of the supply process, not players within it.

The emergence of the flexible space market since 2000 was a symptom of social, economic and business change. The workplace must now reflect quality, choice, flexibility and, above all, service. The workplace experience will differentiate employers, as facilities management evolves into a front-of-house role, providing a supportive and welcoming service to people.

People-centric real estate One of the most important lessons from recent fundamental changes has been that real estate exists to support the activities that take place within. The greatest value of real estate lies in its ability to enable and to enhance the activities and experiences of the people who use it. Today's real estate must be much more than compliant, functional and economic. These have to be taken as givens. Real estate has to go further, as argued in a recent paper for the RICS. [3]

First, it must enhance productivity and performance: whether an office, a warehouse, a classroom or a shop, real estate must provide appropriate settings, have the right systems and connectivity, provide the right environmental conditions and contribute to health and wellbeing.



Secondly, it must stimulate. Again, whatever the use of the space, occupants must be provided with a positive experience, with appropriate amenities and services, using plants and materials and forms of curation to stimulate activity and thinking and social interaction.

Community It is a statement of the obvious, but real estate sits at the heart of communities – large cities and small towns. Yet too often real estate has 'appeared' without reference to the community within which it sits. The decline of the high street started long before online shopping – it began with out-of-centre malls and retail parks in the 1980s.

Liberal planning in the 1980s brought us the retail park, shopping mall and business park. Despite their obvious benefits – convenience, parking, choice and comfort – they swept in a new era of speculative real estate, provided to meet the needs of investors rather than those in the communities in which they were built.

Obviously the environmental crisis brought new regulations around design and specification. But retail and office environments, in particular, have ploughed a pretty straight furrow for many years; with little recognition of the changing needs of its customers and their communities.

In conclusion The five suggestions here are not exhaustive: merely the start of a debate.

There might be many specific reasons for parts of the real estate sector to change or modernise – technical, digital, environmental, economic and so on. Indeed, Covid-19 has led to an extensive debate about what knowledge workers want from their workplaces. But the debate needs to be a broader one.

The social context of real estate has changed, and continues to change, rapidly. Investors, facility managers, asset managers, designers and owners – everyone involved in the real estate process – will be affected by these changes. There is a common interest in ensuring that, together, the industry demonstrates its social relevance.

Real estate cannot remain immune from the technological, social, economic and environmental changes that are taking place all around us. Indeed, real estate has to be an active agent of those changes by being central to improving living and working conditions, making cities work and improving the built environment for all.

Old models will not allow us to do this: they were designed for uniformity, in a one-size-fits-all sense. Tweaking the old is not sufficient; we need something different. Old attitudes and perceptions must change. In their place we need cultural changes; new skills and competencies, new measures and indices and fresh approaches. Social relevance will require a focus on non-real estate issues, including: business relationships, service, experience, social justice, business performance, customer satisfaction, and the role of real estate within communities.

Fifty years on from Freidman's profit maximisation dictum, we need something more modern for real estate. I suggest

> "*capital for building while building social capital*"

I'm sure this can be improved.

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References

[1] Friedman M (1970) The Social Responsibility of Business is to Increase its Profits *New York Times Magazine* 13th September pp32-33
[2] Ambrose P & Colenutt B (1975) *The Property Machine* Penguin Books p42
[3] Harris R (2020) *The Age of Unreal Estate* RICS, London https://www.rics.org/globalassets/rics-website/media/knowledge/research/insights/the-age-of-unreal-estate_1st_edition.pdf