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THE COMMENTATOR'S PERSPECTIVE: GLOBAL CITIES IN AN ERA OF CHANGE

On September 4-6, 2002, an international real estate symposium on the subject "Global Cities In An Era of Change" was held at Harvard University. The purpose of the symposium was to create a broad understanding of the urban landscape and the factors that impact it. It was co-sponsored by the Harvard Design School, The Counselors of Real Estate and The Royal Institution of Chartered Surveyors. There were approximately 150 attendees, including some thirty speakers or panelists. This article is an attempt to summarize the proceedings for those unable to attend.

THE GLOBAL CITY TODAY

Panelists reflected upon the homogenization of building design and culture which has caused the loss of local character of cities in general. Measures which might be utilized to gauge the quality of a city would include population, quality of life, economic power, commuter time and the cost of production. Cities have become places where complex work is accomplished face to face, while the suburbs have become the places where dispersed intellectual work is accomplished. There are huge price differentials among cities in terms of rents and wages. Environmental quality will be a major determinant of the success of cities in the future. Global warming could cause massive changes in coastal global cities.

Other factors impacting the future of cities include demographics and the ability to attract capital. In future years some 30% of Japan's population will be over 65, while only 10% of the U.S. population will be of that age. In Third World cities, the population is even younger. Major factors contributing to the ability to attract capital include the rule of law, transparency and trust. In order to attract capital, a city must align its processes for decision making with those of the capital sources. Capital controls the process; they must "think like us." This increasing globalization of capital also adds to the "McDonaldization" of global cities. It is also important for a global city to be a transportation hub.

There is an increasing imbalance between economic vision and social vision. Aspiring individuals in Third World countries wish their children to be educated at universities in the United States, but they resent our culture.

As a result of the impact of broadband and wireless communications, we can now speak of "intelligent cities." 21st century cities become strategic nodes, talking with one another. The gap between the haves and the have-nots widens. An integrated world economy leaves out 80% of the people. In a few years there will be 35 cities with over 10 million population. How do we deal with the "unintelligent cities"? How do we deal with the anger and resentment of those outside the global system? There will be an even greater need for broad access to good education.

Another issue is the overlapping government bodies which constitute a city. Global cities range from virtual city-states to sprawling urban areas with a multitude of overlapping government bodies and a weak central government.

REFLECTIVE PRACTITIONERS

A panel was constituted by Dame Judith Mayhew, policy director of the City of London, Governor Ed Rendell of Pennsylvania, and Peter Hall of a public-private development venture in San Diego. Dame Judith had just returned from the United Nations conclave on growth and the environment held in Johannesburg, South Africa. That group adopted the City of London principles of sustained finance and development. The "London Plan" deals with the realities of an "intelligent city" and a Third World city co-existing in the same space. Some 29% of the inhabitants of London live below the poverty line, and thus must deal with the needs of the "intelligent" as well as the needs of poverty.

The "London Plan" includes comprehensive and coordinated measures designed to deal with the issues of transportation, urban in-fill, public-private partnerships, volunteerism, education, health, social services, crime, affordable housing and a jobs-housing balance, with nodes of development activity.

Governor Rendell attributed his success in Philadelphia to the following: One must have a regional approach, including support from the state and Federal governments; an ability to work with both political parties in the name of good government; a view of the city as a place for celebration; a focus and prioritization on those areas which make a city great; a competitive development mentality to attract positive new business,

including having available well located, entitled, cleared sites for development; an open communication with business; a recognition that cities must bear the heaviest social costs in America and a focus on education.

Peter Hall attributed San Diego's success to providing single stop shopping for developers, combined with a focus on which businesses to attract and a well orchestrated planning process. He emphasized the conflicts arising from the differing cycles for development and elections.

As is often the case, the ideas of the practitioners were deceptively simple. The elegance is in the execution.

HARVARD'S PRESIDENT: LAWRENCE SUMMERS

The president of Harvard University honored us with an after luncheon address. He emphasized the importance of economic geography and urban economics as intellectual inputs, as well as the enduring nature of concentration in specialized places. President Summers discussed the acquisition by Harvard of substantial lands adjacent to the present campus, which will result in a doubling of the academic area, thus emphasizing Harvard's keen interest in urban economics. He expressed concern about the ongoing migration into Third World cities with their teeming slums. He predicted low global inflation and surplus capital for the next decade, resulting in lower interest rates and economic stability. He noted that high productivity results in poor pricing power.

In response to a query, president Summers stated that he questions whether real estate will become a separate academic discipline. To do so would require the notion that real estate has separate analytical tools, methodology and distinctive research separate from finance or geography. He stated it is more likely that real estate will remain a "subject," similar to manufacturing or tourism. A commentator noted the paradox between the desire to link real estate into the capital market asset allocation investment decision process with total transparency and the desire to have real estate as a separate academic discipline.

ECONOMIC FORCES

This panel raised the issue of why one would or would not invest in a particular city. Statistical data

were presented concerning over 500 business relocation decisions and which cities were chosen. Primary issues bearing on the decision included rule of law, property rights, tenant rights, enforceability of the law, costs, "intelligent" infrastructure, stability, transportation logistics, quality of life, educated workforce, and capital availability.

Significant discussion occurred concerning doing business in places like Russia and China, where one has to know one's partner and develop a sense of trust. Often the rules are not known, or made known, by the local partner. Often the local partner is attempting to recycle flight capital. The agendas may be completely different.

THE FABRIC OF CITIES

In order to provide a sustainable environment for both the business and the host city, the business must become committed to environmental management, employee volunteering, community outreach and corporate philanthropy. There must exist an explicit or implicit public-private partnership.

An effective explicit public-private partnership requires a measurable budget for sustainable development. Such a public-private budget balances the needs for economic growth, environmental management, and social responsibility. Each side must agree upon the resources that they will contribute to the budget. One should not speak of trade-offs between economic growth and social costs, but of a balanced budget which sustains both.

A panelist attempted valiantly to describe the impact of major research universities on urban growth, utilizing the Massachusetts Institute of Technology's spawning of a bio-tech industry within its environs as an example.

JOEL KOTKIN, PEPPERDINE UNIVERSITY

As a panelist Mr. Kotkin described the traditional role of cities. Many cities are sacred in their origins. They create a perception of safety, often contained by protective walls. They are busy places, filled with celebrations. They create a "casbah economy" filled with various markets. A major problem with current cities is that the upwardly mobile immigrants move out. To sustain cities on a positive scale, the educated middle class must be attracted back in.

It is difficult to judge what makes such a symposium a success. The issues are often too ephemeral and complex for an individual to deal with. If each of the 150 participants were to become motivated by the event to become engaged in their own city, the symposium might be termed a success.

Mr. Kotkin also served as an after dinner speaker. His negative predictions as to the future of the global city awakened the participants to spirited rejoinders. Mr. Kotkin stated that several global cities are not intelligently located. The rising masses of under educated from the Third World will end urbanism as we know it. Terrorism undermines insurance, and thus the ability to finance cities. The elites are moving out of cities or into protected nodes in the few "intelligent" cities.

CROSS BORDER CAPITAL FLOWS

This panel discussed the state of the global real estate capital markets. It was emphasized that there is no such thing as a global real estate industry, but rather a series of local markets, each of which requires local partners and specialized knowledge. Real estate is above all local in nature. Real estate capital is a residual to the corporate capital markets. Capital will always flow into the higher return businesses. Over the next few years, real estate is perceived as offering positive returns on a risk adjusted basis, with good cash flow.

European investors do not see the need for foreign capital, although they seem to have plenty of it. Japan appears to be shutting down the market to foreigners through restrictive rules and regulations. The U.S. market is more disrupted than meets the eye. In certain cities, net effective rents are close to zero, after taking into account tenant improvements, free rent, commissions, and the like.

THE FUTURE VISION

The final panel attempted to bring the symposium to a close with a vision for the future. The problem of low density and long commutation times will be resolved by congestion. Congestion can be seen as a balancing mechanism. When it becomes intolerable, NIMBYs (not in my backyard) finally begin to relax and allow for higher densities. The only other

solution is to travel with a CD player, a cup of coffee and a highly attractive seat mate.

We are currently urbanizing at the rate of 60 million persons a year. Urban areas will grow twenty fold in a single century. The average U.S. person requires 10 acres to sustain life; in the Third World it is a single acre per person. We each throw away 28 pounds of garbage a week. The solutions are to conserve the places we have already made, rather than building new places, and helping the poor to become rich.

Great cities have a soul. They are great markets, centers of learning and centers of entertainment. In England certain residential developments have lasted for hundreds of years. They tend to be non-linear and surrounded by greenbelts. Two major threats to cities are the cost of housing and the threat of rising seas.

Neo-Malthusians have been nay-sayers forever. A hundred years ago the maintenance of enough horses was seen as the limiting factor in the growth of cities. What is required is leadership, entrepreneurship, volunteerism, and education.

A commentator mentioned two books. In *The Mystery of Wealth*, Third World economist Hernando De Soto makes the point that the Third World has substantial wealth. It just cannot be unlocked. This is so because there is no perfected title or deeds which can be financed or traded; no street addresses; no incorporated businesses and the like. Thus much of the Third World capital is dead. The way to make it alive and productive is through education. Robert Kaplan in *An Empire Wilderness* makes the same point about cities in the

United States, choosing East St. Louis as an example. In these areas there are no deeds, no records, no energy, and no vision, much as in the Third World.

In many of our cities, such as New York, London, Chicago, Lisbon, Dallas Shanghai, and Los Angeles, we have co-mingled "intelligent" cities with Third World cities. The problems appear insurmountable. What can any single individual do? One example is that several of the panelists volunteer in their own cities with the disadvantaged in mentoring programs, to assist them in their education. Financial aid is always important, but far more important is one-on-one personal contact and mentoring. In the case of some "saved" children, the mentor has put in a ten-year commitment to assist the child. There are obviously a wide variety of ways in which individual symposium attendees can become involved in their cities in a pro-active manner.

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ABOUT THE AUTHOR

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