

CRE PERSPECTIVE

THE TECHNOLOGY REVOLUTION & ITS EFFECTS ON REAL ESTATE

by *Macdonald West, CRE*

"Technology Revolution" or "Information Age?" It is unclear at this time how history will define our current era. But, few disagree that the changes underway in our society are causing a "structural change" in the way people will live and work in the future. These changes will be every bit as dramatic for real estate as those caused by the Industrial Revolution.

Learning from History

The agricultural communities of all developed countries have been radically changed by the Industrial Revolution. People moved from farms to cities and urban areas. Transportation changed from horses and buggies to railroads, automobiles, ships and planes. Today, the U.S.A. is basically a standardized community, and globalization is fast leading us toward a standardized world.

Why did people "allow" this to happen? . . . The fundamentals that motivate people are:

- 1). family economics - their ability to survive in a community, as this relates to
- 2). their fundamental belief system.

The Israelites moved to Egypt because of a seven-year famine. Egypt had food. They left Egypt 430 years later because of persecution. People moved to the cities during the Industrial Revolution because that was where the jobs existed.

The Technology Revolution and the Information Age are enabling people to work, compete, and survive almost wherever they wish to locate . . . at home, on vacation, while traveling locally or overseas! This is particularly true of people who work basically with their minds, versus people who work basically with their hands. In addition, people are moving to countries and nations where they can best survive. The U.S. is experiencing its highest immigration rate since 1910.

Globalization, Delivery Systems & Networks

The world is increasingly becoming a "smaller" place as a result of today's ease and speed of travel,

and as a result of high-tech communications. Further, in recent years world delivery systems have made the ability to manufacture goods overseas extremely competitive, by way of less expensive labor, real estate, and in some cases capital resources. Today's delivery systems are very dependable, quick, and competitive — especially when compared with higher labor and manufacturing costs in the U.S. and most other developed countries. As products are increasingly being marketed on a global basis, manufacturing in a foreign country is no longer a negative factor for global distribution. Those countries with low labor costs, and a skilled or teachable work force are the most favored . . . China, Taiwan, Korea, Malaysia, etc.

The improvement of worldwide delivery systems is leading to new designs in combining industry, manufacturing, and transportation. The concept of the Global TransPark being developed in North Carolina, Thailand, and the Philippines is one example of technology changing real estate products. The Global TransPark is a new kind of industrial park/airport that fuses modern manufacturing and distribution facilities with multi-modal transportation, advanced telecommunications, sophisticated materials-handling systems, and state-of-the-art support services.

Effects of Further Globalization

Further globalization will inevitably lead to further world standardization. Many products are already highly standardized . . . consider automobiles, airplanes, computers, telephones, and how about Coca Cola! Other systems and networks are becoming more standardized, but as this occurs there will be many problems to be resolved. For example, consider worldwide standard work methods; a standard method of communication; a standard language; a standard culture; or at least a standard business culture? This is where the greatest resistance lies and where future battles will be fought. Commerce, economics, and the ability to survive will bring people together, but fundamental belief systems and pride will divide. The ability of people to coexist will ultimately drive globalization and commerce. The future will rest in winning people's hearts. Business in the U.S. as it exists will have to change.

Effects on Real Estate

With increasing technology, readily accessible information, ease of travel, and dependability of delivery systems, the question for real estate

practitioners has to be: how will this effect the future of the real estate markets? It seems evident that the greatest development of new manufacturing will occur outside the U.S. in developing nations where labor and capital costs are lower. Although manufacturing will occur overseas, business leaders will be able to locate wherever they wish to work by staying in control through technology. The location of these business leaders will be increasingly influenced by factors such as: climate, natural beauty, outdoor sports/pastimes, as well as political climate, infrastructure, economic stability, ease of travel, etc. The "sunbelts" and playgrounds of the world will continue to attract business leaders, along with the employees of the support services needed to look after them. With all these thoughts in mind, it seems inevitable that real estate user types must also change. For example:

Residential: With the increasing need for room to work at, or near home, space designed to function as offices within houses will flourish, and become standard. Hence the average size of median income and above homes will tend to increase.

Offices: Alternatively, the need for small, one- or two-person offices will increase near affluent residential areas. As CEOs and business leaders increasingly work closer to where they live, the need for large, high cost, high-rise downtown offices will be challenged in the coming years, unless there is a large and affluent residential population nearby. The number of home offices will continue to increase with CEOs, lower level managers, sales people, computer operators, etc., reaping the benefits from working close to home, or at home.

Retail: The information age via

the Internet is revolutionizing the way people shop. People no longer have to drive across town to shop for products. This can be done in the comfort of one's living room, and the product delivered to the front door from anywhere in the world. The number of stores will decrease as people increasingly order over the Internet. Well-located shopping centers that offer entertainment value will survive, because people will still want a reason to "go somewhere." But the existing, plain regional malls will either trend towards local distribution centers for products ordered electronically, or they will become real estate opportunities for creative reuse.

Industrial/Warehouse: This will remain a strong asset class, especially where properties are located at or near major air, sea, rail, and road transportation centers. However, this property class will need greater access to telecommunications in the future.

Hotels: As the opportunity to work at home, or close to home increases, the need for workers to congregate regularly will also increase. For example, monthly meetings to coordinate management training, sales, problem solving, etc., will increase. This offers excellent opportunities for well-run and well-located resort/meeting hotels with high-tech telecommunications services. Travel will continue to increase as businesses become more global; so the future for hotels is generally strong. However, hotels that solely feed off of downtown offices that are challenged, as noted above, will similarly suffer.

Outlook

As Counselors of Real Estate, our future will remain bright. The real estate markets are still "local" in nature. There is no substitute for

sound local knowledge when real estate decisions are made. As the future for property types change, we as Counselors should be in the forefront of the market, anticipating those changes. This is not always an easy task, but it can be very rewarding both intellectually and financially. This is our constant challenge.^{REI}

NOTES

Thoughts for this article were inspired by The Counselors of Real Estate 1998 High Level Conference on "Speed, Innovation + Technology," held at The Grove Park Inn, Asheville, North Carolina, in August, 1998.

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