

## **Real Estate as Place and Space - Why Design Is So Important To You and The Community**

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City and town officials, planning commissions, councils, boards, and citizen groups - do not build communities nor do they build the places that make up our communities. Sometimes government builds infrastructure to support creation of places, but it is developers who build the places we live, shop, work and many times play.

It is the dynamic relationship of the developer, with its pecuniary self-interest, and these various public groups that shapes places. But this is important to remember: It is the developer who actually creates the place – a much more complex task than simply producing reasonably priced and adequately functional buildings in the hope that they can be sold or leased.

Anybody can “build” something, but function alone is no longer enough to be successful. A building must also be efficient, appealing, beautiful, unique and meaningful – and equally important it must contribute to a defined place. To be competitive, to create sustainable places and to be financially feasible, developers must create spaces that do more than house activities. They must help create sustainable, evolving and desirable *places*. This requires careful design oriented to the users and to those who are impacted by its existence, but do not use it.

So how important is good design? Consider what the former head of General Motors said about his company: that GM is in the art business. GM? The art business? Yes, because that is the world within which the car company must compete. Several years ago P&G had a similar epiphany. It converted its culture from a focus on consumer products to a focus on innovation. That too is a big shift: P&G no longer perceives its core business as selling consumer products; its core business is providing creative solutions to the needs of people.

### **Why Design**

Why this change in mentality? We live in a world that is an amalgam of real and virtual space. We have abundant choices when deciding how to use our time, how to socialize and where to buy the things we want and need. The competition for our attention and money is fierce. Unless you are developing a warehouse, appealing to rational, logical and functional needs alone is insufficient. When the places we create are not pleasing or compelling to the soul, fewer people will be drawn to them.

Mastering consumer product design requires empathy, play and other “soft” attitudes, and companies are employing these approaches to stand out in crowded competitive markets. Good design is also a way for each of us to stand out as we strive to create our own personal brand.

Design is increasingly important in real estate too. Consider tract houses: how do builders differentiate one from another, creating sufficient appeal to buyers? The new, post-recession home building industry has not yet figured this out. Part of the reason is that in the past good design, for both buildings and places, was not a necessity for success. Contextual planning and design was not the norm. In the new market, we need to create places that draw us back, where we prosper. Just as Graves, Rashid and Starck create appealing everyday appliances, we must also create highly

appealing everyday *places* that lead to appealing everyday neighborhoods that support and lift us as a community, are enduring and sought after year after year and are equally profitable for those who create them.

Designers use the term “High-concept” to describe a design ethic that calls for artistic and emotional beauty, satisfying narratives and patterns, and opportunities to combine seemingly unrelated ideas into a novel inventive synthesis. They also use the term “High-touch” to mean the ability to empathize, to understand the subtleties of human interaction, and to find joy in the pursuit of purpose and meaning. These are the things that computers cannot do faster and offshore sources cannot fabricate cheaper—and they result in products, services and experiences that are in great demand in an age of abundance and now in an age of careful consumerism.

When properly incorporated into the real estate planning and design process, the High-concept, High-touch approach can also result in better places – places we want to go to and stay at - making them more likely to be financially successful and more likely to make our cities and towns better places to live. High-concept, High-touch developments make for a better value proposition when disposable dollars are scarce and when people are looking to find real places -- not just virtual ones -- to support them. Growing economy or shrinking, good design makes good business sense.

### **Real Estate and Design**

It is important to remember that real estate is a designed asset, a physical, “location specific” object that impacts its environs. It is a unique asset class that is not only aesthetic, but functional, durable and of long term value. That value will likely vary over time, based on the building itself and its associated social and physical characteristics. That value has considerable relation to all of these things. Real estate by its very nature is fixed in location and as such defines space – interior as well as exterior.

Real estate also has a less frequently studied role in society: the psychological and perceptive impact on users and the overall contextual space within which it exists. This makes real estate a unique asset and every piece of real estate discrete, having certain characteristics that make it different than any other -- even the one immediately adjacent. But because real estate is fixed in place, it also creates and defines the spaces around it and within it. Each piece of real estate has a functional purpose and an impact on its geographic context - the space around it, a contextual perspective. Each successive piece has an incremental and profound impact on that contextual space and begins to define a place. However, the space within the real estate can be very individualistic, bearing no relation to the place or the environs or exactly the same as another, or so different as to make the interior space equally unique to the place.

All of these considerations make the planning for and design of real property exceedingly important, not only as a business investment but also as a contributor to the overall area. That real property also has profound business and economic impact on the place. Paradoxically, real estate defines space individually and has value as a discrete asset, but successive pieces can either increase or decrease its value and the value of other adjacent real estate as well as the value of an entire area.

## **Role of design in real estate decision making**

When considering development, real property purchase or redevelopment, the elements of place and space have profound and widely divergent strategic roles in decision making and ownership plans. Depending on the business intention of the owner and the strategic plan devised for ownership, the place within which the property exists and the space it creates will have important roles in determining a strategic plan for the property and thus its value and the value of the real estate around it. In economics, this is called an “externality” -- a cost or benefit, not transmitted through pricing function, that is incurred by a party who did not agree to the action causing the cost or benefit. A benefit is a positive externality while a cost is called a negative externality.

The decision making process gets back to the value web concept of managing real estate. The value web selections made for the strategic plan are important to the creation of place and space for the users and their business. Equally important, each project has an impact on the lives of residents living nearby and on every passerby.

There are distinctive strategic roles for place and space within the real estate development decision making process that are critical to understand. For companies in the business of providing space and place “experiences,” such as restaurants and hotels, certain retail businesses, commercial office buildings and residential communities, both place and space are basic to the design of the project and the success of the project. Conversely, a resource company such as timber, mining or farming, extracts its product from the land and so places far different values on space and place – values that are more basically utilitarian. Other businesses have a direct strategic linkage to place and space. A Starbucks coffee location is critically tied to its place, whereas place bears not as much importance for a supplier of wholesale plumbing products. The furniture and home furnishing category is another good example of direct strategies linked to place and space because of their role in supporting the customer use and experience.

In some businesses, place and space are the very essence of the project strategy. For a business where the environment is the essence of the experience -- such as a resort hotel, life-style retail center, a restaurant or other location dependent uses -- the old "Location, Location, Location" axiom holds true. That's the traditional mantra of the real estate world. But it's also true that while many people will go practically anywhere for great food, if given a gorgeous view or a perfect setting or space, many will likely ignore what is on the plate. But location alone will not make a place attractive and thus successful, nor will a well-designed space. It is how these two factors work together that can make a place desirable and successful. This sounds simple and rudimentary, but it is not, and many times the relation is misunderstood or ignored.

Conceptually, value linkages between a given user and its real estate can be addressed through consideration of functionality and locational attributes. Each function is served by a particular type of real estate and the value of that real estate depends a great deal on the design of the space and place and the specific nuances of its location.

Extending the consideration of business and real estate value linkages beyond the primary business functions, each of the value web elements involved in making and delivering products and services can be connected to real estate considerations. Considering the connection between real estate strategic decisions with the particular component of the value web involved in making

and delivering products and services can yield important strategic insights. Specifically, insights can be gained as to how particular factors influencing an enterprise's overall business strategy relate to and influence its real estate strategy and its real estate transactions. Ultimately, even if the enterprise does not articulate its real estate strategy as a means of formulating the elements of real estate transactions or design, there is an inherent connection between business strategies delivered through real estate and ultimately to the real estate itself.

### **Impact of Competition**

Competition once could be described as moderate, but today businesses increasingly operate in what has been described as "conditions of hyper-competition," where firms position themselves aggressively against one another. For example, Nieman-Marcus and Saks Fifth Avenue aggressively compete for "a very thin layer of people with a tremendous amount of disposable income...to be their store of choice." In conditions of moderate competition, firms pursued accommodating relationships, positioning themselves around rather than directly against each other – strategies which were supported by barriers that limited new entrants. Indeed, three-dimensional environments could be effectively managed in moderate competition industries, where market leaders employed cooperation to restrain competitive behavior, thereby achieving sustainable advantages. Manufacturing firms operating in the context of moderate competition could successfully pursue sustainable advantage through large-scale re-engineering database and software application projects extending for four or five years. Such re-engineering emphasizes concentrated on long-term programs to align processes and systems, emphasizing high volume to achieve low cost product offerings, and structured approaches to market forecasting, production planning and control, inventory management, and financial management.

However, in today's environment of hyper-competition, both existing firms and new entrants continually seek to create new opportunities and destroy the leaders' competitive advantages. This problem is somewhat different with real estate because of the length of new project cycle makes it almost impossible to alter real estate as quickly as new opportunities emerge. Thus, continual strategic and re-engineering initiatives are fundamental both to upgrade and introduce new products and services to achieve, sustain and expand profitability. The impact on real estate is tremendous for several reasons: 1) because real estate is a durable asset, cannot be moved (easily) and is not easily changed, 2) because creating new real estate is expensive and has a long cycle time and 3) because in most cases it is through real estate that the basic delivery platform for business strategy is implemented, so thinking about how to employ the real estate means thinking far in advance. This means constantly evaluating a unique, fixed-in-place, critical asset.

The real estate appropriate to moderately competitive markets differs dramatically from that appropriate for markets characterized by hyper-competition. The scale, appearance, layout, location and symbols of real estate would vary markedly. For example, consider AT&T, which once operated in regulated communications markets characterized by minimal competition, but which now exists in a highly competitive communications market. The substantial, imposing, rigid granite headquarters in midtown Manhattan that previously served its style, strategy and competitive circumstances was jettisoned a few years ago as the physical symbol of the building was no longer appropriate to the competitive forces the company faced. Consider how technology is changing demand for office space – the average amount of office space per employee has been reduced in the past 10 years from about 250 square feet to about 130. This has other impacts on

system demands and parking. Retailers are changing their formats for space in shopping centers because they want smaller footprints but more impactful images.

Another important role real estate plays in servicing business is locational attributes. An effective means of considering the implications of competition is to address the issue from the perspective of the value web, in that it reflects a sequential series of component tasks and functions that are involved in how a product reaches the market. The supply chain embraces such considerations as the primary purpose, manufacturing focus, inventory strategy, lead time focus, approach to choosing suppliers and product design strategy. Fundamental to designing an effective supply chain is considering whether the enterprises' product offerings are functional with predictable demand, or innovative with unpredictable demand and thus requiring a higher degree of innovation, segmentation and risk. The effective supply chain for functional products is one that emphasizes physically efficient processes, whereas innovative products are best served by a supply chain featuring a market-responsive process. This thinking then applies to the type of real estate being developed – Walgreens or Apple Stores – and their respective locations and settings.

The physically efficient process has very different real estate implications from the market responsive process. Consider the place and space implications of the physically efficient versus market responsive processes for manufacturing, inventory strategy, suppliers and personnel. The characteristics of the strategic purposes -- the attributes of place and space to serve those purposes -- differ dramatically. One consequence of these dramatic differences is that the costs of real estate that serves physically efficient processes may meaningfully differ from those for real estate that serves market responsive processes. The market responsive example requires very specific locations that may be scarce, and those locations command higher rents (like the location of high end retailer). Companies emphasizing market-responsive processes have very different real estate needs:

- Location--must be close to market to minimize lead times between order-production-delivery
- Scale--must have sufficient scale to accommodate dramatic increases in volume, so real estate capacity does not constrain market penetration opportunity
- Improvements--tend to be highly modular design that accommodates flexibility as contrasted to rigid layout

For example, the elements that comprise the retail value chain are notably linked to and have important connections to real estate. Real estate's role in the source product/service element of the retail value chain is critical. If the merchant determines to make the products and services offered, then location decisions concerning the country, region, submarket and site are critical. While numerous other real estate considerations also apply -- including size of facility, layout and lease or buy decisions, and then the particulars of leasing and financing -- they are not addressed here. Real estate has a major role in creating demand and attracting the buyer to the retailer's outlet. Of the four primary demand-stimulating activities (advertising, promotion, direct mail and selling environment) real estate has a direct role in each, including direct mail. The direct real estate relationships to value elements that create demand and attract buyers to the distribution system are critical strategic decisions.

Central to understanding the tangibles and transparencies of real estate value web connections is consideration of the long time, interdependent relationship between real estate and

information. From earliest times, before writing implements, mechanized writing and printing were pervasively available; a building was used as a mnemonic device to aid memory and recollection. Then, buildings themselves served as forms of physical communication, with the great cathedrals of Europe being repositories of stories, information and knowledge.

Now, enterprises seeking to convey messages to motivate, inform and entertain can choose from and combine a diverse array of text, visual images, symbols, tangible representations, recreations or actual depictions of place and space. Formats can be two-dimensional on a page, animated on a screen or three-dimensional marketing environments. The tangible and the virtual representation of the tangible are becoming more intertwined, interdependent, substitutable, competitive and connected in their roles to facilitate commerce. Significantly, the language of the Internet is the vocabulary of real estate: site, home page, access, design, traffic.

### **Conclusion**

In those settings emphasizing transparency, the place and space of origin and destination become ever more critical. Still, while a predominant amount of commerce continues to be conducted in tangible contexts, the hyper-competitive conditions of such commerce and the proliferating substitutes for the environments in which such commerce may occur places ever more priority on the role of real estate value chain connections. Place and space also impacts health and wellness – how we interact, socialize and feel all relate to the quality and detail of spaces. As the connections between these factors become better understood and sought after, the design of space and place will become much more important to the usefulness and value of that space and place.

As society changes so does real estate. Real estate plays a fundamental connecting role in the community. Real estate form, place and space are all reflective of society and societal change. Real estate by itself is worthless; it is the particular use on or within the real estate that makes it useful, meaningful and valuable. If there is no demand for a particular use, then the real estate set aside for that function has no purpose. So, the planning, design and development of real estate has to occur within the context of supply/demand characteristics, the individual functions of the user and the context of the place.

It is hard to imagine commerce or life as humans without real estate specifically designed and developed for our particular needs. The question becomes: how best to connect who we are, what we want and how we use space to the design of actual space. Only then can we create places that are a meaningful addition to community, while economically viable, adaptable and sustainable. The answer to this question should direct communities, land owners and the developer to translate estimates of demand to the design professional in a story and actionable development program to produce great spaces and places.

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