

Reinventing Real Estate

Why the next 24 months will matter more than the past 24 years.

THE MARCH 2008 COLLAPSE of Bear Stearns signaled the end of real estate's extended bull run. The September 2008 triffecta of the Lehman bankruptcy coupled with the Washington Mutual and Wachovia bank weekend fire sales shook the real estate industry to its core. The still looming waterfall of maturing commercial mortgage-backed securities, the slowly thawing capital markets, and the ongoing uncertainty about where the next market will come from have left real estate professionals searching for solid ground. Entering the third year of the broad recession, the industry has retrenched, reorganized, and is struggling to recapitalize. But is the industry retooling?

For years the industry has accepted *real estate* as the all-encompassing term for both what it does and what it creates. By definition, real estate is "all land and improvements that are immovable." But the increasing complexity of how the industry goes about its business and, more important, the positive impact it can have on the broader society, defies the static nature of this one-dimensional definition. Recently, industry leaders are shifting the discussion from the topic of real estate to the *built environment*. The latter term provides a more apt, multidimensional view of the industry's scope, encompassing "the manmade surroundings that provide the setting for human activity."

Changing how the industry thinks about what it does as less "immovable land and improvements" and more "providing the setting for human activity" is anything but subtle. It creates a very different call to action and, if the industry chooses,

positions it to be one of the most positive forces of the coming decade for resolving the complex challenges associated with human settlement.

From Commodity to Responsible Real Estate

After World War II, real estate development changed from an industry of locally focused entrepreneurs who took great pride and responsibility in their communities, to one of a global nature that delivered a range of "products." As companies sought to make these products conform to a formula or easily replicated template—be they garden apartments, grocery-anchored shopping centers, subdivisions, or suburban office parks—they provided diminishing returns in terms of their

contribution to the natural environment and society.

The past 20 years were instructional because they made manifest, more than at any other time in history, the good, the bad, and the ugly of the real estate profession. The ongoing evolution of the industry, and a sampling of its products, is portrayed in the figure below.

The four categories represented on this continuum define the choices the industry has made collectively, and the mileposts of its potential. Each category has varying degrees of complexity, contribution to society, and, many would argue, risk and reward.

Commodity real estate results when the industry focuses only on maximizing efficiency—creating, replicating, and rolling out product



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FROM REAL ESTATE TO BUILT ENVIRONMENT: FOUR DIRECTIONS FOR THE INDUSTRY

