

# “Dream” Regional Planning – “Real” Estate Development Based on Shopping Center Developments as Examples of “Real” Re-Mixing

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## 1 ABSTRACT

The task of a regional planner was, is and will be to keep dreaming of an imaginary ideal future – and to prepare concepts and plans by harmonizing different uses to get the surroundings as close as possible to the dream.

The task of a real estate developer is to look for needles in the haystacks of plots and projects – and to identify successful property opportunities for reaching a profit target.

The interdisciplinary methods and manifold theories of regional and urban planning have undergone scientific research and practical evaluation “for an eternity”, whereas real estate development started shy attempts at first theories and new project development standards not even 20 years ago. These were mainly postulated by economists, who didn’t (yet) have as a basis a comprehensive knowledge of planning responsibilities with their entanglements of environmental, historical, technical, social, legal, political and many other aspects of forward-looking planning.

Both disciplines are still in most respects separated not only by different points of view, but also by educations, frameworks, theories, processes, strategies, terminologies, etc. Indeed they need to improve their mutual understanding, as planners have the major knowledge of realistic project opportunities, and real estate developers have the financial resources to realize the dreams in due time.

I will describe some of the gaps between planners and developers that need to be closed to make the planners’ dream of Re-mixing the Cities REAL - as the name REAL CORP 2012 implies.

## 2 INTRODUCTION

Isn’t it remarkable that REAL estate developers do not attend or present at the REAL CORP Conference? But I can reassure you that regional and urban planners do not usually visit real estate conferences either. Endless examples show that without a sound knowledge of real estate development urban and regional planning remains a faraway dream. And vice versa: real estate developers need a better understanding of the stringent complexity of regulations and regional politics.

Do we need real estate developers when we have succeeded without them for ages?

Aren’t proposals as well as designs and solutions safe in the hands of architects?

The reason we need them:

is comparable to why we are already used to the (additional) expertise of regional and urban planners in any architectural process. The complexity of requirements is rising sharply, regulations and laws are getting more and more challenging and this calls for ever increasing expertise. Due to globalisation, the complexity of projects, as well as the requirements from investors to construction companies, are increasing relatively even in less-favourable areas. Financing and commercialisation are examined according to international banking and feasibility standards even for small projects, and commercial tenants are already used to comparing their contracts with frame contracts and rental studies of “big players” even when their demands are not comparable in that regard ...

So the answer is:

Yes, we need real estate developers at least for commercial, industrial and hotel projects, retirement homes, healthcare facilities, and last but not least for mixed use project developments, due to the growing demands of our society.

... and an additional answer is:

The solution to the far-reaching misunderstandings of planners and developers is to analyse, explain and work together on solutions to harmonise the different points of view. And to accept that regional and urban

planners have as their responsibilities the “eternal” consequences for society, but real estate developers take their decisions according to economic calculations for the investment period.

In recent years a few (postgraduate) programmes have been started to offer education combining both disciplines, but in most European countries there is still no “real estate development” education at the university level as there are just few scientific investigations and assessments.

### **3 INTERDEPENDENCE OF REGIONAL PLANNING AND REAL ESTATE DEVELOPMENT**

Everyone involved in planning procedures knows that the basis of regional and urban concepts and plans are collections of more or less practically useful planning theories and many legal and technical preconditions.

But these regional planning instruments theoretically summarize, in advance, project possibilities which are not clearly defined until specific plots are examined in details by real estate developers who usually investigate different variants during an initial real estate development process with respect to their economic potential.

It would be advantageous if these initial feasibility studies from real estate development were already also based on the legal and technical constraints according to all available planning instruments.

Unfortunately many examples of project ideas still show that in the opinion of developers, especially regarding large-scale projects, planners and “serving” politicians are expected to adapt regional planning instruments to develop ideas as quickly as possible – time for investors runs very fast.

#### **3.1 Excursus: regional and urban planning**

Different political cultures produce very different kinds of planning and this is not just valid in the comparison of different continents or countries, but also for any region, project or involved decision maker, and especially for the political decisions of the permitting process.

Planning theory is not a universal theory, and we must constantly reinterpret what we do in the light of our own experiences is another fundamental piece of Prof. John Friedmann (Prof. em. University of British Columbia, Canada), based on his over 60 years of theoretical and practical experience, and who is at the age of 86 still recognised in specialist circles worldwide as one of the leading academics in the field of planning culture and planning theory.

The driving forces behind regional and urban planning are in particular:

- public authorities (regional planning laws / infrastructure requirements)
- land owners ( transactions to market / own use / specific projects)
- regional and urban planners
- political decision makers

and just to mention the main professions who are entitled by governments to regional and urban planning:

- regional and urban planners (technical education)
- architects (technical education)
- cooperation with social, technical, legal, demographic and other experts

But as mere technicians are accepted officially to lead a planning process, the involvement and question “Who are the planners” is an ongoing discourse. In this respect I shall quote once more without comment John Friedmann: professionals with a tertiary degree in the field? Architects specializing in urban design? The city engineer? Housing experts? Public officials who occupy positions in municipal planning offices? And should we distinguish city planners from, say transportation or environmental planners? Are social planners in or out? What about planners who are not engaged in drawing any sort of plan (strategic or otherwise) but are involved in the resolution of conflicts about urban issues of one kind or another? Do certain lawyers qualify, even though they have no planning degree? And what of city managers? ... we also loose ourselves in another part of the labyrinth, whenever we ask about the “planning process” ...

### 3.2 Excursus: real estate development

Real estate development is the motor of the estate economy, which provides the market with new products in the form of new buildings and reactivation of existing buildings. It provides according to most experts, the idea-location-capital triangle to a real estate development project.

The driving forces behind real estate development are in particular:

- investors (private / institutional)
- (large) construction companies
- real estate development companies
- real estate agencies
- public authorities (incl. public private partnerships)

and 3 main types of developers, depending on their type of involvement:

- (1) trader developer (market / investors / funds – trading profit)
- (2) investor developer (own portfolio / property – rental profit)
- (3) service developer (counselling / advice - fee)

Depending on these different driving forces behind the profession “developer” the professional background of these developers includes a wide range from economists, lawyers, politicians to other (self-made) experts, but astonishingly few architects and other planners.

The reason might be that technicians are not just different personalities with other professional expectations but rather that they are poorly educated in the necessary complex economies.

I would, however, like to emphasize once more from another point of view the different real estate development approach to projects by giving some examples of typical methods which are not, or at least not in detail, considered by planners during regional planning procedures:

- location analysis
- market and competition analysis
- user requirements programme
- cost-utility analysis / feasibility analysis
- capital budgeting
- valuation of real property / performance measurement
- market placement / public relations
- property management

### 3.3 Different approaches and perspectives of RP and RED

The following short descriptions are intended to highlight the cross-sectoral perspectives that are of key significance for the development and evaluation of individual projects.

Regional planning is decided primarily by politics with the objective of sustainable use of land and infrastructure, with a lack of short term instruments and money for realisation.

Real estate development is initiated primarily based on market forecasts with the objective of an appropriate return on investment either from development of a defined area or the need for an area/building for a defined use.

(1) regional planning (RP) - “eternal” / future generations

- focus: development for the benefit of a region – POLITICS
- framework: + political + legal + technical requirements

(2) real estate development (RED) - “20 years” / investment period

- focus: return on investment (RoI) of a specific project – MARKET

- framework: + economic + legal + technical requirements

#### Comparison of Principles

Real Estate Developments		Regional Planning
1 project	<b>basic</b>	region
return on investment	<b>focus</b>	regional benefit
market development	<b>success</b>	regional development
economic calculations	<b>theories</b>	multiple planning theories
investment period (e.g. 20 y)	<b>time frame</b>	eternity (life cycle of buildings)

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investors      **final decision**      politicians

#### 4 EXAMPLE: SHOPPING CENTER DEVELOPMENT

“Shopping Center” doesn’t need any explanation, does it?

Is shopping center development similar to other challenges of real estate development?

Starting with the 1st “no”-answer:

Even though America is said to be the homeland of “shopping centers”, they are unknown there as they are called “shopping malls” and in British English it is “shopping centres” - therefore it depends on the authors preference to a country or continent which terminology is found in the names of the centers/centres/malls or in literature.

Also the respective definition of size is not regulated, so in Austria the minimum size for a shopping center is 4,000 sqm or more than 10 shops plus 2 anchors, or more than 20 outlets whereas the international minimum starts at 10,000 sqm – but these are no official accepted regulations either.

Architect Victor Gruen, who was born in Austria but worked from 1938 onwards mostly in America as an urban and regional planner, is quoted by many experts as “father of shopping centers” but criticised in a speech 1978 London “Americans for perverting his ideas ...and proclaimed “I refuse to pay alimony for those bastard development” and he claimed that their [developers] motives had changed ...present day developers, Gruen lamented, only look at the bottom line. The developer were new anonymous real estate entrepreneurs ... promoters and speculators who just want to make a fast buck”. So the initiative for his development of shopping malls was to offer a kind of meeting place with shops, social infrastructure, restaurants, with a mall construction as protection from the weather. Cars and parking “deserts” were not a big issue that time and Victor Gruen kept fighting against the influence of individual mobilization or what the politicians, planner, and developers made out of it: tree or cars? cars!

... and to continue with the 2nd “no”-answer:

The development of a shopping center is not comparable for a developer with other development projects, in respect of their far reaching consequences and specialised knowledge with high complexity which is shared within mostly international “inner circles” of investors, tenants, planners, statisticians, construction companies, center managers, etc. using a specialised range of key figures.

Retail developments, and especially shopping centers, are perfect examples to demonstrate the tip of the iceberg in regards of the interdependence regional planning and real estate development, as they see themselves in terms of

- highly specialised knowledge
- high economic drive
- high total retail turnovers
- high turnover per deal size
- international developers
- international investors

- increasing shopping center percentage to other retail
- increasing investment of cross border compared to local purchasers
- high employment opportunities
- high tax revenue
- good political reputation
- good monumental reputation – as long as the architecture is respectable

but according to my own experience as well as official statistics there are some other factors such as

- few serious players in the market
- high economic risk
- high impacts on regions
- high percentage of cancelled and postponed developments
- high number of unprofessional “wannabe developers”
- high risk of reusability when a center has seen already better days ...

After the real estate crises in 2008 the economic power of retail and shopping center development in Europe reached € 37.2 billion in 2011, with a revival in high value deals and of international buyers . Therefore the economic drive of profit calculations for specific locations versus best possible use of land, technical and social infrastructure continues to challenge urban and regional planning.

The first year after the 2008 crises, forecasts were somewhere between “hope” and “hell”, but the total retail investment turnover in Europe had recovered already to € 36.2 billion in 2010 , for some experts an unexpectedly high level.

Nevertheless, the figures for developments which were stopped / postponed / new in 2010 showed the confusion in the market and the challenge for regional planners who had to deal (or not to deal, that’s the question?) e.g. in Romania, a country not known for high purchasing power of its 19 million inhabitants and 370 km of motorways, with 86 shopping center projects, of which 35 were stopped, 48 postponed and 3 new.

Another key figure demonstrated in the year 2010 – therefore 2 years after the crisis – is the comparison of projected and existing leasable areas in shopping centers per 100 inhabitants.

Hungary is one of the EU countries which pushed itself 2012 in a deep financial crisis, but nevertheless was already in 2010 at a high level with 24 sqm existing leasable area per 100 inhabitants (see e.g. Switzerland with 28 sqm) and additional projects up to nearly 50 sqm (see Switzerland existing + projected 37 sqm in total). With these high dreams of developing the country, Hungary was on the way to becoming the second best-equipped country in Europe.

At least according to statisticians the “winner” 2010 was Estonia with a total of 59 sqm (43 sqm existing, 16 under development) per 100 inhabitants.

As a comparison, well developed Austria was in 3rd place with a total of 38 sqm (32 sqm existing).

Last but not least, Bulgaria as an example of the challenges which regional planners and developers are facing, where shoppers had 10 sqm leasable area / 100 inhabitants and an additional 10 sqm were planned.

As a final example Turkey with its 8 sqm existing leasable in shopping centers per 100 inhabitants, and including projects under development a total of 11 sqm,. And this country is, in comparison to many other countries full of development dreams, expected to have a promising development of the economy due to the demographic numbers with 50 % younger than 29 years.

## 5 CONCLUSION

Nomen est omen:

REGIONAL planning needs to act as the PRINCIPAL in long term REGIONAL development, whereas REALestate development has to take as the AGENT for short term REALisation measures.

Regional planners are not used to profit calculations and “feasibility studies” and real estate developers are not willing “to get rejected by butterflies on a wild meadow or a mistrust in their traffic concept”.

The challenge for urban and regional planning is to find

theoretical as well as political and practical answers for the key question:

“how can regional planning on the basis of sustainable use of land and infrastructure support and ensure real estate developments of shopping centers for a reasonable retail policy?”

To realize project visions and concepts – from either regional planners or real estate developers – in due time there is, besides the mutual understanding and knowledge an unconditional need for clear objectives from politicians and planners regarding zoning and prioritisation, including instruments supporting realisations, especially for developments with high profit expectations such as commercial, industrial, and hotel projects, retirement homes, healthcare facilities, and the supreme discipline of mixed use project developments,

Comprehensive knowledge of both disciplines is the basis

for making sweet dreams of sustainable developments come true

in due time and

combining quality with profitability

... and never to forget:

to save enough money for subsequent projects!

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