

# Mega Changes in the Worldwide Real Estate Market in 2020

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Thank you for the opportunity to visit with you today and approach what, in many ways, is an impossible topic. Just think for a moment where you were, what you were doing and HOW you were doing your work fourteen years ago – in 1992. For that is the time remaining between now and the year 2020.

I am not a prognosticator of the future like Alvin Toffler or the late Herman Kahn. Somehow it seems I lost my crystal ball with my luggage on the way over here. But what I want to do this morning is share some thoughts with you as to what we have seen occur over the past few years and how those events are likely to help us predict what real estate will be like 14 years into the future.

Change – that is the nature of life today. Dealing with the unknown and also preparing for the unknowable.

Crisis – what often occurs when we confront change. I've been told that the Chinese characters for crisis consist of the characters for two words – Danger and Opportunity. Two words which do summarize the possibilities inherent in change.

Change today is fast paced. As one friend has described the way we expect things to happen in the modern world – its “microwave time” where everything is expected to happen almost instantaneously. Over the last 25 to 30 years, change has become revolutionary rather than evolutionary.

One example of the warp speed of change can be seen in the publishing history of a most important book – Thomas L. Friedman's The World Is Flat - and if you have

not read it yet, make a note to yourself to do so. Friedman is a New York Times columnist who wrote this book in 2004, saw it published in early 2005 and by the start of this year had already come out with a “revised and updated edition.”

Friedman describes 10 factors that “flattened the world.” They began with the fall of the Berlin Wall and continued on through the next 15 years of rapid change in society. In a nutshell he sees the flat world as the convergence of the personal computer with fiber-optic cable with the development of work flow software. It includes outsourcing, off-shoring, supply chaining, and instantaneous communication and data transmission. As Friedman observes:

“It is now possible for more people than ever to collaborate and compete in real time with more other people on more different kinds of work from more different corners of the planet and on a more equal footing than at any previous time in the history of the world – using computers, email, fiber-optic networks, teleconferencing, and dynamic new software.” (Friedman, p. 8)

Now what are some of these changes that we are seeing today and will continue to impact the world economy – and real estate – 14 years into the future?

First of all is Technological Change whether it be in communications, medicine, transportation, or information networks. There is no question that we will continue to see even more advances over the next several years, especially with the expansion of open-source software, the creativity of individuals, and the ability to rapidly spread new ideas and inventions throughout the world.

Second, is the changes occurring in business and commerce. Consider what is happening in the distribution of goods, what Friedman describes as the Wal-Mart effect.

In many ways, Wal-Mart is not so much a retail operation as it is a distribution network with its highly developed “just in time” approach. An item is sold at a local Wal-Mart, that transaction is recorded, and a message is sent to the supplier that another item must be produced and shipped – no matter where in the world that purchase took place and where in the world that item was manufactured.

“Just in time” depends on the development of an effective global supply of goods and services – not just manufactured goods as in the Wal-Mart example. Work-sharing takes place on a global basis. Again, Friedman cites the example of the client in Los Angeles who brings his tax records to his CPA on a Monday afternoon and says he needs his income tax return completed. The Los Angeles CPA takes the papers, scans them into his computer, sends them as an email attachment to a CPA in Mumbai who, because of the time change is just beginning his work day. The Mumbai CPA completes the US income tax return, sends it back as an attachment to the Los Angeles CPA who receives it the next morning, calls his client and says your tax return is completed!

This leads us to an appreciation of the integration of the international economy. Fewer tariffs, linked currencies, more free trade agreements, the acceptance of capitalism in most parts of the world as the economic model for success. All of this is likely to continue and expand the need for real estate professionals who can engage in transactions across borders. As John Kotter says in his book Leading Change

“ A globalized economy is creating both more hazards and more opportunities for everyone, forcing firms to make dramatic improvements not only to compete and prosper but also to merely survive.” (Kotter, p. 18)

And then there is the world of politics and how it may impact real estate in 2020. No one can predict what will be the political scene that far in advance. But we can see certain trends. Over the past 15 years capitalism has become clearly the dominant economic model – one which ensures the centrality of private property and the ability to transfer ownership of real estate. But, at the same time, there are two challenges that may become serious competitors to the dominant capitalist system over the next 14 years.

The most apparent one is clearly terrorism and its ability to destroy not just human lives and property, but more importantly the confidence that individuals must have in order to invest, to grow business, and to build factories, offices, and homes. This is clearly the most evident challenge confronting the world over the next 14 years, whether differences can be settled within a framework of debate and discussion as opposed to a framework of destruction and death.

But the other challenge is that of populism. First appearing in Venezuela with Hugo Chavez, and then in Bolivia and other Latin American nations, there is a movement not specifically to socialism but at least to a more active role of government in setting aside rights to private property and promotion of government ownership of key industries. The unfortunate model for this has been Zimbabwe where Robert Mugabe has turned the bread-basket of Africa into a nation existing only with food aid supplied by others.

What are some of the changes we are likely to see that impact real estate more specifically? There are a number:

- The expansion of travel and tourism and, with it, the growth of fractional ownership schemes and non-equity timeshares. These have started in the US and are likely to take hold in other parts of the world.
- Greater use of automated valuation systems as appraisers and valuers use their knowledge and training in higher levels of analysis. If you're interested in seeing where this has already gone, just go to Zillow.Com and you can find an estimated value for millions of residential properties in the USA.
- An expansion of the opportunities for financing of properties as more parts of the world develop clearer title and ownership of property.
- More commercial real estate transactions as economies open up and the impact of globalization is felt through increased interaction of economies.
- The need for greater professionalism and specialization among real estate agents who will have heightened opportunities for international transactions.

What will estate agents need to be prepared for the changes and challenges of 2020?

First, Flexibility. Companies that change and adapt continue to succeed. Just think of 3M which started as Minnesota Mining and Manufacturing but became a problem solving company. Or American Express which started as a freight shipping business. When they discovered many of their clients were shipping cash from one location to another, they created the money order which led to the traveler's check which led to travel services which led to the charge card.

Second, Think outside the box. Go beyond the expected and the ordinary. Consider all the possibilities and do not evaluate information, make plans or draw conclusions in a vacuum. As Charles M. Dahlheimer reminds us:

“The real world is not compartmentalized. That is one of the challenges of strategic planning and it involves the “chaos” theory of management. In a world where nothing is static and each change precipitates other changes, planning must be equally dynamic.” (Dahlheimer, p. 229)

Finally, realize that real estate today exists in a world of continuous change. We Americans have an old saying that says “If it ain’t broke, don’t fix it.” Well, that is certainly a rule that no longer applies in either today’s world or certainly the world of 2020. Being always aware that change is occurring and that we need to adapt to change and adopt new ways of doing things will serve us well as we prepare for the future.

In closing I cannot predict what the worldwide real estate market will be like in 2020 but there is one thing that I hope – that both you and I will be around to experience those changes. Good luck and I hope to see you in 2020.

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Sources Cited in the above remarks

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