

January 2000



RESEARCH FOUNDATION

RICS



# Property Into The Next Millennium

Edited by David Parker

## Australian Land Economics Review

Special Edition

RRP  
A\$50.00

ISBN  
0-646-38806-1



The Pacific Rim Real Estate Society and RICS Research Foundation have co-operated to present *Property Into The Next Millennium* as a catalyst for property researchers, practitioners and educators to help shape their vision for the Australian property industry into the next century.

Recognising the globalisation of property, the Royal Institution of Chartered Surveyors established the RICS Research Foundation which has co-sponsored this Special Edition of the Australian Land Economics Review.

From debt, securitisation, IT, valuation theory and the potential of China, to career management, demographics, retailing, education and the changing face of professional services, the scale and speed of change for the property industry going into the new century is breathtaking - offering not only enormous challenges but also huge opportunities to both existing and prospective participants.

Specially commissioned papers by property industry leaders address a wide range of issues including both the "dollar-driven" and the "people-focused" aspects of the property industry.

*Property Into The Next Millennium* offers a challenging array of views on the wider forces that will shape the Australian property industry beyond 2000.

---

# **Property Into The Next Millennium**

---

Edited by David Parker



# Contents

Forewords	x
The Pacific Rim Real Estate Society	xiii
History of the Pacific Rim Real Estate Society	xviii
RICS Research Foundation	xxi
About the Editor	xxiii

1 Introduction	1
----------------	---

## Part I: People

2 Rise of the Third Australian Culture <i>Bernard Salt</i>	11
3 Retailing in the Future and the Internet <i>Ian Shinnin</i>	17
4 Investing in Yourself: Career Management in the 21 <sup>st</sup> Century <i>Greg Hamilton</i>	29
5 The Firestorm of Change: the Accelerant that Fuels it and the Resulting Landscape <i>William Chillingworth</i>	37
6 Educating the Property Professional of Tomorrow <i>Terry Boyd</i>	45

## Part II: Money

7 Securitising Bricks and Mortar <i>Andrew Pridham</i>	63
8 Trends in the Debt Markets <i>Tom Roche</i>	73
9 Doing Business in China <i>KK Lim</i>	87
10 Advances in Information Technology and Their Effect on Property Operations <i>Thomas Scott</i>	93
11 Valuing Real and Contractual Options <i>Gerald Brown and Seow Eng Ong</i>	99
12 Conclusions	113

# INTRODUCTION

David Parker



In his account of the history of the Pacific Rim Real Estate Society, Maurice Squirell outlines the development of property education in Australia from the CIV administered master-apprentice concept of the early part of the century, through the pure valuation technical school courses into the university sector, with the advent of broader property courses at all academic levels.

Such an approach to property education has been built upon the solid foundations of the study of law, planning, economics, building and valuation theory. Whilst such foundations remain fundamental to a basic property education, a range of wider forces have started to impinge on the property professional moving into the next millennium.

This special edition of the Australian Land Economics Review seeks to capture some of the key elements of this range of wider forces of change in a snapshot of an industry and a profession moving over a major threshold at breathtaking speed. Whilst the foundations will continue to evolve, their pace of change will be sedentary compared to the rapidity of the wider forces of change.

Amongst such wider forces of change, the next millennium will see:

- the illiquidity of property vanquished;
- the framework of the property market fundamentally challenged by demographic change;
- the transformation of professional practice through the cyber-revolution;
- a totally new concept of the professional career;
- the subjugation of the property valuation discipline into the finance school;
- the metamorphosis of the nature of property services provision;
- the dominance of capital management over property market fundamentals;
- the ascendancy of China as the worlds largest property market, property industry and property profession;
- the implementation of a multi-participant approach to the provision of property education for a disaggregated student body; and
- the empowerment of the individual with the ascendancy of lifestyle.

It is these wider forces that are the focus of this book and who better to consider them than those industry leaders who have already started to implement them.

Acknowledging that such wider forces have a global perspective and recognising the world to be ever changing, with increasing pressure on the built and natural environment creating varied and sometimes conflicting demands, the Royal Institution of Chartered Surveyors is establishing the RICS Research Foundation. Consistent with its objective to provide thought leadership on the major debates taking place, the RICS Research Foundation has co-sponsored this special edition of the Australian Land Economics Review.

Each of the ten papers herein has been specially commissioned from and is written by an acknowledged leader in a particular industry sector. The papers are not refereed and editing has been kept to a minimum, save for the inclusion of boxed text to highlight thoughts or comments by the author considered particularly significant. This has led to an interesting range of written styles from informal and spontaneous to formal and analytical, further reflecting the diversity of characters leading the property industry and profession into the next millennium.

To add clarity, the book has been divided into two sections reflecting the key drivers of the next millennium for the property industry and profession – people and money.

## People

- **Rise of the Third Australian Culture** – Bernard Salt, Director of KPMG Consulting, uses the mirror of popular culture to trace the economic and demographic development of Australia since Federation - from the *Swagman* to the *Sulhwans* and on to *SeaChange*.
- Chronically the shift from the bush to the bums, Salt argues that in the next millennium a significant proportion of the population will progressively migrate to the beach. Retiring baby-boomers and workers freed from the office by technology will drive a coastal development boom of a magnitude matched only by the extent of change in attitudes.
- The creation of lifestyle towns, the rise in ageism as a political force, the evolution of the Australian vernacular and the reflection of all in popular culture are charted into the next century with a final challenge – in the over-crowded world of the next millennium, why should so few people have the sole right to such a large continent?;

- **Retailing in the Future and the Internet** – Ian Shimmim, Director of Jobb, Holland, Dimasi, canvasses a myriad of influences upon retailing and retail property in Australia including a review of the possible impacts of the internet. Proposing that a purchase is only a minor part of the shopping experience, Shimmim argues that the social and experiential aspects are of greater significance, particularly (echoing Salt) in the ageing and lifestyle focussed society of the next century.

Contending that the internet will be an expansion of the retail market in an evolutionary manner, reminiscent of the introduction of discount department stores and regional shopping centres, Shimmim foresees a cyber world of product and feature comparison with the principle of "high-tech/high-touch" resulting in the vast bulk of retail activity remaining in bricks and mortar property.

Offering a contrarian view, Shimmim proposes that such influences, together with the demographic and geographic dis-aggregation of the retail market, will contribute to the growth of not only suburban shopping centres but also CBD shopping hearts;

- **Investing in Yourself – Career Management in the 21st Century** – Greg Hamilton, Managing Partner of Hamilton Partners, applies the analogy of portfolio management styles and processes to career management with the aggressive pursuit of a cycle of research, due diligence, planning, goal setting, monitoring and reviewing to optimise returns - echoing Salt's prediction of a generation who take control. As a specialist in property sector executive search and selection, Hamilton foresees a challenge to the very concept of employment early in the next millennium.

Formal qualification is assumed, but rates only a passing mention as a minor part of the career management process in the next century. The career as a series of associations gained through five yearly cycles between university and the age of fifty, followed by one or two decades of reduced involvement through consulting or contracting, is envisaged.

Hamilton argues that this will suit not only the service requirer (previously known as the employer) who requires skill sets for indeterminate periods, but also the service provider (previously known as the employee) who will be both highly flexible and transient, placing greater emphasis on specialisms, lifelong learning, lifestyle and the individual taking control of their own life.

- **The Firestorm of Change: the Accelerant that Fuels it and the Resulting Landscape** – William Chillingworth, President, Australia and New Zealand, of CB Richard Ellis applies an analysis of the forces driving global corporate change to the business of real estate services provision locally with a remarkable clarity and simplicity.

Viewing the globe as a shrinking sphere of city states linked by the facilitator of technology but divided, as Lim echoes, by language, Chillingworth looks towards global teams of experts melding ideas to attain the finest product at the most competitive price – the product simply happens to be real estate services.

After contrasting global aspirations with local idiosyncrasies, Chillingworth identifies six essential ingredients for the real estate service provider navigating the roadmap to global competitiveness;

- **Educating the Property Professional of Tomorrow** – Professor Terry Boyd, Professor of Property Economics at the Queensland University of Technology, conducts a critical examination of the role of Universities and professional associations in property education.

Through a detailed SWOT analysis, Boyd identifies the key issues influencing property education and concludes that there is a need to redefine roles with the introduction of a third party, the professional educationalist, in certain defined stages as a service provider.

The educational requirements of the school-leaver are carefully distinguished from those of the mature, practising professional and consideration given to relevant forms of course content and appropriate forms of delivery. Echoing Hamilton, concerning the gradual global trend to embracing lifelong learning, Boyd contends that the greater demands of an empowered student body are likely to create a market demand which will force radical change through the current learning environment for the property profession;

## Money

- **Securitisng Bricks and Mortar** – Andrew Pridham, Global Head of Property for Warburg Dillon Read, is at the forefront of equity securitisation for property and contemplates the inexorable march of direct property into a securitised format. Reviewing the growth of the Listed Property Trust (LPT) sector, with which Pridham was heavily involved, from \$4.8 billion in 1991 to more than \$30 billion in 1999, the author chronicles the decline of the unlisted property trust and its metamorphosis, to meet investor requirements, into the property syndicate.

Declaring the concept of illiquidity in property investment to be vanquished, Pridham charts the future growth for property securitisation through debt products (amplified by Roche), hybrid securities, synthetics and derivative instruments locally and internationally through the introduction of equity product variants on LPTs and Real Estate Investment Trusts (REITs).

With property securitisation claimed to be a global trend and not a passing fad, Pridham calls for property education to follow the increasing levels of sophistication witnessed in the securitised property markets;

- **Trends in the Debt Markets** – Tom Roche, Associate Director, Capital Markets Group of ABN AMRO Australia, focuses on the growing variety of debt sources for the Australian property market. Once the almost exclusive domain of the major banks, Roche traces the roles of the Asian banks, European banks, specialist banks and domestic institutions in debt provision prior to outlining the smorgasbord of debt products now available through the capital markets.

As with the emergence of equity market terms in the property market of the 1980s, the first decade of the next century will add AA-, CMBs and ratings agencies to the property lexicon. Intriguingly, whilst the creditworthiness of the tenant and the resulting cashflow come under critical scrutiny (an aspect also identified by Brown et al), the need to understand the property market and the property valuation and analysis process remains both constant and fundamental.

Noting that the availability of debt has been a significant contributor to the historic boom/bust cycle of the Australian property market, Roche conjectures that the extensive range of debt providers and products available in the next century may result in a healthier and less volatile property market:

**Doing Business in China** – KK Lim, Managing Director of Macquarie Property China Pty Ltd and a Division Director of Macquarie Bank Limited, provides an insight into the issues to be considered when doing business in China. Having initiated and been instrumental in developing Macquarie Banks highly successful property businesses in China, Lim is ideally placed to analyse the challenges of the world's largest market from a property practitioners perspective.

Whilst many familiar business principles hold good, Lim not only cites issues idiosyncratic to China but also global issues referred to in other chapters. For example, the many facets of the challenge of communication are considered with the combined barrier of language and cultural differences acknowledged as a significant hurdle but one which can be overcome.

Echoing many of the challenges of global business cited by Chillingworth, Lim identifies six key lessons from the experience of doing business in China – focus, careful partner and product selection, strict adherence to market research, careful cost monitoring and listening;

**Advances in Information Technology and Their Effect on Property Operations** – Thomas Scott, a Principal with Ernst and Young's Property, Construction and Tourism Group, argues that the application of information technology is still only in its infancy in the property industry. Paralleling a trend to fewer, global property investors with fewer, global property service providers, Scott identifies a trend to fewer, global information technology solutions to optimise the benefits of integration.

Standardised property management systems facilitate more effective asset and portfolio management and property accounting, on both a national and global basis. With such standardisation and integration of systems, active global portfolio management becomes an attainable reality.

Following Shimmins' review of internet shopping and retail property, Scott looks briefly at the possible effects on non-retail property, identifying an opportunity for the development of a new property sub-sector – the Internet Fulfilment Service centre. High-tech, ultra efficient distribution centres leased to some of the fastest rising stars in the corporate firmament could offer to those property investors willing to take the risk of early entry, prospective total returns over the next decade eclipsing even those of retail warehouses in the last decade; and

**Valuing Real and Contractual Options** – Professor Gerald Brown and Dr Seow Eng Ong of the National University of Singapore's School of Building and Real Estate further extend the principles of finance theory to property valuation and in so doing raise yet more challenges to the traditional views of the property profession.

The authors question the validity of the accept/reject notion implicit in the use of net present value techniques. Through a series of examples, the authors illustrate the range of alternatives and opportunities within property that may be recognised as options, each of which is a valuable right. The authors contend that such options should be valued correctly using techniques from finance theory and provide applied examples, contending that such approaches represent a natural progression or evolution for the valuation profession.

For the property traditionalist, to contemplate yet another incursion of finance theory into property valuation will be heretical. If the world of Pridham and Roche has not already resulted in the ascendancy of finance theory, options based approaches that reflect a compelling logic may make it increasingly difficult for such traditionalists to refute the role of finance theory in the property valuation process during the early part of the next century.

Having considered the contributions of the ten industry leaders, the final chapter then seeks to identify some common themes and draw some conclusions as to the character of the wider forces shaping the property industry and profession as it moves into the next millennium.