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Transitions*

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A SOCIAL SCIENCE PERSPECTIVE

THE GREAT TRANSITION IN THOUGHT that brought us to modernity was the reliance on the scientific method for predicting outcomes. The impact went well beyond the natural sciences into virtually all of the social sciences.

For Western civilization humanity developed with a transition in belief that led to behavior not directed by royalty or by church authority. This belief for America was in the inalienable rights of the individual to "life, liberty, and the pursuit of happiness." Our American philosophy has had its own transition, as has its culture.

We think differently from the way Americans thought when our nation was founded, although certain principles and values still apply. Much of the change, which some will call progress, was brought about by advances in the social sciences.

The social sciences emerged with a division into a multiplicity of disciplines enabling researchers to examine phenomena in greater detail by sharpening focus on a set of related problems. This led to a specialization with added precision in methodology and nomenclature, and the discipline to assign particular investigations to the most appropriate social science.

The early version of sociology may be thought of as the father of modern social science. But, political-economy became the "mother" because of its profound influence on our lives. Political-economy, in turn, split into political science and economics about a century ago.

The study of real estate first emerged as "land economics." It then underwent its own transition. In the early post-World War II period, the real estate program at The American University in Washington DC started in the sociology department. It shifted into business administration and took on a strong industry orientation. The school of business administration also added a land planning and use program.

At that time the University of Wisconsin had continued its land economics approach that preceded World War II. Indiana University was developing an administrative approach. But, most universities had a transactions approach.

The typical pattern for undergraduate education was to include courses in real estate practices, real estate law, real estate appraisal and a principles of real estate course which could be based on any one of a number of approaches from transactions to analytical economics.

Today, the greatest interest in academic real estate programs housed in schools of business administration is in

This article is a follow-on to an earlier ASI Newsletter insert, "Real Estate in 3-D." (See www.hoyt.org and click on ASI, then on "inserts.")

The ASI Newsletter reports on the ARES session on History of Thought, see p. 5.

This article has led to a panel discussion scheduled for the annual meeting of the Counselors of Real Estate in October 2004, also see p. 5.

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investments. This, in part, is attributable to most real estate faculty being housed in finance departments. A good deal of the spatial dimension has moved over to planning departments or just faded away. The loss of emphasis on the critical impact of location, in all its geographic richness, threatens to marginalize the study of real estate in the university context. And, of equal importance, an overly abstract approach to real estate risks the loss of empirical tests of relevance and application in academic research.

There are two major types of exceptions to the widespread threat to the future of real estate at universities. The first type of exception is at leading universities where the real estate scholars, many from other disciplines, are held in high regard because the nature of their work is perceived as a branch of another discipline. The other type of major exception is at institutions that have real estate generating a great deal of revenue. Some of it is from students paying tuition. Some of it is from research support through transfer payments from real estate licensure fees. There is precious little recognition of real estate as an integrating field of study worthy of a place at the university. Yet, that recognition is important to real estate making a contribution to the social sciences and to improving the quality of life in American society through better real estate decisions.

We need to take a fresh look at where we have been, where we are, and where we are going in academia.1

HISTORY OF THOUGHT IN REAL ESTATE

Just as combining different chemicals may transform constituent materials into a new form, so a combination of the resources of land and building materials can engender a transition to income- or amenity-producing real estate.

The real estate literature, beginning with pioneers such as Homer Hoyt and Arthur Weimer, tracks a history of thought that produced the principles that assist us in making wise choices in the combination of resources. Principles rooted in economics include those that relate to getting the right balance between building investment and land as well as the right balance between the land use and other land uses. Indeed, the idea of balance, as related to real estate, goes beyond the discipline of economics to include city planning, law, and public administration. The idea of balance also applies to the architecture and engineering, a reminder of the irreducibly physical character of real estate.2

There are other principles common to many disciplines; for example leverage and inertia. The idea of the commonality of basic principles is expounded in the concept of consilience as written about by Edward O. Wilson.3

We can extend this concept of consilience to the idea of transitions of thought. This is a mighty challenge because we know more about how the system works at a point in time than how it changes over time, especially in the time dimension of the long run evolution of society. Also, we know more about the natural sciences, including physical sciences, than the social sciences. Even so, let us take a look at the study of real estate as a social science and see what we can learn about the process of transition of thought. Then, by applying the concept of consilience, what we learn about the process of transition, by the techniques of studying intellectual history, may be applied to other issues. One such issue is a strategy for dealing with terrorism (as was alluded to earlier in endnote 1).

One might ask why we care to use the study of real estate, especially its intellectual history, as an example of consilience. Some academics might say for status on campus. Some practitioners might say for status of the industry. But, we all should say because the understanding of the system is an important step in improving the quality of life. Such a study elucidates values that are under threat from fundamentalisms of all kinds, imposing by fiat or force that which cannot be won by intellectual persuasion.

The discussion that follows makes some observations on principles or theories, whose development might be traced to give us a better understanding of how we got to know what we think we know. We should then examine that

process by which the principles or theories were developed, and seek to apply the process to other areas of social science.

Property Rights-Possession of land has a long history as a critical element in the organization of society. For the society of cavemen, possession was defended by club and spear. Technology has changed, but some nations still rely on the use of force. Within free nations, however, a rule of law prevails with force taking a back seat.

The rule of law is critical in Western society. It protects possession and enforces contracts. It enables private ownership and provides an important element in a system that utilizes incentives to increase productivity through greater effort and innovation.

For the West, the great advances in private property rights came after the Enlightenment. The transition from the ownership of land by royalty was part of an emancipation of the populace in the West. It blossomed in the wake of the scientific revolution and was part of the great progress in economic development.

In more recent times, concerns for the natural environment and the diversity of interests have brought an adjustment in the balance of interests. Economic development is traded for other interests through a political process.

This transition evolved through a political process, heavily influenced by non-governmental organizations. Political science, economics, sociology, psychology, and law, among others, contributed to the trajectory of change. A democratic process has directed the transition, though sometimes (as in California with the referendum and initiative movements) there seems to be a tyranny of the majority.

Understanding how our society has made such progress as it has made can be helpful in assessing how the knowledge may be applied by others in their own context.

This is especially challenging because many nation-states are not free societies. And non-state actors neither recognize democratic accountability nor balance rights and responsibilities as is characteristic of modern civil society.

Additionally, in some cases the land is owned by royalty and in others there may be private ownership, but under a tyrannical authority without the real rule of law.

Externalities-The use of real estate to provide property services is heavily dependent on externalities. The real estate research literature explores how utilities, transportation, and the agglomeration of various economic activities bring value to real estate operations.

In the industrial company towns of an earlier era, the firm virtually owned all the real estate and the town, or at least it exerted substantial control over town facilities. With the diversity of employers over time came a diversity of real estate ownership, which along with private property by home owners enabled a greater democratic control. There are still some vestigial remnants of cities of industry where the nighttime population is a small fraction of the daytime population and the local governmental authority is generally controlled by the owners of the industrial real estate.

Substantial progress has been made in the cost sharing of externalities. In some areas, however, there is an outright subsidy to induce industrial location. This indicates structural inefficiency in the system, and a need for policy reform. Such progress would take cognizance of the economic principle of comparative advantage. Finding a way to have the politics give greater recognition to the economics would help in getting a more sustainable and effective distribution of activities.

City Growth and Structure-The location of economic activity is a topic whose ramifications transcend the obvious context of taxation and tax abatement. The large picture of economic location has a rich history in real estate and urban studies theory.

The issues may well be seen in a parallel discipline examining economic development in emerging countries. The history of thought in both contexts would be a fruitful area of future research. An additional twist could be in the discussion of the competitiveness in capital markets as related to space markets.

A key aspect of city growth and structure is the pattern of land use. The development of that thought considers the interaction among the various land uses and the spatial distribution of the activities. Theory has changed as scale increased, but the results on the ground still seem less than satisfactory (i.e., we have some problems in which the patterns of land use significantly detract from the quality of life). Perhaps a better understanding of the development of thought on these matters would not only assist in remediating our domestic urban problems, but also help emerging nations avoid some of the same issues as they grow.

Space Markets-At whatever spatial distribution of economic activity that we have, markets for various space uses form, shaped in part by the regulation of land use. These markets are generally local in geographic extent, and tied to the economic activity of the city through its growth and structural characteristics.

To the extent that the locale is competing to be a portal for export activity, the scale of analyses is broadened. The development of thought on emergence of footloose industry may be very helpful in assessing the potential for some lesser developed countries. The economics of comparative advantage need to be applied to economic globalization. Research would necessarily consider a myriad of disciplines, especially those that relate to local culture.

In any event, there is a need for balance among the land uses. So, the development of one kind of use may generate demand for other kinds of uses. Competitiveness in a market may be constrained by local regulation, but market forces are at work and sometimes breed corruption. Indeed, harnessing market forces may require institutional arrangement that deter corruption, e.g., requiring transparency and accountability.

The approaches for level playing fields are especially important for a transfer of technology in system management. The fairness and stability of the system also affect the requirements of capital markets.

Capital Markets-An effective capital market is essential to obtaining the resources for economic development and investment, including real estate. Our capital markets have undergone dramatic change in the post-World War II period. Some of these changes are attributable to the provision of tax advantages to real estate investors with the result of the distortion of a level playing field in the competition for capital.

Real estate has from time to time received excessive capital flows and at other times faced excessive shortages. Some of these shifts have been attributable to changes in tax laws. Some however are attributable to investor behavior, responding to what Keynes famously termed 'animal spirits.'4 Understanding that development of thought in neoclassical economics and in behavioral economics can contribute to efficiencies in both domestic and international markets.

SOME PRAGMATIC SUGGESTIONS FOR THE NEXT TRANSITION OF REAL ESTATE AS A FIELD OF STUDY

The evolution of real estate studies, as an applied intellectual discipline, does not take place in a vacuum. On the one hand, we have seen significant changes within the universities themselves, as sketched at the begin-

ning of this article. On the other hand, we may note the advances in real estate professional organizations, academic societies, and think tanks. I would like to propose some practical ways in which each might enhance the quality of real estate studies, suggesting that improvements in our field of knowledge can bring important benefits to the wider community.

For the Lead Professional Organization-The stature of real estate counseling as a professional endeavor is tied to the criteria for professions. There are no professions that exist without disciplines of academic stature. It is not just law and medicine. Accountancy, public administration, social work, engineering, and a whole host of professional endeavors are ranked, in part, by the extent of educational qualifications required for practice and stature of the discipline in academia.

The Counselors of Real Estate needs to deal with the body of knowledge of its discipline by adding to its development as well as its dissemination. This journal of the Counselors of Real Estate, Real Estate Issues, is a significant symbol of a professional organization. 5 Further, the Counselors are to be applauded for the support of education through grants from the James E. Gibbons Educational Development Trust Fund. I am not here necessarily advocating the formation of a research support unit within the Counselors. But I will point out a proposed initiative that has emerged at the Homer Hoyt Institute from groups with significant CRE representation. In addition to the eleven Counselors who are Weimer School Fellows (an academic group), there are twenty-one Counselors who have the honor of being Hoyt Fellows; the industry counterpart group to the Weimer Fellows of the Homer Hoyt Advanced Studies Institute. These Hoyt Fellows are among the supporters of the research programs of the Homer Hoyt Institute and they are the ones from which the idea of a "history of thought" project emerged.

The proposal envisions the real estate discipline producing a book tracing its intellectual evolution. Other professional disciplines has already successfully done so. The geographers have highlighted their key "thought leaders" in *Geographical Voices: Fourteen Autobiographical Essays*. Later, the sociologists published a similar volume titled *Our Studies, Ourselves: Sociologists' Lives and Work.* (Oxford University Press, 2003)

In time, such a book may emerge for real estate. At this point in time, the first step is a panel discussion at the ARES (American Real Estate Society) annual meetings for 2004 jointly sponsored by ARES, the Hoyt Fellows, and the Homer Hoyt Advanced Studies Institute. I would encourage the active involvement of the Counselors in developing such contributions to the corpus of real estate literature.

A second point can be added. Real estate counseling is increasingly an international endeavor. As we have all seen, international events not only affect the real estate in foreign countries, but they impact our domestic affairs. The obvious manifestation has been in the very active cross-border investment markets of the past quarter-century. But the 9/11 event has vividly shown how social, cultural and religious divergence can have direct effects on the economy and real estate.

The previous discussion on history of thought, in identifying some critical aspects of real estate, also identified some institutional relationships that have given us the marvelous opportunities that we have, not only as real estate counselors, but as Americans. We need to be more than grateful for our freedoms and institutions, even though we need to do a lot to improve them, and yes, protect them.

My thesis is that we can utilize our knowledge of real estate to deal with such long run issues, even terrorism. The Counselors can serve as a force in developing an even more powerful, efficient, and cohesive market system, serving society's widest constituencies.

We need to improve our system. A fundamental choice involves focusing narrowly on the real estate aspects, or

broadening perspective to include real estate with its systemic knowledge rooted in principles transferable to other problems or disciplines.6

For the Two Leading Academic Organizations-The two leading academic organizations are the American Real Estate Society (ARES) and the American Real Estate and Urban Economics Association (AREUEA). The history of thought project started with a discussion at the 2003 ARES meeting and quickly expanded to include a session on the topic at the 2004 convention. This session on the history of thought will explore ways to proceed. It is too soon to tell what will emerge, but here are some ideas.

First, by better understanding how we got to where we are we can better understand how to get where we want to go. The transition of thought is not a rapid process. The genetic portion of how we think takes a long time to evolve. The environmental influences operate faster, but are nonetheless very slow. Sometimes, what we think is so imbedded that it takes a new generation to accept the changes in knowledge.

The key is that science is an excellent vehicle for obtaining knowledge. There are lesser levels of mental operations, ranging from intuition and hunch, to prejudice and superstition. Science is superior because its expectations of outcomes are more reliable than those of the alternatives. The greater the rigor used in developing scientific knowledge, the greater the reliability. Transparency, methodological rules, verifiability of evidence, testing criteria for hypotheses, and the willingness to proceed with provisional results subject to validation: these are the hallmarks of the scientific model.

Much social science research has to deal with improving methodology that will enhance the quality of knowledge obtained through research efforts. The quality of the inferences from the research is thereby enhanced. Part of the process of improving methodology is to adapt methodology from other disciplines. And, part of the process is to develop methodology for the particular discipline at hand. The increase in rigor is an important part of academic effort.

Unfortunately, academia has become so enamored with rigor that the efforts to expand knowledge may be directed to obtaining rigorous results without regard to the usefulness of the results. Not all results need to be immediately useful. Understanding the basic relationships in a system is worthwhile even if no immediate applicability is known. But, when the quality of knowledge is good enough to make reasonable decisions it is a waste of talent to provide more evidence that what we believe to be so is so.

What makes the most sense from the standpoint of societal progress is to consider topics for research that can yield knowledge useful for improving the quality of decisions. The Counselors of Real Estate are well positioned to identify such topics. Shifting concerns associated with changing economic, political, and social environments are evident to real estate counselors as they look at the concerns and issues that give rise to the pattern of their assignments.

The Counselors of Real Estate may want to consider initiating or participating in a data gathering project that tracks the various types of assignments, perhaps in conjunction with academic specialists. Also worth considering is the formation of small groups of counselors interested in specific types of problems. Such groups could not only monitor trends, but could add to the body of knowledge, either with academia or on their own. The point is that we can make progress in improving the quality of decisions not only by providing counsel, but also by better understanding the issues. One route to better understanding the issues is to trace the development of thought and extend it by appropriate means. This is an activity that might best be approach by a cooperative effort between industry and academia. The Counselors of Real Estate may well be the best industry group to get involved in such an effort, though it need not be the sole participant. The academic organizations might take a role in this process. ARES already has with the panel discussion set for this year's annual convention. And, the

Homer Hoyt Institute has, especially through the Hoyt Fellows, in initiating the effort in documenting the history of thought in the real estate discipline.

Intellectual history was a popular approach for historians for awhile after World War II. Then came the sixties and cultural history became the fashion. Currently, environmental history is in fashion. If we leave the history of thought in real estate or any of a great many disciplines to the historians we will have a long wait to see results. What makes sense to me is to have those concerned with their discipline adopt some of the techniques of the historians and learn about how the transitions occurred.

Such a process is equally applicable to economics, finance, sociology, political science and numerous other disciplines that bear upon real estate decisions. Knowledge about the process of transition is applicable to a wide array of these disciplines. Real estate by taking the lead can set a fine example for other areas of study and would reciprocally benefit from their progress. It would also add status to real estate academics at the universities.

For the Premier Real Estate Think Tank-As one might guess, the premier real estate think tank referred to is the Hoyt Group which consists of the Homer Hoyt Advanced Studies Institute (including the Weimer School Fellows), its support organization known as the Homer Hoyt Institute (including the Hoyt Fellows), and its wholly owned subsidiary known as Hoyt Advisory Services. The Hoyt Group has a thirty-seven year history going back to its start as the research arm of the then Real Estate and Land Planning and Use Program at The American University.

The Homer Hoyt Institute underwent a transition from being a grant-receiving organization to becoming a grant-giving organization when Dr. Hoyt donated a mile of ocean front land to the Institute that had been named for him more than a decade earlier. Since then, other transitions have occurred, including the formation of the Weimer School and the Hoyt Fellows. The Hoyt Group has taken the lead in this history of thought project because it sees it as an important element in the development of real estate as a discipline. It sees transition as a way of life and would rather be taking positive action in influencing the character of change than simply reacting to it.

Others have similar concerns and we can expect some strategic alliances to emerge from this effort. With whom and when are uncertain. But, it is likely that some of the readership of this article will be among those involved in making the progress achievable by better understanding transition and participating in the evolution of real estate studies as a more scientifically-based intellectual discipline.

ENDNOTES

1. This call was discussed in an insert in a newsletter of the Homer Hoyt Advanced Studies Institute. The title was "Real Estate in 3 D." See the www.hoyt.org web site. Click on Advanced Studies Institute and the ASI Newsletter Inserts. In order to better understand the contributions of the study of real estate, one needs to look at the past for examples of transferring the principles from one discipline to another. The peculiar characteristics of real estate, the fixity of location and long economic life, bring to the fore principles that are widely applicable. Dealing with the issues related to forecasting outcomes of courses of action dependent on these conditions necessitates bringing to bear knowledge of other disciplines. Furthermore, the strategies used for dealing with real estate issues may be uses in a wide range of non-real estate issues.

Two examples of applying strategies used for real estate issues to other issues are (1) getting involved in local government and (2) amelioration of urban problems. As to the first, developers know that they need to assess community interests and develop relationships with governmental authorities. That is the same approach major industry uses in moving to a new locality; getting the license to do business starts with establishing relationships. As to the second, amelioration of urban problems, proffers to provide community facilities are built upon a strategy of assessing the needs of other parties. This approach is widely used in other types of negotiations, especially in mergers. These are relatively simple aspects of strategies usable in a multiplicity of disciplines. Some more complex strategies are discussed in my favorite book, Strategy in Poker, Business and War, by John McDonald (W. W. Norton & Company, Inc., New York, 1950) which builds upon the theory of games in economic behavior. For an indication of how the real estate decision process has potential applications even to the issue of terrorism, see the draft of the above-referenced *Improving Decisions* at http://www.spicequest.com/acse/index.htm, the site of the Academy of Senior Professionals at Eckerd

College.

2. Each of the principles alluded to engender extensions in understanding systems. The principle of balance in economics, for example, engenders the idea of increasing and decreasing returns. Built items may be over-engineered, creating excessive capacity at excessive cost. Design may be understated or excessive.

3. This is in his book, Consilience: The Unity of Knowledge (Vintage Books, New York,1999) and was preceded by an article in the Atlantic Monthly, "Back from Chaos." See at the website,
www.theatlantic.com/issues/98mar/eowilson.htm.

4. For an ongoing research program in the area of capital flows to real estate, see www.hoyt.org. Click on "Real Estate Capital Flows Research Program."

5. Additionally, the Counselors have in the past supported formal publications devoted to extending the body of knowledge through its monograph series and book programs. Reflection on "lessons learned" in these programs should prove useful as the organization moves into the future.

6. The first chapter of my monograph, The Challenge to Our Thought Leaders, published by the Homer Hoyt Institute, is available on the web at the hoyt.org website for those interested in getting a better understanding of the nature of our changing society, particularly with regard to real estate knowledge.

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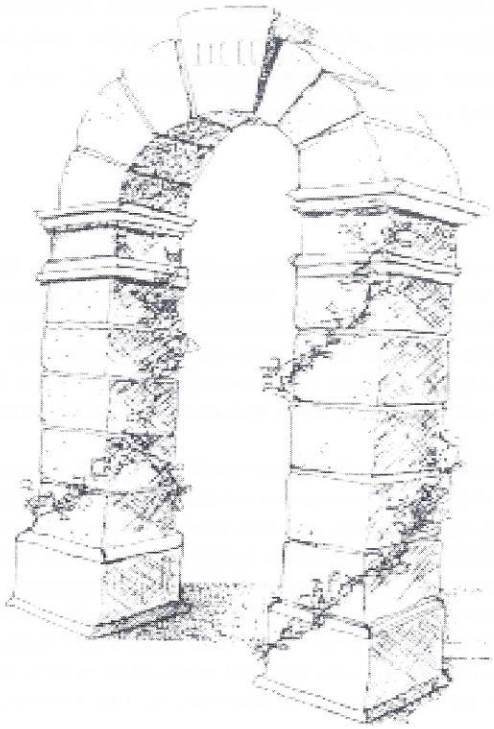
This article is related to a book in progress, Improving Decisions: Toward a New Age of Enlightenment. Information on that book is available from mseldin@tampabay.rr.com.