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# PROPERTY IN A GLOBAL RISK SOCIETY: TOWARDS MARKETING RESEARCH

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The paper represents an attempt to unite an academic and practitioner perspective on the future direction of applied property research. An earlier version of the paper was presented to the Society of Property Researchers (SPR) at the Royal Institute of Chartered Surveyors, September 1994.

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ABSTRACT

This paper suggests that the current uncertainty hovering over the property industry is not simply the result of an internal economic dynamic, dooming the industry to damaging booms and slumps. Rather, the novel sense of 'risk' colouring contemporary development activities is the consequence of wider cultural, technical and commercial shifts from which property development is not immune. The current supply-oriented interests of property research, predominantly concerned with the collection and analysis of statistical data, is unable to respond to these wider questions. Simply creating more 'data banks' will not help. The paper argues that in order to understand the shifting nature of demand, property research needs to compliment econometric modelling with a more occupier focused 'marketing research'. One that is sensitive to the dynamics of the 'risk society' we now inhabit.

Accordingly the paper provides a detailed account of two areas of market research, which should form part of a broader research agenda. First, structured demand analysis is shown to provide a framework for understanding the complex dynamics of the demand market. Secondly, property development strategies - centred on supplier/occupier relationships and property decision-making - are highlighted to demonstrate how the supply industry can improve its efficiency.

The paper suggests that the scale of the latest property crash offers an opportunity for the industry to improve the efficiency of supply by blending intimate knowledge of

changing market demand with established dynamics of provision. Such a research strategy may provide the key to a more stable, mutually profitable property business, appropriate to a rapidly changing world economy of risk.

**Contents**

## 1. The Culture of Property Markets

The property industry has recently experienced the worst slump in the post-war period. Debt outstanding to property companies peaked at £40bn and vacancy rates in the City of London reached 22%. The severity of this slump has stimulated widespread debate among property practitioners and observers over the future structure of the industry. Typically, discussion has revolved around the theme of whether the industry will return to "normality" once recovery gets underway, or whether a more fundamental restructuring is occurring: Are the current concerns of the industry merely a symptom of development depression, to be casually shrugged off when the dash for development once again gathers speed? Or has a deeper malaise and confusion settled over the property profession?

This paper argues that the uncertainty hovering over the property industry is not simply the result of an inherent economic dynamic, dooming the industry to the repetition and escalation of damaging booms and slumps. Rather, the property industry is learning to operate within an emerging international marketplace characterised by a set of global concerns which seem to have outstripped our capacity for technological or social/political control. Climatic change, stock market crashes, nuclear disasters, and the disintegration of the familiar 'old world order' are all re-shaping perceptions of the safety and security of the world in which we live and work. Within the social sciences the term 'risk society' has been used to characterise the mounting anxiety generated by these turbulent events. Acknowledging that we are living in new times, the 'risk society' suggests a crisis in our understanding of the property business. Previous forms of commercial knowledge and practice are proving unreliable in the face of new pressures and priorities on the property choices of occupiers. An innovative mode of understanding which engages with the impact of global socio-economic shifts on property markets seems urgently required.

The property industry's vulnerability to the uncertainties of the risk society is closely connected to the rise of the international financial market (see Coakley J 1994). With the emergence of an increasingly complex system of global capital, and with manufacturing industry increasingly re-organised on a world-wide scale, the spatial-temporal context of commercial activity is undergoing rapid transformations. Flexibility provides the defining logic of these economic shifts. International corporations are having to become increasingly sensitive to the fast changing demands of world markets in the accelerated, more competitive environment created by the internationalisation of trade and services. As the commercial strategies of businesses are re-ordered, so their occupational requirements will be similarly remodelled. This will result in a fast-changing demand profile for commercial property. Space requirements are likely to ebb and flow, with the desired floorspace, specification and location of new buildings altering dramatically.

Unfortunately, the supply-oriented interests of commercial property research, predominantly concerned with the collection and analysis of statistical data, mean that the property industry has found it difficult to approach these wider concerns and desires (McNamara,1987). Rooted in the immediate struggle of identifying current and potential investment opportunities and tracking market indices, the detection of change in demand is generally limited to factors such as sectoral variation in rental levels, vacancy rates, lease options and yields. Comparison of international locations is similarly limited to statistical indicators of vacancy rates, rental income, construction costs and opinion surveys about preferred locations. Correspondingly, concern with divergent legislative and fiscal frameworks is restricted to their impact on development and investment opportunities. This has meant that the operational context of occupiers and the resulting structure of demand has been neglected. Those attempts which have been made to understand the structure of demand have usually been related to specific development projects and are therefore confidential to those commissioning the studies. More generally, driven by the imperatives of investors and developers, rather than the needs of occupiers, property research has evolved as a science of investment, distanced from the dynamics of demand.

Understanding longer-term cultural and commercial property trends necessitates viewing a changing market dynamic as more than a mere mechanical lever acting on yields and rental levels. Property supply-demand dynamics do not comprise a set of linear relationships. Rather, the property market is a complex system in which the immediate characteristics of particular markets are contingent upon a broad range of exogenous social, economic, technological and political factors. Numerous interdependent factors are constantly adjusting themselves to changing market conditions. Commitment to property research which is rooted simply in a set of determining absolutes, the iron-law of economic indices, encourages an elevation of short-term market conditions to universalised, fixed co-ordinates. This conceals the dynamism and specificity of property markets.

In contrast, it is important to see constantly changing market conditions as a reflection of differing social and commercial forces acting on property. In this way, property markets are recognised as cultural entities, shaped as much by tradition, taste, technological and social innovation as by immediate levels of availability and demand. What is required is a new approach to property research which takes these broader dynamics of demand seriously. In introducing the concept of 'marketing research', this paper outlines such an approach.

The paper argues that the social context of property development is altering fundamentally and dramatically. By briefly introducing a sociological understanding of 'risk' we will argue that property development and investment processes need to be located within the context of wider social, economic, technical and organisational shifts taking place within the 'risk society'. While recognising that changing development conditions require a re-evaluation of research strategies, the paper questions the 'econometric shift' that property research has taken. It is argued that focusing merely on the accuracy and availability of econometric data will tell us little about the shifting priorities of occupiers. After locating the econometric dominance of property research in the social organisation of the property industry as an investment medium, we will introduce a new, demand-oriented "marketing-research" strategy. Vital to the success of the new 'flexible' property business, this new property research agenda provides both a framework for understanding the changing structure of market demand, and a strategy to tackle supply/demand dynamics in order to reduce the amplitude of limit the devastating slumps that have plagued recent property history.

## 2. Anthropological Shocks?

At first sight it might seem strange to open a paper on property research by reference to seemingly obscure sociological debates about new environmental risks. But if we are to understand the changing contexts of property development activity we must take a critical leap. We must recognise that property development does not take place in a social vacuum. The kinds of concerns and conflicts that shape wider society also fashion development processes. Fundamentally this paper is arguing for a wider recognition of the importance of the shifting contexts of demand in order to help reduce the 'over-production' of unwanted space. This necessitates highlighting the gaps in current attempts to 'map' development processes. For example, we might think about the way awareness of changing commercial risks is being compounded by perceptions of novel ecological risks. Mounting anxieties about the environmental quality of the workplace are emerging. This is leading to a call for more an environmentally sensitive built environment which contributes less to global pollution while providing a healthier work and living place. We contend that operating in new, riskier times calls for a radically different mode of understanding market dynamics than either local knowledge (cf agents) or scientific knowledge (cf econometric modelling) can provide alone. In this sense, marketing research represents a vital response to the novel risks facing contemporary office development

*Chernobyl - the crumbling of certainty*

The emergence of the risk society can be described in terms of a series of "anthropological shocks" that have shaken our confidence in 'traditional' modes of social understanding and action. For example, Ulrick Beck has argued that awareness of the new 'risk society' was dramatically signified by the nuclear accident at Chernobyl (Beck,1992a). A profound social drama, Chernobyl shattered our view of technological development. Seemingly for the first time, limits to the predictive powers of scientists were revealed, highlighting the deficiencies of scientific knowledge in managing technical risk. Suddenly unable to trust scientists, the traditional arbiters of safety, there was widespread public panic. In Germany, those who had previously, 'on principle', consumed eggs from 'well-treated' free-running chickens suddenly ate the products of previously taboo factory-farms and stood in-line for dried milk. Fresh vegetables were eschewed in favour of frozen food (Beck,1992a,p153). All in all, the safe, predictable world we thought we inhabited seemed to have vanished.

Events such as Chernobyl have turned previous assumptions of 'risk' upside-down. A new uncertainty around technical change has now developed. While the newly polluted post-Chernobyl world appears unchanged - a contaminated vegetable appears the same as an uncontaminated vegetable - we have become increasingly uneasy about the safety and security of the industrialised world we inhabit. The threat of Chernobyl-like disasters have brought a growing category of risks, for which individuals have no sensory warning system, dramatically to the public conscience.

The proliferation of new, 'environmental' concerns suggests a new breed of 'post-industrial' risk. Pre-industrial risks were 'natural', arising from childbirth, famines, epidemics and the like. In contrast, the risks generated by modern post-industrial societies can be accounted for socially. That is they tend to be the result of techno-economic progress: the causes of post industrial risks lie not with Gods or fate but with the actions of social agents. As such these risks can be calculated and insured against. If a fire breaks out, the fire brigade comes; if a traffic accident occurs, the insurance pays. In this way, industrial society has been capable of dealing with its own unforseeable future. As Beck puts it;

> *The calculus of risks, protection, by insurance, liability laws and the like promise the impossible: events that have not yet occurred become the object of current action - prevention (Beck,1992b).*

However, with the development of technologies which threaten ecological destruction this established risk logic has been subverted. For how do you insure against nuclear disaster? The "risk society has become an uninsured society, with protection paradoxically diminishing as the danger grows" (Beck,1992b, p101).

For Beck, events such as Chernobyl illustrate the difference between security and probable security, signalling to us all that the scientists who "pretended to know" about the risks of our increasingly technologised world, "don't know either" (Beck,1987). The scientist has always been the authority on the probable security of technological innovation and we have accordingly placed implicit trust in science to predict and protect us from disaster. But in trusting scientists we have merely confused probable with actual security. Chernobyl punctured our illusions about the technical controllability of technological development. Probable security has always meant just that. It is just that we have chosen to believe the reassurances of science. Until Chernobyl this seemed justified. Not any longer! The importance of the appearance of new, unforseeable risks, is that they reveal the poverty of our dependence upon science. In fact we have always mis-understood the predictive powers of science. For science has always lived and breathed uncertainty and doubt.

> *The creation of uncertainties - criticism, contradictory results, different ways of proceeding - is the path which the sciences have irreversibly trod with their differentiation, self-application, and the scientific investigation of the risks that their technical use creates (Beck,1987).*

Depending upon science for certainty and accuracy of prediction about the generation of social, technical or commercial risks has always been a somewhat mis-placed faith!

*Black Monday as 'anthropological shock'*

What has this possibly to do with property research? Well, the property industry is capable of suffering its own anthropological shocks, not of the order of Chernobyl perhaps, but with as resounding an impact on the sense of anxiety suffered by property professionals. Property slumps have consistently highlighted the gaps in our understanding of the social shaping of development processes. However, with the emergence of the 'new world' economic order the risk profile of the property industry has changed dramatically and irrevocably. The globalisation of finance and the acceleration of commercial activity has heightened the impact of economic 'anthropological shocks' on the property business;

> *The internationalisation of markets, electronic communications media and deregulation permit rapid movements of capital around the world and near simultaneous transmission of shocks* (Lizieri,1991).

As with Chernobyl, the impact of these new commercial risks escape our sensory perception. 'Non-experts' are as blind to the potential collapse of, say, the derivatives market, as they are to the depletion of the ozone layer. This is a critical shift for the analysis of dynamic property markets, as an event contemporaneous with Becks' example of Chernobyl: the now famous 'Black Monday' of 1987, demonstrated. While not singly responsible for the rapid slump in the property market, Black Monday nevertheless exposed the increased instability of property development, the greater degree of 'risk' that the internationalisation of the property business engenders. The profound impact of this "shock" on the property market was comparatively novel, transforming the previously taken for granted cycles of property development processes. In the aftermath of Black Monday, the confidence with which developers, investors and agents could 'instinctually recognise' the contours of each development phase seems to have vanished. In its place arose confusion about the likely direction of the market, the kind of property desired and required by future occupiers, and the nature of the relationship between the suppliers and occupiers of buildings.

Colin Lizieri has identified three major impacts of the changing economic, technical and political world order on property development; First, in the changing property needs of international occupiers; secondly in the downturn of investment interest in property due to its illiquidity, and thirdly in the internationalisation of the financial regime funding development (Lizieri,1991). This paper is predominantly concerned with the first of these impacts. The problem of shifting patterns of demand for the property industry is well recognised: the length of the development process make a seamless adjustment of supply and demand impossible. But as Lizieri points out, "this becomes critical if the amplitude of the business cycle driving demand is shortened and instability increased" (Lizieri, 1991, p207). Without greater predictive control over the production of new, global property risks, the boom-slump crises that plague the development process is likely to accelerate.

Property researchers have, of course, recognised this. The traditional 'instinctual' powers of the agent make less sense in the global risk society. The view from the wine bar now appears limited! With the City of London operating as a vital node on an international financial trade map it is unlikely that the local knowledge of the agent, so vital in the past, can cope with the implications of the ebb and flow of global commerce for the property market. In Ulrich Beck's terms, when recognition of risks goes beyond sensory perception, beyond the reach of local knowledge, then science must take over. "None are so blind as those who cannot see" (Beck,1987,p156).

This is particularly true of the property industry. In the past 'gut feel' and instinct have driven the market, herd-like, into great tides of hubris followed, inevitably, by a property crash. Commercial property research is attempting to respond to the new risk agenda in two ways; by compiling complex new data-banks through which ever more sophisticated models of past, present and future property markets can be constructed (McNamara,1994); and by developing simulated 'expert' systems in investment decision-making (Edgar,1994). This has led the property industry well beyond the predictive powers of traditional property knowledge. But if we again return to Ulrich Beck we might begin to question this 'economistic turn' within property research. Beck sees any attempt to massage and control the proliferation of novel global risks through scientific mapping as a sign of collective anxiety;

> *Scientific jargon points to a still fully uncomprehended 'emergency scientizsation' of everyday life. It symbolises at the same time a reduction of the social world to technique, the extent of which is only exceeded by the emptiness of meaning which thus makes its appearance. The technicians have not concerned themselves with the question of cultural and social consequences* (Beck, 1992, p158.)

For Beck, the desire to categorise and regulate risk through scientific control belongs to the past industrial logic of risk avoidance. If we respect the connection between the property industry and the wider world of the new risk society then we must question the efficacy of merely focusing on the production and re-cycling of property market statistics. Instead we must seek to locate some of the cultural shifts characterising changing perceptions of risk among the occupiers of buildings. To illustrate this point, consider the issue of air-conditioning in buildings and the environmental debate.

The traditional approach of property research to evaluating the importance of air-conditioning is likely to begin by assessing the contribution of such a specification to investment performance, rental levels and suchlike. The likely result of such an exercise is to confirm the paramount importance of fully air-conditioned buildings to good investment performance and so to the continued interest of investors in property as an investment medium. Any suggestion that occupiers might be shifting towards a desire for naturally ventilated or partially ventilated buildings would be discounted by reference to the statistical evidence of past performance. However, this approach would miss some of the less tangible effects of the new risk society shaping the future property choices of occupiers.

In particular we can note changing perceptions of the environmental image of office buildings. Initially designed as a defensive structure, keeping the elements at bay and allowing people to work in otherwise uninhabitable parts of the world, the introduction of air-conditioning systems transformed the office space. Buildings became 'weather machines', providing a stable, comfortable and safely predictable indoor climate that has become an international standard. Through the seventies and eighties, air-conditioned buildings became associated with the institutional specification, guaranteeing top rental levels and blue-chip tenants. In order to reproduce comparable rental levels, agents have tended to insist on the inclusion of air-conditioning in development schemes. The result has been the spread of fully specified air-conditioned office space beyond all reasonable need.

But in the era of the risk society the belief of occupiers in the importance of air-conditioning might be changing. User contentment with these indoor weather systems is being increasingly tempered by anxiety about their effects on our health and welfare and by knowledge of their contribution to global destruction. Belief in the separation of the indoor and outdoor environment has been shattered by the knowledge that buildings, like other 'machines', consume resources. Worries about resource shortages and about CO2 production have emphasised the essential connection of buildings with the 'outdoor' environment. At the same time there is increasing concern as to the health effects of sealing buildings and breathing only treated air during working hours. We now have a conception of 'sick buildings' capable of causing headaches and asthma and who knows what else. The best efforts of building scientists to re-assure occupiers of the health and safety of their 'working-homes' seems to be falling on deaf ears. These confusion's and uncertainties have immediate consequences for development practices. Driven by concerns over cost, indoor air-quality and $CO_2$ abatement targets, there appears to be a shift emerging towards naturally-ventilated spaces in place of the familiar, over-specified office buildings.

By avoiding this future oriented perspective and by concerning itself solely with investment risks and econometric modelling, property research is unlikely to address these (differently) 'risk sensitive' dynamics of demand. The drive towards a securitised property market, stimulating an associated 'data-push' in the form of expanding property data banks, is unlikely to have a broadening influence on future property research[1]. If this is to be the case it is hard to see how the kinds of market disfunctions that followed Black Monday are to be minimised. It is not that either that investment concerns are irrelevant, or that sophisticated econometric modelling is unimportant, but that new times require innovative practices.

To summarise, we are questioning the rooting of property research so firmly in an economistic tradition. Like economics, property research has pursued an inexorable path towards a mechanistic and deterministic interpretation of the world that we see around us (Waldrop,1992/Ormerod,1994). In particular, property research has adopted a reductionist approach to analysis that has made it ever more dependent upon fewer and fewer variables. *Reductio ad absurdum.* Property research has resultingly suffered from an underlying weakness: of a dependence upon a worryingly narrow breadth of variables, and the pursuit of an unobtainable "science"

[1] See the introductory history of the Society of Property Researchers: A Brief History of Property Research.

of property analysis. As with economics, this science is defined in terms of accuracy of prediction. For example, in our ability to deduce the balance of supply and demand in the market place through a 'variety' of economic indices. Analysis which strays from the "hard science" of econometric forecasting is subordinated, even ignored. This leads to the predominant view within property research that, seen as a financial instrument, real estate is somehow distanced from the dynamics of demand. The views of consumers of real estate are consistently subsumed by the overriding importance of spiralling investment returns.

The dominance of econometric forecasting has meant that property markets tend to be represented by a set of apparent 'truths' about how the market is driven, rather than in terms of how the market might, given particular circumstances operate. To borrow from Holland's work on non-linear systems (Waldrop (1992), p255), we must ask whether prediction should be the goal of research? At present property research appears to be locked into a type of pre-Copernican view that the supply/demand dynamics of the real estate market should be determined solely by the whims of the development and investment community. If we are to take seriously the balancing of supply and demand, should we be striving instead for more comprehension and explanation of the changing character of property markets? If so, property research must respond to the changing contours of the risk society that the development industry now inhabits and take up the challenge of demand sensitive, marketing research.

## 3. Property Research : the Roots of the Problem

If we are to move towards marketing research we must first understand the social organisation of development practice to date. Beginning with the rebuilding programme of the early 1950s, and reinforced by the institution-backed development activity of the early 1960s, the post-war provision of commercial office property has been predominantly speculative. The long lead times involved in development have encouraged the presumption that property must be provided in this way in order to match the short-term planning horizons of the occupier market.

Two outcomes have resulted directly from this shift to an almost wholly supply-led market. First, as speculative development grew to dominate the market, the relationship between the operational context of occupiers and the resulting structure of demand for space was increasingly neglected (Harris, 1989). Secondly, there has been a general mismatch between the design needs of office occupiers and the space supplied by the development industry. This has resulted in the provision of costly, inefficient and inflexible space (Duffy et al, 1993). These underlying weaknesses has left the property business particularly exposed to the proliferation of risk we are now witnessing.

Approaches to overcoming the consequent mismatch in supply and demand have been suggested. As early as 1956, in his landmark work on Philadelphia, Rannells provided an activity-based approach which emphasised the interaction between built space and types of occupier:

> *It is necessary to take in somewhat more than relates directly to land use, since changes in demand for space or location may come about as*

> *secondary results of business decisions or consumer preferences which, in themselves, have no concern with questions of land use.* (op cit, pp5-6)

Similarly, Duffy and Henney (1989) emphasised the need to understand the relationship between business and buildings:

> *If the City is to function efficiently [the] relationship between supply and demand ... must be maintained in some kind of rough balance so that the amount, the type, and the quality of space continue to be appropriate as different kinds of business evolve through time.* (p29)

The development industry's approach to applied property research has contributed to the general mismatch between supply and demand. It has been suggested that too much research is "anecdotal commentary" rather than "structural analysis", and that there "is a very real need to co-ordinate and focus much of the information into a form relevant to our industry" (Mobbs, 1993). More recently, the Governor of the Bank of England (1993) was "surprised at the relative lack of consistent and comprehensive data on the property markets and the apparent lack ... of research on the functioning of those markets". In order to understand why research suffers in this way, it is necessary to look back at the history of property research in Britain.

Property research flourished during the market boom of the 1980s, with the major surveying firms in particular expanding rapidly. This locus of growth was no historical accident and goes a long way to explaining the profile of research today. The expansion of research began following a report by the Property Advisory Group in 1980. The report argued that the development industry consisted of:

> *Numerous developers and investors in competition with each other, but with no common picture of the size of the market for new development or of all the schemes with planning permission or under development.* (para. 3.2)

Significantly, the report recommended that "the application of research effort to that information must be undertaken by the development industry itself" (op cit, para. 4.11). The resultant concentration of activity in surveying firms led research to evolve in a specific way. In striving to meet the needs of the agency client base, it became driven by the need to provide statistical evidence of market trends, often published in the form of market brochures. In addition, much of the work being undertaken was confidential to the commissioning clients, thereby failing to overcome PAG's concern about the lack of a "common picture".

As research grew rapidly neither researchers nor their clients fully digested the implications of the work. No-one sought to broadly define the role of property research within the development industry. One reason for the failure of the industry to integrate research into its mainstream activities is the fact that property research has been simply that - *property* research. As noted earlier, such research has failed to address fully the dynamics of the market and has instead perpetuated the supply-led analysis. Property research has focused on indicators of how the industry itself has performed, reflecting (at a time when market conditions allowed) a faith in the motives of investment institutions akin to that of classical economics in Adam Smith's "Invisible Hand". However, it is in large part the dominance of the supply-led analysis, in driving property research, that has led to the vulnerability of the property industry to anthropological shocks such as Black Monday.

The supply-led interpretation of the development process has been encouraged by the view that "an office is an office", thus:

*the suppliers of office space in the City have generally been confident ... that, provided a building were reasonably located, space of any quality would eventually let. So they have not taken much interest in how occupiers use and run buildings.* (Duffy and Henney, 1989, p29)

Such a market structure has resulted in an analytical framework which reinforces market imperfections. Thus:

*Many commentators on the London office market still put their analyses firmly in the context of historic supply and demand cycles. Thus, a return to normality is simply a matter of time, before the merry-go-round of rental growth and a construction boom starts again.* (APR, 1991, p21)

This analysis contributes to the severity of periodic overbuilding. It fails, for example, to address the structure of demand in terms of spatial or temporal segmentation in markets and their linkage to operational segmentation in demand. This failure has led to the supply of buildings which are inappropriate to users' needs.

The view that an office is an office is itself nurtured by the investment criteria of institutions which dictate that "exchange value" is enhanced by appealing to the widest possible occupier base. The strong influence of the funding institutions in this process is demonstrated by Bateman (1985) who found that they have had a profound effect on the supply of real estate in the post-war period. Thus, "Until the post-1945 period ... their interest was usually *via* mortgage finance rather than direct ownership of land" (op cit, p14). Since then, however, *"a very different pattern of interests in property has emerged in which the interests of the financial institutions has become central to the property market".* (ibid, p15)

Similarly, McIntosh and Sykes (1985) conclude that:

*Many buildings now have to be located, designed and constructed in such a way as to be acceptable to these financial "leviathans".* (pp5-6)

Such a context militates against innovation in research and the broader application of techniques to examine demand dynamics. Since the introduction of the 25 year, full repairing lease in the early 1960's, buildings have been designed and built according to the guidelines laid down in the institutional lease. This served the dual purpose of ensuring that all buildings were built to a standard (for durability during the building's planned lifetime) that created maximum market value. However, the effect of such rigid 'standards' has been to set specification levels unreasonably high and to build-in obsolescence (Guy,1994).

It has recently been suggested that the supplier-led and dominated era of the property industry is over (Marsh, 1992, p5). As a consequence, the future value of buildings will be determined more by their "use value" than by their exchange value. This means that it will be finally possible to provide space which is flexible in use, that has wide appeal, but which does not necessarily comply with institutional specifications. Custom-made buildings offer one such option but they are not the only alternative to the institutional specification, nor do they imply specificity of design for a single occupier. It is possible to more closely match supply to demand. But such an objective would require constant research both to monitor occupiers requirements and to carefully target new buildings at specific market sectors. In other words, we must become more responsive to market dynamics!

While the argument for marketing research remains a contentious issue, it is nevertheless clear that speculative development activity has distanced suppliers from the needs of consumers. The industry now has the opportunity to change this situation through research directed at more clearly understanding the product, its users and the means of matching supply and demand and thereby reducing the severity of future slumps.

## 4. Towards Marketing Research

Given the problems of property research outlined above, it is clear that there is an opportunity to examine the accepted wisdom of research, and to prescribe a new agenda in the context of the risk society discussed at the outset of this paper. However, to focus on a new agenda will require that some underpinning views and approaches to property research be re-evaluated. Novel frameworks and contexts will be required. These will not be found in more observation and data collection. Novel modes of thought and action are demanded. Part of this new agenda lies in a greater acceptance of marketing research.

A brief definition of marketing research provided by the British Institute of Management (1962) provides an immediate contrast with the traditional approach to property research described above:

> *The systematic gathering, recording and analysing of all facts about problems relating to the transfer and sales of goods and services from producer to consumer*. (op cit)

Marketing research is thus distinct from traditional approaches because it seeks to translate the operational characteristics of the occupational market into a structured appraisal of requirements for space, and to relate these to the opportunities to supply an appropriate product, namely, buildings. Whilst this might "seem so obvious that it is hardly worth stating" (Cadman and Austin-Crowe, 1983, p30), such an approach is rare. Until comparatively recently, marketing research in the development process has been, at best, *ad hoc*, and more often lacking altogether.

Cadman and Austin-Crowe argue that while "No development should be undertaken without proper analysis of the market for which the buildings are constructed";

> *..too many projects have been undertaken entirely on "hunches" ... All too often development projects have been undertaken on the basis of superficial knowledge of the market. (ibid)*

Within the context of an expanding role for information, there has been a general failure to undertake extensive research on the structure of demand for property and to outline appropriate analytical methods. As we have seen, the focus of research has been on the supply of property and its rate of absorption by the occupier market. Consequently, the information generally presented in market commentaries is retrospective. Such information will not aid our understanding of the dynamics of change in the consumer base.

So how can marketing research slot into our traditional view of property research? The remainder of this paper demonstrates how it could be more fully adopted by the property industry. Two specific strands of marketing research are highlighted. The first is structured demand analysis, which provides a framework for analysing the profile of market demand. The second shows how marketing research can assist in the business strategies of property development companies, and is illustrated by two sub-themes. The first of these is the way in which marketing research can contribute to supplier-occupier relationships; and the second looks at how marketing research can be used to inform the development industry about property decision-making within its demand market.

## 5. Structured Demand Analysis

Fundamentally, demand for property is a product of wider social, economic, technical and organisational change. If occupiers were not subject to these complex processes of change within their business environments, demand for new buildings would clearly not occur! But while business cycles are certainly an integral element of demand, other factors generate demand independently. Property markets are highly segmented. Office occupiers are not homogeneous; different business sectors are undergoing distinctive processes of change, which have spatial as well as temporal variation. Demand does not advance and recede *en masse*; it is a continuous process of adjustment in which individual activities are subject to numerous pressures for change.

The relationship between socio-economic change and shifting profile of demand for office space has rarely been examined. The failure of suppliers to recognise the relationship between the operational context of companies and the structure of demand for office space has exacerbated the mismatch between available office space and the needs of the occupier market. While some studies have described the main characteristics of producer services and their maturing role in the national economy (for example Daniels, 1985; Daniels et al, 1986 and Marshall, 1988), such understanding has itself not been translated into a coherent approach to the supply of office space. Similarly, Daniels (1975) describes the genesis of the office building, although not the market in which it is traded; Bateman (1985) describes the supply process in terms of finance without reference to demand; and Alexander (1979) and Manners and Morris (1986) describe the influence of public policy without a detailed examination of its influence on, or relevance to, demand.

Demand analysis seeks to provide a framework for translating the characteristics of the occupier market into an understanding of the structure and dynamics of demand.

> *The analysis of demand as a function of change in occupier characteristics requires the formalisation of the various causes of demand. These causes provide valuable clues to the likely trends in premises requirements and, therefore, suggest a structure for analysis.* (Harris, 1989, p127)

Three different forms of change may be examined in order to understand their implications for the property market, namely: organic, structural and technological change. Each of these forms of change acts upon occupiers either singly or in combination in both incremental and catastrophic ways to bring about changes in demand. Added to a spatial and temporal analysis, such an approach can yield important indicators on the future causes of change in demand for space, and enable a matching process to take place between the buildings available and the profile of demand. The "matching" process between supply and demand is a critical element of marketing research.

Mismatch between stock and occupiers occurs when the space occupied by a company no longer meets the occupational criteria that it sets for itself. The importance of this mismatch is an operational one. If a company's stock of space fails to meet its own occupational criteria, then inefficiencies are likely to occur in the company's business, which will impede profitability and growth. A "profile of mismatch" can thus be drawn up for companies or sectors which describes this mismatch both quantitatively and qualitatively. In this way, demand analysis plays a key role in the broader framework of marketing research.

## 6. Property Development Strategies

The profile of the development industry in the late-1990s will be significantly different to that which characterised the 1980s. Most significantly, in the short term, will be the diminished role of speculative development:

> *a new round of speculative, loan financed development will not occur within the next five years and should be regarded as extremely unlikely before the turn of the century.* (IPD/APR, 1992, p53)

As finance for speculative activity remains generally in short supply, there will emerge an increasingly segmented market in which larger buildings for corporate occupiers are provided more frequently on a bespoke basis; whilst smaller units and multi-occupied buildings will more often be built speculatively. Furthermore, developers might increasingly build for large investors (such as insurance companies and pension funds) and for the larger property companies whose core business as landlords became diluted by speculative activity during the 1980s. In other words, the market will begin to resemble its pre-institutional profile.

These trends in development activity infer the need for a far more sophisticated understanding of demand by developers than has historically been the case. There is clearly a need for research to inform the development strategies of developers. Marketing research should provide the framework within which this could take place.

As with other industrial sectors, only if the products of the development industry are produced to meet the decision-making patterns of its customers will a more stable market emerge. Not that the property industry can ever be completely immune from macro-economic instability. But those development companies which adopt a comprehensive, integrated and flexible approach to marketing research will clearly gain an advantage. In their study of the construction industry, the Centre for Strategic Studies in Construction (1989) suggested that the successful companies will be those which:

*(a) successfully adopt a company-wide "market orientation";*

*(b) acquire practical market knowledge and understanding based on research and analysis;*

*(c) engage in business and marketing planning and identify their own and their competitor's SWOTs;*

*(d) successfully identify appropriate niche markets;*

*(e) identify "target client groups" and become familiar with the culture, value systems and needs of them;*

*(f) understand the "buying mechanism" of the target client groups with whom they wish to do business, and*

*(g) have a strong, clear, appropriate company brand, and have successfully promoted it to identified target client groups.*

The importance of marketing research to attaining these objectives is obvious. The implications for researchers are profound. It is imperative that the research community begins to recognise its role in advising developers on their strategies for maximising development opportunities through clearer market knowledge. This will take researchers beyond statistical analysis, into unfamiliar territory.

## 7. Supplier-Occupier Relationships

The supply-led interpretation of the development process has led to an analytical framework which exacerbates the imperfections in the market:

> *the notion of speculative property development by definition suggests a system where building activity is determined primarily by the supplier of property rather than by the eventual user.* (Bateman, 1985 p3)

Consequently, the producer-procurer relationship has been seen as a physical process in which a product - built space - is placed onto the open market, through a predominantly speculative process, in which "prospective occupiers do not commission new premises; they expect to rent or buy the space they need from a pool of new buildings put up by developers" (Cadman and Catalano, 1983 p1). The market is thus seen to be producer-led, where the supply and take-up of space is regulated by the activities of the supply industry.

As well as serving the supply industry directly, marketing research also has a role in supplier-occupier relationships, particularly in terms of translating occupational needs into more sophisticated approaches to procurement. Understanding the decision-making processes within occupier companies, as well as their requirements for built space, are prerequisites for matching supply to demand.

The requirements of institutions to provide "vanilla" buildings, which are perceived to maximise lettability and exchange value, must not be allowed to restrict the provision of buildings which provide for the specific needs of occupiers whilst at the same time retaining commercial value.

The future structure of the property industry is likely to be determined very largely by the nature of the relationship between the suppliers and procurers of built space. The relationships between manufacturers and procurers of aircraft, ships and oil rigs, for example, exhibit a more complex set of relationships in which supplier and procurer are behaviourally much closer than has traditionally been the case with property. Collaboration will generally replace almost instinctive confrontation and litigation. Evidence from the USA suggests that such a process is already underway there:

> *As real estate firms shift from building individual projects to building bankable franchises, many are focusing on improving the quality of the product/service package they sell to their tenant. Better service, they hope, will induce customer loyalty, reduce turnover costs, and help the company build a solid franchise.* (Segal, 1992, pp39-40)

Cost reduction, efficiency and value-for-money are three of the most pervasive trends as occupier organisations seek to slim down and improve performance. Property development in the 1990s needs to ensure that these emerging corporate issues are addressed in the procurement process. This need is made particularly difficult because of the absence of adequate methodologies for measuring efficiency and productivity in the office environment.

It will become increasingly important for the suppliers of real estate to have a far more sophisticated understanding of occupiers' accommodation needs. There will be a need for education on both sides, which itself implies closer dialogue than has been the case hitherto. The role of genuine marketing research rather than the gathering of superficial data will help to address this need. The educational role will involve suppliers in a much closer understanding of the occupiers' business in order that buildings can be provided which meet increasingly demanding operational requirements.

**8. Property Decision-making**

The 1990s have witnessed a growing emphasis in occupier organisations on the need to reduce costs, improve efficiency and increase productivity in their business activities (see: Apgar, 1993; Becker et al, 1991 and Lloyd, 1990). Thus, decision-making and planning are focusing on issues which will help to equip companies with the ability to adapt and succeed in increasingly competitive markets:

> *the primary organisational need is for greater adaptability, to anticipate differential rates of change, to accommodate expansion and contraction and to enable rapid response to business opportunities.* (Alexander K, 1992, p6)

Whilst these trends are in part symptomatic of the broader economic context, there is a fundamental desire to address the role that property plays in overall company performance (DTC, 1992; Avis et al, 1989). Thus the change in corporate values is leading to a much closer relationship between business strategy and premises strategy. This is reflected in an increasing concern to maximise the utility of property. Thus, corporate real estate executives

> *are under tremendous pressure to manage their real estate better and to make the value of their contributions clear to higher levels of corporate management.* (Joroff et al, 1993)

The implication of these trends is that measures of how buildings "perform" will become increasingly important. One area in which new performance measures will be devised is in productivity. Increased productivity in the "service" sector has lagged that in manufacturing. However, Drucker (1991) argues that productivity will increasingly influence the competitive performance of companies and, therefore, that "..the single greatest challenge facing management ... is to raise the productivity of knowledge and service workers" (p67).

Consequently, greater demands will be placed upon suppliers to provide buildings which reflect increasingly important business objectives in areas such as cost (capital and life-cycle), efficiency and value for money. This requires uncompromising marketing research of the changing business environment and its implications for real estate. Studies of users and their space requirements provide an understanding of business which can be translated into the design of new workspace. As the concerns and aspirations of business change, the providers of space must respond with appropriate buildings.

It is therefore incumbent upon the research community to develop techniques and approaches to *marketing research* which will provide a clearer understanding of the dynamics of demand. The long-held beliefs that the uniqueness of the property market demands a different approach, and that marketing research is something that is associated only with fast moving consumer goods, need to be challenged.

## 6. Conclusion

It is likely that, by the end of the decade, the property development industry will have a different profile to that which has prevailed during much of the post-war era. With property inhabiting an inherently 'riskier' society, margins will be narrower, new capital will be in short supply; speculative development will be diminished; new players will emerge, and new 'products' will be required. Occupiers will continue to change the terms and reference of corporate management philosophy, so altering the nature of demand. In the context of such change and uncertainty, the office development industry is faced with the dilemma of how to respond. This dilemma is exacerbated by the large body of opinion, built up since the property crash of the early-1970s, which suggests that the property market's intrinsic instability allows no escape from periodic spells of overbuilding. This experience is underpinned by a substantive, retrospective, statistical base, also implying that the property market is *inherently* unbalanced. Thus the property industry continues to be profoundly influenced by a circuitous argument that has as its foundation little more than a short-term historical experience. Because the analytical framework is based upon visible patterns of supply, and an assumption that take-up reflects actual levels of demand, the requirements of the occupier market have been neglected.

The impact of this blindness to the changing contexts of demand has been accentuated by the absence of any strategic planning. With the demise of the GLC and the nascent London Office Development Information system (LODIS), no overall strategic picture of the volume of new space being built in London has been available. The impact of this lack of co-ordination became clear with the emergence of competition between Canary Wharf and the City of London during the 1980's boom. While each project might have had individual credit, the total picture was somewhat different. There is, therefore, a much greater role for marketing research, at the strategic level, than has hitherto been the case. This applies equally to an understanding of the qualitative aspects of the development pipeline as well as its quantum.

We have raised fundamental questions about the validity of purely econometric property market analysis. We contend that the instability, said to be inherent to the property industry, has its main causes beyond the immediate dynamics of the industry. Ranging from the 'anthropological shocks' of global economic crashes to the gradual re-organisation of global markets, the instability of the property business needs to be seen in the context of wider social, technological, economic change. If the industry is ever to achieve more comprehension and explanation of its market, then property research must proceed beyond its traditional boundaries to address these broader issues.

For whilst the property industry is subject to the same underlying causes of business cycles as any other sector of the economy, it is the scale of the recent dysfunction's that has given cause for great concern about the efficiency of the property supply industry. It is therefore timely to consider methods for understanding demand in the context of an emergent global risk society. In this way we may better manage the scale and form of development. There is widespread awareness of the short-comings of traditional methodological approaches to property analysis. Broader questions are being asked. Even during times of oversupply, some buildings will let more readily than others: during the recession the City maintained its historic average take-up levels. Occupiers have become more discriminating in their choice of space, and this is gradually leading to a segmentation of supply into Grade A, B and C space. The relative shortage of Grade A buildings in the City compared to the overall supply picture testifies to this trend. If the role of property research is to 'break the mould' of orthodox real estate practices in order to avoid the technical excesses and commercial slumps of the recent past, then marketing research is an essential strategy.

Two areas of market research, in particular, have been highlighted here which should form part of a broader research agenda. First, structured demand analysis provides a framework for understanding the complex dynamics of the demand market. Secondly, property development strategies - centred on supplier/occupier relationships and property decision-making - have been highlighted to demonstrate how the supply industry can improve its efficiency. Clearly we need to understand buildings not only in terms of the durability of their shells, but also in terms of the flexibility in use. For while the shell of a building may be expected to last 50 years or more, its interior might be re configured 5 or more times during that period. This implies great internal adaptability to shifts in technology, types of occupier, building management systems and so on. It is important to emphasise that marketing research has a role on both sides of the supply-demand relationship.

Whatever the precise response of the industry to problems of supply and demand, its prospects would be greatly enhanced if it responded to continuous, segmented change, rather than in great tides of development. The property business needs to determine a more managed development pattern in which the profile of new building more closely matches the pattern of demand. The scale of the latest property crash offers an opportunity for the industry to establish marketing research to order to improve the efficiency of supply. By blending intimate knowledge of changing market demand with established dynamics of supply the property profession could respond effectively to the advent of the global risk society. Such a research strategy may provide the key to a more stable, mutually profitable property business, appropriate to a rapidly changing world economy of risk.

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