



# NEW WORLD ORDER IN REAL ESTATE

The impact of technology, the professions that need to evolve, and the role of the state in creating «smart» cities.

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The Scotsman Adam Smith (1723-1790) and the German Karl Marx (1818-1883) are two of the most important personalities who marked the science of political economy with their theories on the economy. While Marx founded communism ('Capital'), Smith is considered to be the father of capitalism ('The Wealth of Nations'). Although their ideas were diametrically opposed, they agree in that they define land monopoly as absolute monopoly. This is because the



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primary sector of the economy, namely agriculture, farming, etc., is based on land ownership. And thus whoever owns the land, has control over the primary sector of the economy. The secondary sector of the economy concerns manufacturing. Again, facilities, industries, craft industries, etc are required. Real estate is an essential component in this case as well. The tertiary sector of the economy, the service sector, (offices, schools, sports facilities, trade, etc.) also requires real estate. Thus real estate becomes of utmost importance for the economy in the tertiary sector too.

## THE IMPACT OF THE REAL ESTATE

Therefore, real estate is traditionally the main pillar of any economy. But does it still have the same effect as it did three centuries ago? Is it as important as it was thirty years ago? What has changed? What changed, and now has a more important role in the economy than real estate, is technology. Nowadays, smaller plots of land can yield much larger crops, robots, and automation in the secondary sector produce quality products in much less space, and the internet has completely changed the tertiary sector. A mobile application of the Airbnb-kind can have a higher market value than a company that owns hundreds of hotels in the most expensive locations worldwide. What space requirements does Airbnb have? A few square meters for the server and perhaps a few hundred square meters for the developers and the rest of the executives. On the other hand, despite the huge value of land, facilities, staff, and technical know-how, the hotel-owning company lags far behind in value. A similar comparison can be made with Uber and American Airlines for example. In no case do I downplay the role of real estate and its impact on a country's economy. I am merely pointing out that it is no longer as important as it used to be and especially before the spread and use of the internet.



## THE CHALLENGES FACING THE REAL ESTATE SECTOR

What happens with real estate-related professions? What challenges do they face? I will try to analyse the challenges for surveyors, real estate agents, and real estate developers below.

### PROPERTY VALUERS:

I will start with the profession that I have been serving for more than fifteen years, property surveyors. This is one of the technical professions for which the rights are determined by the Cyprus Scientific Technical Chamber (ETEK), while an additional qualification which is also considered as proof of professional competence and experience, is the accreditation by RICS. The basic methods



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of valuation have been roughly the same for almost a century since the profession firstly emerged. That is, the surveyor determines the value by comparing and analysing similar properties, either by capitalising the income which the property generates with the appropriate rate or by separating the property into its two main components - land and improvements. In each case, the surveyor processes data, analyses the market, and, based on their judgment and experience, determines the value of the property. In the last decade, however, automated valuation models (AVMs) are becoming increasingly popular. Given the increase in the power of computer processors to solve complex equations and the selection of appropriate algorithms, depending on the database, from the fields of machine learning and artificial intelligence, automated models





can predict the value with relatively satisfactory accuracy. The advantages of such models are lower cost, consistency of results, and speed. However, their main disadvantages are the availability of data (this is a big problem in Cyprus at the moment) and most importantly, no natural or legal person can be held liable. The legal framework for their introduction into valuation has been in place for some years, but it is still under development. At this point, and given the proliferation of automated valuation models, one may wonder if the profession will cease to exist in the long run. My belief is that, on the contrary, the profession will continue to exist and in fact, there will be greater demand. Professionals will just have to adapt to the new data that technology is forming.

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CHANGES IN TRADITIONAL PROFESSIONS

REAL ESTATE AGENTS:

Next, I will refer to real estate agents. The profession in Cyprus is regulated by the Council for Registration of Real Estate Agents. The agents need to hold a relevant degree, demonstrate experience in the field, and succeed in written examinations that normally take place annually. Traditionally, the agent is a consultant to either the buyer or the seller and helps to complete the agreement between the two parties, ensuring them both, as well as the legitimacy of the transaction between them. Apart from that, their job is to basically promote the property, and carry out visits to the properties they are

responsible for. This last part however has changed and the time usually dedicated to it decreases on a daily basis. The interested buyer can now easily locate the properties on the agent’s website since all the information is posted online. The use of new tools with elements from augmented or virtual reality will further reduce the time required to exercise the specific profession. In Cyprus, we are currently seeing some 3D virtual tours on some websites and portals, but it is only a matter of time before other available technologies are integrated. The competition between real estate agents, as well as funds selling real estate, has changed radically. It is now a relentless struggle for better launching in search engines and a website design that is as user-friendly as possible. And it helps of course if there is an equivalent mobile application. The changes in the real estate profession are therefore huge. Apart from the formal qualifications, the market conditions in Cyprus require the modern agent to be an excellent social media connoisseur and know the opportunities they offer, to be fluent in at least one additional language to their native, and to have excellent skills. And in this case, as in the surveyors, the profession not only it will not weaken, but it will be reinforced and become even more indispensable, since choosing the right agent can save us a lot of trouble. The aim is for the industry to evolve and adapt as quickly as possible to current trends.

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DEVELOPERS: AN IMPORTANT INDUSTRY FOR SUSTAINABLE DEVELOPMENT

Real estate developers are perhaps the most important sector for sustainable development along with the state. New buildings need to record and exploit the huge amount of data generated. The real estate market can now take advantage of the huge amount of information generated by buildings. The collection and processing of this data can provide a significant competitive advantage if used effectively for the development of services, data, and new business models that focus on the specific needs of users, owners, or the property itself. To date, most real estate developers have relied primarily on their instincts and secondarily on expert consultants. Now, through proptech companies, they can minimise their risk and adapt their buildings to the requirements of buyers, ensuring the fastest possible absorption of their work by the market. The market does not need another block of flats or a residential complex. The objective is not to simply solve the housing problem. The space in which we live and raise our children should be environmentally friendly, economical with elements of bioclimatic design, have a flexible design with provisions to meet future needs, and be affordable.

NEEDS THAT MAY ARISE

To conclude, I will address the urgent need for technological reform to be supported by the state, the local government, and the bodies involved. Unfortunately in Cyprus, there has never been an adjustment to the phenomenon of urbanization and the concentration of population in large urban centres. The floor area ratio is among the lowest in Europe, with the result of cities spreading, destroying the natural landscape, and increasing the cost of infrastructure. In their current form, our cities are problematic, as the requirement for daily car use, the lack of parking lots and the very old and non-environmentally friendly buildings seem to be at the moment, a restraint and an insurmountable obstacle to creating smart cities. But what action must be taken? For some years now, there have been some incentives with an increase in floor area ratio for the construction of parking lots and for elements related to energy efficiency and more. Not only must these incentives be carried forward but also reinforced and not performed erratically but on a more holistic basis, with a coordinated development strategy between the state and the bodies involved.