

CHALMERS



Real estate development

Organisational structure and conceptualisation of ideas

*Master of Science Thesis in the Master's Programme Design and Construction
Project Management*

ANDREAS LUNDGREN & VIKTOR THUN

Department of Civil and Environmental Engineering
Division of Construction Management
CHALMERS UNIVERSITY OF TECHNOLOGY
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Department of Civil and Environmental Engineering

Division of Construction Management

Chalmers University of Technology

SE-412 96 Göteborg

Sweden

Telephone: + 46 (0)31-772 1000

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ABSTRACT

The real estate market is becoming increasingly competitive and real estate companies have realised that in order to keep up with competition new business strategies have to be implemented. Business strategies of real estate companies have traditionally been narrowed down to acquiring, refining and reforming existing real estate. However, real estate companies have started developing their own projects when undertaking new construction projects from an initial idea. Developing real estate from an initial idea is complex as it includes approaching designers and contractors in their established arenas. The most critical factor when performing real estate development is the ability of finding ideas for new profitable projects. There are several established ways of coming up with ideas but not one generally adopted. Ideas can emerge quite randomly and it is therefore necessary to provide an organisation able to seize opportunities whenever they arise. To investigate how real estate companies and developers are initiating ideas and how they are structuring their work with real estate development a series of interviews were conducted. Ideas were found to arise quite sporadically and it is essential having an organisation with the ability of operating and adapting flexibly to contextual circumstances. Most actors performing real estate development are therefore utilising a flat structuring of their organisations. Further, what type of projects real estate development companies are willing to take is very much dependent on how much risk a company is willing to put into a project. Risk levels are dependent upon e.g. geographical location, local knowledge, previous experience, unknown aspects etc. The project yield is highly related to risk levels and a company needs to decide how much risk they are willing to take. As an increasing amount of real estate companies are undertaking real estate development it becomes harder to find appropriate sized projects with sufficient yields. As a result it forces real estate companies to work in untraditional ways. A conclusion is that in order to be successful on a highly competitive market, real estate companies have to join consortiums to be able to split risks and commence larger projects. Consortiums provide experience and knowledge exchange when finding lucrative ways of providing high quality products to end customers with enlarged profitability.

Key words: real estate development, project development, business development, idea creation, conceptualisation of ideas, property development, organisational development, real estate investment

Fastighetsutveckling
Organisationsstruktur och idéconceptualisering
Examensarbete inom Design and Construction Project Management
ANDREAS LUNDGREN OCH VIKTOR THUN
Institutionen för bygg- och miljöteknik
Avdelningen för Construction Management
Chalmers tekniska högskola

SAMMANFATTNING

Fastighetsmarknaden blir allt mer konkurrensutsatt och fastighetsbolag har insett att nya affärsstrategier måste införas för att kunna överleva trots den hårdnande konkurrensen. Fastighetsbolag har traditionellt varit inriktade på att förvärva, förädla och reformera befintliga fastigheter men har nu börjat utveckla egna nybyggnadsprojekt från en initiell idé. Att utveckla en fastighet från en initiell idé är utmanande då de bemöts av en ny typ av konkurrens i ett för de tidigare okänt marknadssegment. Den mest kritiska faktorn inom fastighetsutveckling är förmågan att hitta idéer till nya projekt. Det finns flera sätt att skapa nya idéer. Idéer kan uppstå ytterst slumpmässigt och det är därför nödvändigt att kunna erbjuda en organisation som är kapabel till att ta vara på ideer när möjligheter uppstår. För att ta reda på hur fastighetsbolag och fastighetsutvecklare skapar idéer och hur de strukturerar sin fastighetsutveckling har en serie intervjuer genomförts. De flesta aktörer som jobbar med fastighetsutveckling använder sig av en platt strukturering av sina organisationer. Idéer uppstår tämligen sporadiskt och det är viktigt att utforma en organisation med förmågan att flexibelt kunna anpassa sig till varierande kontextuella förhållanden. Vilken typ av fastighetsutvecklingsprojekt företagen åtar sig beror till stor del på företagets ekonomiska kapacitet och deras riskbenägenhet. Risknivåer är beroende av geografiskt läge, lokal kännedom, tidigare erfarenheter, vilka okända element som förekommer etc. Fastighetsutvecklingsprojekts avkastning är starkt relaterat till risknivå och ett företag behöver därför ta ställning till hur stor risk de är villiga att ta i förhållande till deras avkastningskrav. Eftersom att fler och fler fastighetsbolag genomför fastighetsutveckling ökar konkurrensen och det blir svårare att hitta lämpliga projekt som motsvarar företagens ägardirektiv med avseende på storlek, risknivå och avkastning. Tendensen är därför att företag ansluter sig till konsortier för att kunna dela risker och utföra större projekt. Konsortier har dessutom visat ge erfarenhets- och kunskapsutbyte och ökar därmed möjligheten att tillhandahålla högkvalitativa produkter med stor lönsamhet till slutkunden.

Nyckelord: Fastighetsutveckling, projektutveckling, affärsutveckling, idéskapande, konceptualisering av idéer, organisationsutveckling, fastighetsinvestering

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Preface

The thesis was written as a finalising part of the master's program *Design and Construction Project Management* and contains 30 higher education credits. An interview based real estate market investigation has been performed during the spring of 2013 and concerns companies undertaking real estate development as strategic business opportunities. The company that initiated the idea was Castellum AB and the study was performed at the department of Construction and Management, Chalmers University of Technology, Sweden.

The thesis was carried out with Göran Lindahl as our supervisor who supported us and gave us guidance during our work. We also want to send out a big gratitude to Corallen, one of Castellums subsidiaries and our contact person Claes Junefelt and all the companies and interviewees who chose to participate and share their knowledge.

Göteborg, May 2013

Andreas Lundgren and Viktor Thun

1 Introduction

The real estate market is becoming increasingly competitive and as a consequence it is becoming harder for real estate companies to gain profit through traditional working methods. Real estate companies have traditionally been known for undertaking real estate activities concerning refining, reforming, maintaining, investing in and renting out existing real estate. Most of their revenues have derived from rents and pay backs on investments but the declining range of buyable objects on the open market have made some real estate companies realise that, to keep up with current market changes, a new business strategic approach has to be implemented. Within a company there are numerous ways in which development activities can be performed such as: development of the organisation, processes, strategies, business ideas etc. Companies can also develop their real estate development further by using working methods similar to that of developers and aiming for closer interaction between tentative tenants early in the planning processes. To be an actor on the real estate market that can be accounted for and to give customers what they want, real estate development in the way of constructing new real estate from initial idea to administration of finalised real estate has become a major competitive advantage. This new way of developing is challenging due to lacking expertise since it often implies entering a new market with a new segment of competitors and actors facing newcomers.

1.1 Purpose and aim

The purpose of this thesis is to investigate different ways of organising real estate development and to study the underlying processes of how new ideas for real estate development arise. The thesis focuses on private real estate owners rather than public ones and a comprehensible overview covering some of the most important aspects concerning real estate development of new construction is presented. There are two questions that will be the foundation of the study presented:

1. How are ideas concerning real estate development created and processed?
2. How are companies organising their work with real estate development?

These two questions are the basis for which this thesis lies upon and the aim is to make an attempt in answering these questions from the perspective of actors active within business concerning real estate development. The most distinguishing factors concerning the differences between real estate companies and construction companies (developers) are in this thesis further discussed and elaborated.

1.2 Delimitation

The study concerns commercial real estate and real estate development focusing on the Swedish market and its actors. Even though the main aim is to focus on development of new real estate, refinement of existing real estate is also included as it plays a major role in a real estate company's daily operation. It will not concern residential real estate development but rather focus on commercial and industrial buildings.

1.2.1 Definitions and perspectives

From studying literature and discussing with real estate developers within real estate and developing companies, dissimilarities regarding definitions within the field of real estate development were revealed. Whilst some companies are making sense out of each definition and explicitly distinguishing them, others are choosing to exclude some of them. The single most significant definitional collision was found between the terms real estate development and project development. Some companies are using real estate development mostly when performing refinement on existing real estate and project development when undertaking new construction projects. Others view real estate development as a wider term concerning both refinement and new construction. They claim that project development rather is an approach when establishing their way of working within each project and does not have to involve construction. A third alternative is when real estate companies are excluding project development and restricting themselves to real estate development. They hold the opinion that project developing is mostly used by developers who are not bearing any interest in a continuous ownership of real estate. Additionally, there are companies not making any difference at all between real estate development and project development.

Even though business development generally is considered as development concerning business strategies there are not any clear boundaries between business development and real estate development. Depending on various definitions and intertwined characteristics it is hard to draw a strict line between them. Some companies are regarding business development as an activity not directly connected to concrete operative assignments but rather as a way of creating new business. Business development within the real estate industry is a slightly broader concept more focusing on development of business strategies and establishment of other business orientations (Figure 1). Real estate development is focusing more on the portfolio of real estate and the development options concerning those.

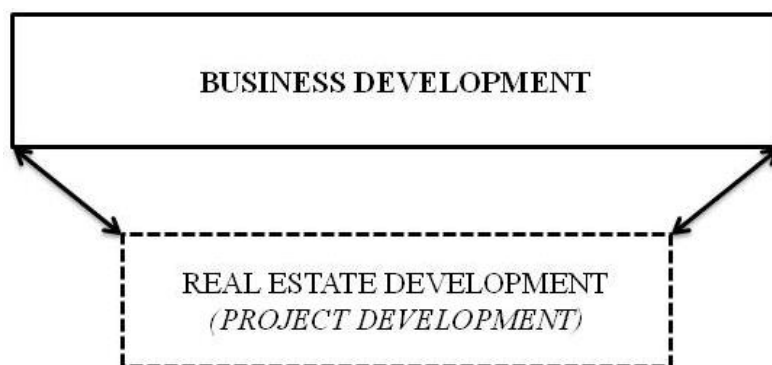


Figure 1 - Business development in relation to real estate development

1.2.1.1 Acknowledgement

It became clear that there is no consensus in the definitions either within literature or between companies. The thesis will henceforth consider the term real estate development specified as when applied to both new construction projects and for refinement of existing buildings.

2 Method

This chapter aims to describe how the study was conducted. It describes how information where found, evaluated and utilised to fulfil its purpose. Relevance of the information was judged based on previous knowledge in the subject and in accordance to formulated research questions. The thesis is divided into three parts (Figure 2) where the first part consists of a theoretical framework and the second part of a summarisation of the interviews. The theoretical framework is based on studies conducted within or relevant to the field of real estate development and was achieved by reading academic literature and company web pages. The second part is based on interviews performed in collaboration with companies undertaking real estate development as strategic business opportunities. The third and final part is making sense out of the findings from part one and two and elaborates further into some important aspects of real estate development.

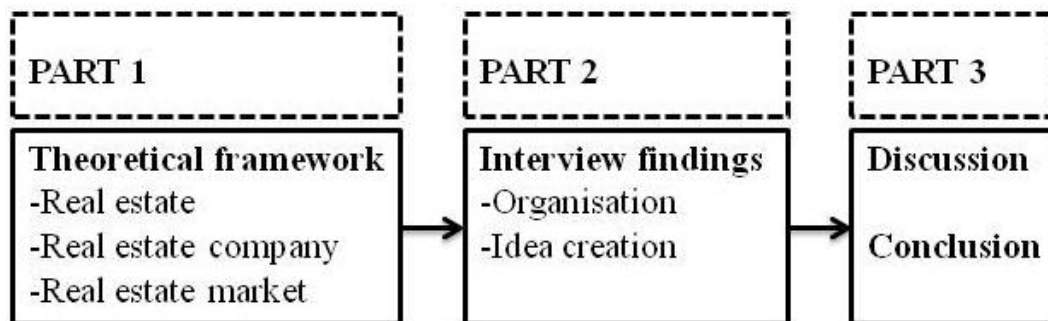


Figure 2 - Thesis orientation

2.1 Literature research

To orientate within the subject an initial literature research was conducted. The primary search engines were: Emerald Library, ProQUEST and Google scholar. Search words were closely related to development of real estate e.g. real estate development, project development, business development, idea creation, conceptualisation of ideas, property development, organisational development, real estate investment etc. The main literature sources were mainly taken from conference articles, theses and branch specific literature. The purpose of the literature research was to obtain an initial overview of the subject which later served as a foundation for the interview questions. During the time for the interviews, new questions arose and complementary literature searches were conducted. The complementary researches added to the general understanding which sharpened formulated interview questions formulated.

It should be noticed that literature present at the time of this thesis were limited. The shortage of literature about real estate development was initially an obstacle but was soon overcome by the information given in the interviews. The theoretical framework is used to build up a foundation to fully understand the business environment in which real estate development takes place.

2.2 Qualitative interview

The main aim of conducting interviews was to provide an understanding of the work processes regarding real estate development, specifically aimed towards companies active within the industry. Undefined terms and circumstantial adaptations to various situations is making real estate development quite hard to quantify. Additionally, the number of persons and companies working with real estate development is relatively limited and a large sample is often crucial for the legitimacy of quantitative interviews. A qualitative interview approach was therefore chosen as it has been shown to be beneficial when performing a thorough investigation and working with a limited selection of individuals (Solvang & Holme, 2003). Qualitative interviewees are used when the goal is to acquire the interviewees' perspective of a subject (Kvale & Brinkman, 2009). Qualitative interviews do not necessarily consist of the interviewees' personal views but also of valid facts (Kvale & Brinkman, 2009). It enables a study based on hard facts but also on personal views which is suitable for a thesis of this kind. The quality of each interview is of greater value rather than the number of interviewees.

Semi-structured questionnaires provide a number of questions that serves as a fundamental basis and leave room for additional questions to be brought up (Sørensen & Olsson, 2007). Because of dissimilarities between the interviewed companies, it is hard to apply a specific number of predetermined questions to all interviewees. The questionnaires were often complemented with additional questions brought up spontaneously which turned the interviews into being semi-structured. Semi structured interviews demands a higher knowledge and mental attendance from the interviewer as it requires the skill to adapt according to the current situation (Kvale & Brinkman, 2009). The spontaneously brought up, non-defined questions, enables the interviewer to steer the interviewee towards relevant areas and gives the interviewee an opportunity to freely express themselves within areas of relevance.

2.2.1 Company web page

Companies' web pages within the real estate sector were briefly investigated to find out how, who and why companies are working with real estate development. It led to a brief introduction to the subject as well the rise of a number of questions regarding real estate development. The search on the companies' homepages was the primary approach when finding suitable interviewees.

2.2.2 Interviews

The interviews were based on information given by the literature research. The questions main objective was to investigate how ideas are created and how real estate development organisations are structured. The non-sensitive and the general nature of the question formula brought, in most cases, the answers requested forward. The questions were not sent beforehand as that might constrain the persons being interviewed from answering spontaneously.

2.2.3 Interviewees

The interviewees were chosen based on their position within the company having a helicopter view over their particular real estate development organisation. The interview persons were most often managers with several years of experience within the sector.

The ratio between participants and initially contacted companies was 15 to 20. 10 out of these 15 consisted of real estate companies and the rest pure developers. All companies were working with new construction and refinement of real estate with focus upon either the industrial or commercial market. The majority were located in or close periphery to major cities such as Göteborg, Stockholm, Lund, Uppsala and Malmö. Most companies worked rather locally in their cities and the surrounding areas.

2.2.4 Interviews in practice

The interviews were divided into three parts. The first section approached the subject quite generally focusing on terminology and why they work with real estate development. The second part discussed the creation of new ideas and the last one concerned the structure of the organisation.

The interviews were run by two interviewers, one taking notes and one asking questions. This was a well-functioning approach as recording devices might affect interviewees negatively. One of the interviewers could entirely focus on the writing whilst having the opportunity of occasionally bringing up additional questions. The interviews length varied from one hour to two hours and the majority was conducted in person and the rest on telephone. At three companies there were two or more interviewees present at the same time and on the remaining companies a single person was present.

2.1 Data analysis

Valid information from the interviewees was summarised by comparing notes and discussing the interviews closely after they were performed. Relevant information from the interviews was after completion written down and later compared and analysed. The relevance was based on information given by the literature study. No attempt was made of distinguishing who said what since the purpose is to get a general view of different ways of performing real estate development.

3 Theoretical framework

This chapter will present literature available and help the reader to understand the concept of real estate development and contextual circumstances (Figure 3) in which it is performed. It will further describe what phases that is present when a company is undertaking projects from an initial idea and explain how a real estate company operates and what factors that is influencing their real estate development.



Figure 3 - Areas to which real estate companies have to relate

3.1 Real estate development

Some argue that the very first real estate development could plausibly be some ancient caveman rolling a rock to the entrance of his cave to protect his family from predators and to maintain a liveable environment (Graaskamp, 1981). A lot has happened since then and the built environment does not restrict itself to one single household but has more of a communicative role when interrelated to the society as a whole. The magnitude of the development is not of any relevance, the caveman's housing improvement is just as much a real estate development as some complex modern multi-stories building.

3.1.1 Developing stages

There are two major differentiations within real estate development that can be made (Raslanas, et al., 2012). A company is either refining an existing real estate or constructing a new real estate on unbuilt land. These two differentiations are both considered as real estate development in their own separate context and the activities taking place are similar. Real estate development processes encompass various activities and is often portrayed in books and articles to include phases ranging from initial/conceptual idea to completion, where the estate is either sold or used for operational purposes (Raslanas, et al., 2012). Different sources are dividing real estate development and project development activities into similar subcategories (Figure 4). The stages vary slightly but the overall development process is going through approximately the same stages.

<ol style="list-style-type: none"> 1. Forming the development concept 2. Feasibility study 3. Deal making: Planning & Financing 4. Project construction 5. Operation or sale <p>www.oup.org</p>	<ol style="list-style-type: none"> 1. Identify and assess business opportunity 2. Select from alternatives 3. Develop preferred alternatives for full funding 4. Execute (detail design, procurement and construction) 5. Operate and evaluate <p>Lavingia (2006)</p>	<ol style="list-style-type: none"> 1. Investigation 2. Planning phase 3. Design phase 4. Implementation phase 5. Follow-up phase <p>Augustson & Stanser 2009)</p>
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Figure 4 - Real estate development stages set-up from different authors

The term project development is used in several different sectors and is describing a wide range of projects. Agee (2003) used project development when describing developing literacy globally (Agee, 2003). It shows that there are currently no boundaries between which project development can be said to function. Rashidi (2009) who wrote a thesis about the subject claimed that project development is merely a fashion word.

3.1.2 Business Development

Business development is a development process used when shaping and developing a business idea and is generally regarded as a work process that most companies are undertaking in one way or another (Norman, 2001) see (Polanco, 2009). At first glance the term may seem logical in the way that it is a process in which a company's business is developed into something more competitive or more efficient (Bill & Johannisson, 2004). This is however a very wide definition and a lot of processes may be interpreted into it. One of the key objectives for business development is to convert the strategic vision into measurable objectives and performance targets (Thompson AA, 1996) see (Merwe, 2002). Within business development a lot of processes are included i.e. building client relationships, establishing new business areas, repositioning of the business strategy and strengthen the competences within the company (MacPherson & Miller, 2007). Business development is most commonly used when describing the creation and initial phases of a newly established company (MacPherson & Miller, 2007). When looked upon generally, business development is a key factor for organisations within all sectors for survival (Fischer, et al., 2012) which is influencing the success ratio of a company since the market it acts upon is continuously changing (MacPherson & Miller, 2007).

3.2 Contextual circumstances

In order to get an understanding of real estate development it is not only important to understand working processes but also to be aware of the factors constantly influencing both the company and the process in itself. A short description of the context in which real estate companies are working within is therefore presented in this chapter.

3.2.1 What is a real estate?

In Sweden, real estate is defined as limited land area and categorised as a fixed asset in "Jordabalken" (Jordabalk, 1970:994). Real estate consists of a limited land area and

all objects permanently fixed to it e.g. buildings. Real estate has traditionally been divided into two dimensions; length and width. Due to a shortage in space and an increase in urbanisation, a new law was introduced in 2004. It declared that a real estate could be defined vertically as well as horizontally (Tjäder, 2011). By using three dimensions it is possible for individual ownership in specific apartments in multi-storey units, which enables a new kind of ownership. Real estate is commonly grouped into three different categories: residential-, commercial- and industrial real estate (Graaskamp, 1981).

Although real estate is part of the physically built environment similar to that of a manufactured product, real estate could also be considered to contain business movements on its own (Graaskamp, 1981). When looking at real estate as a business it is beneficial to be familiar with the concept of space-time. Space consists of the three dimensions dividing a real estate into: height, length, width. Within the field of real estate, time is added as an additional element. The time element is the one factor capitalising space into monetary value which makes it possible to continuously benefit from an investment. The monetary aspect can be referred to as e.g. rent per year. Graaskamp (1981) formulated real estate as: “space delineated by man, relative to a fixed geography, intended to contain an activity for a specific period of time”.

There are three groups directly influencing a real estate (Graaskamp, 1981). These have interrelating bonds and are connected in the sense of that they are creating business activities influencing a real estate. These are the user, the space producer and the public infrastructure. The users are the actors using the space either by a lease contract or by owning the real estate and are using the building for their own individual purposes. The buildings locations, performance and costs are all elements that must be reflected upon when contemplating to sign rental contracts. The space producers are the ones contributing to the physical space and consist of e.g. mortgage bankers, providers of material, constructors, architects etc. Basically everyone that helps converting space-time into money-time can be included in this group. That means that the activities that are financially contributing to the real estate and its actors, are included here. The public infrastructure contains all activities indirectly adding to the real estate e.g. roads, fire departments, regulations and other activities providing off-sight services (Graaskamp, 1981).

3.2.2 The real estate market

The commercial real estate market has traditionally gone through cycles with both short supply and over supplies (Miller & Geltner, 2005). According to Geltner and Miller (2005), cycles on the real estate market have and will always exist due to specific characteristics of the market i.e. long lead times and speculative approaches. The commercial real estate market is strongly affected by political decisions, recessions and urban development etc. (Miller & Geltner, 2005). Cycles within the real estate market is increasing the need for economically strong companies who are able to survive periods of low cash flows or losses. Real estate companies that can

afford waiting for favourable opportunities and have the courage to invest during depression are more likely to make great deals. (Miller & Geltner, 2005).

Real estate is generally considered as a relatively stable long term investment which historically has given a relatively high rate of return and has therefore attracted various investors, not only real estate companies. Real estate is as a result often valued in comparison with e.g. the return of stocks or funds. Traditional valuation models are often used and the most commonly adopted model is to compare different investments yields against each other in order to get as good rate of return as possible (Ericson & Ceder, 2010). However, unlike funds and stocks, each object on the real estate market is unique due to e.g. fixed location and individual detail plans. The uniqueness prevents to some degree valuation through comparison which otherwise is a very common valuation method. Traditionally trading is often constrained due to the fixed position of each real estate which prevents a psychical marketplace due to the impossibility to accumulate several items at the same location. As seen in Figure 5 there are several factors which influence the real estate market and the valuation of real estate is therefore considered as more complex than most other investment objects (Ericson & Ceder, 2010). Real estate is primarily valued based on the potential yield in comparison to the risk (Lamonta & Polk, 2001). The yield is usually based on the net operating income (NOI) or a cash flow analysis (Tidningen Fastighetsnytt, 2003).

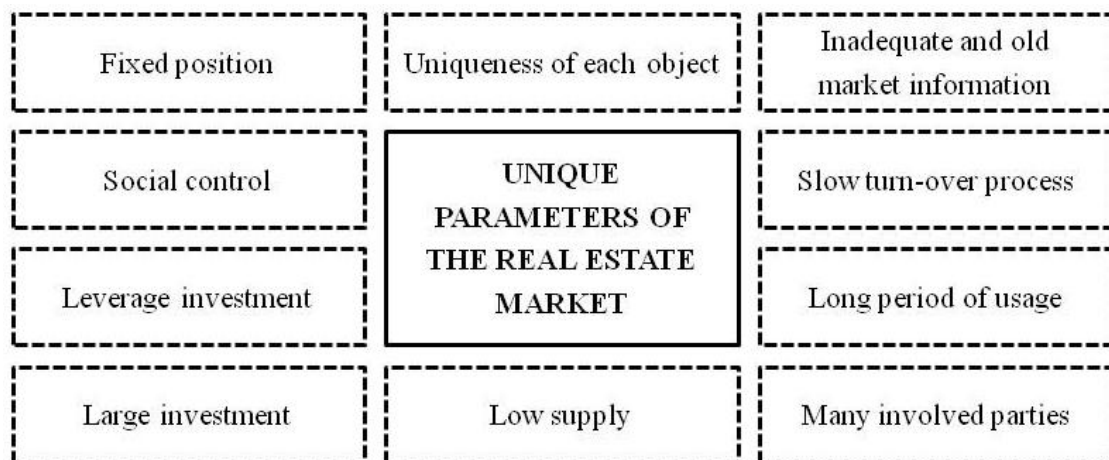


Figure 5 - Unique parameters of the real estate market (Tidningen Fastighetsnytt, 2003)

Figure 5 is setting up a number of variables which differentiate the real estate market from other markets. Real estate is often considered as a long-turn investment which is shown by the average yearly turnover of 3-5%. The pure investment size does often constrain the value since real estate generally is considered as a large investment which limits the number of privies. Due to the investment size of a real estate, financials are of often deriving from loans which adds another actor namely the bank. The investment size and the number of involved actors make the turnover process rather slow which also is reflected upon the low supply on the market. The main reason for the amount of actors is because a lot of regulations regarding turn-over processes which requires a lot of special knowledge (Tidningen Fastighetsnytt, 2003).

3.2.3 The real estate development process

Real estate companies have generally three options when looking to expand their business; acquisition, refinement or construction (Ericson & Ceder, 2010). The most profitable choice of action depends on the current market situation and that is evaluated through sound and well executed market analyses. The aim of a market evaluation is to analyse prerequisites for a specific land area or real estate while estimating the future market status. The investment decision is based upon the result of the market evaluation. Exploiting land to construct real estate contains a series of steps which are very time consuming. Due to prolonged time periods and the complexity of each project, early phases have to be well executed when undertaking development activities. This is mainly because changes in later stages of a project are becoming increasingly costly when more and more aspects are defined and locked in the budget.

The real estate development process is combining a range of activities dependent upon each other e.g. construction technology, financing, marketing and administrative control (Graaskamp, 1981). Amongst these areas there are numerous development opportunities in which a real estate company can focus on (Healey, 1992). These are: the structure, land assembly, real estate development, site clearance or acquisition of finance, organisation of construction, organisation of infra-structure and marketing managing the end product.

There is no generally adopted practice in which to perform real estate development (Fisher & Collins, 1999). The development process within real estate is specifically designed from each particular company's point of view and decisions are often based on experience rather than on research conducted within the field. However, from a general point of view most projects are initiated by some sort of feasibility study which is serving as a base on which decision for further development can take place. The quotation "*circumstances alter cases*" is well identifying the complexity of problems surrounding the subject as. It means that a company needs to relate to events occurring out of their reach and adapt accordingly to it in their real estate development. Development stages and ways of performing general development are elucidated from a developer point of view and the execution is normally coherent with that specific developer's business strategy and/or vision (Daley, 2011). This biased way of setting up plans aligned with business strategies are a direct result from developers trial error attempts to come up with the most efficient ways of working. Formulated development stages are not applicable in each project but are rather serving as a guideline in which further development might follow.

Real estate development is generally quite inefficient when it comes to transferring of knowledge and experience from one project to another (Fisher & Collins, 1999). Attempts have been made to conceptualise development processes but are often failing to operate in practice due to the altering characteristics of real estate development. Intangible parameters such as gut feelings based on experience have

been shown to be of great importance. The lack of standardisation has made real estate development a very flexible way of working.

Authors have been trying to find models in which to standardise the development process within real estate but have failed to consider every aspect directly influencing the process. Fisher and Collins (1999) investigated different sources examining the subject and brought them together in an attempt of creating an overview over different parameters. They categorised established models into a number of dimensions and came to the conclusion that there are four dimensions that plays major roles when concentrated upon development processes. These four dimensions have been analysed applied to case studies (Figure 6).

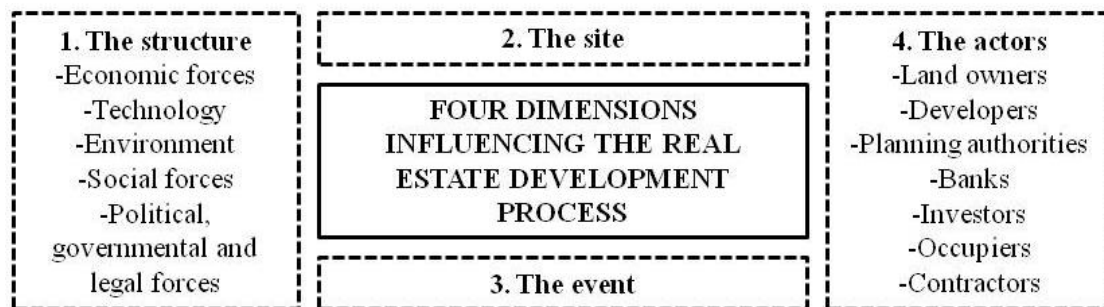


Figure 6 - Four dimensions influencing the real estate development process (Fisher & Collins, 1999)

A development is constantly interrelating with external *structures* that undoubtedly will affect the project in various ways (Fisher & Collins, 1999). Political decision, economy and social forces are examples of parameters being outside of a developers reach. Further, different disciplines of *actors* are the ones undertaking the development. These have various roles and obligations and are also of less or more importance depending upon what kind of function and responsibilities they have. The number of *events* is the actions that are performed during the development and could typically consist of market research, financing, construction and marketing etc. Because of the altering nature of a development, there is neither an established order nor a specific check off list of activities which have to be performed in order to end up with a prosperous exit. The sheer physical appearance of the *site* is the last dimension where basically everything comes together. Even though the development process can be said to start before the location of a real estate is decided, the site is of great importance in itself. A site can serve a multitude of purposes and it is a mission of a developer to decide what actions will generate the highest value.

3.2.4 Uncertainty

Uncertainty is an inevitable part of real estate development and it has to be integrated in various risk assessments performed (Atherton, et al., 2008). When deciding upon investments, uncertainties have to be presented circumstantially to decision makers and constitute as a base for a proper evaluation. Investment decisions also have to anticipate cash-flows several years into the future which is an incredibly complex task since the market development as well as the future usage of a real estate has to be included. The main objective is to get from uncertainty where a certain outcome is

unknown, to a calculated risk where an outcome where the probability of that happening is known (Loizou & French, 2012). According to research conducted within the field of risk predictions, real estate developers are regularly underestimating risks (MacFarlane, 1995).

Developers have traditionally been performing risk assessments through single number in-puts (Loizou & French, 2012). Current land costs were i.e. based upon standardised numbers which often led to a few number of possible scenarios. More precise and more sophisticated models have been implemented since then and it is now possible to get a range of different outcomes. Having a well-formulated understanding of future risks and their impact is crucial (Atherton, et al., 2008). One small adjustment in e.g. a future yield prediction may lead to big changes somewhere else in the decision chain.. Risk models should illustrate risks of more and less relevance to be able to prevent the most probable risks having the largest impact. To get an idea of what kind of risks that real estate developers have to take into account, a list of the main risk is presented down below (Loizou & French, 2012):

- Financial risk (interest rates, delays etc.)
- Land cost (usability, restrictions, local authorities etc.)
- Construction (late changes, big financial risk, exposed etc.)
- Timing (delays etc.)
- Sale/rents (faulty assumptions may lead to decreased income)
- Socioeconomic (macro economics)

Decision theory has traditionally been focusing on how decisions are made instead of how they should be made (Atherton, et al., 2008). This is an additional example on how much the real estate market relies upon experience (Loizou & French, 2012). The human factor is a factor which cannot be overlooked. Input variables are done through human collaboration within an organisation and should be managed in an appropriate way. As real estate development contains such a variety of processes that it is very hard to come up with instruments able to handle all different aspects (Atherton, et al., 2008). Theoretical models should rather be serving as a supportive tool in the decision-making than to base the decision entirely on them. Without having a well performed risk evaluation a developer will have a hard time to accurately predict future outcomes.

3.2.5 Value creation through real estate investments

The main target of real estate development projects is to create value. The general conception of how value creation is executed is that a certain actor sees and explores possibilities in projects others do not see. It is also about the ability to perform risk management, having access to capital and ultimately to do certain steps others are unwilling to do. Available literature is seldom telling us anything about how value actually is created. Instead are some authors examining certain ways of evaluating the profitability of certain investments (key ratios, rate of return, cash flow) but the specifics of how value creating activities are performed has remained unclear. The

literature describes value concepts but is failing to give an explicit overall picture adaptable in the industry (Roulac, et al., 2006). Roulac, et al (2006) arranged the process of project development or real estate development for that matter, into 5 major components (see Figure 7). They are not necessarily sequential but are rather serving as the major success areas, which are upholding the most important categories of a development procedure. Each one of these main development activities are subsequently followed by primary tasks, which are seen to be essential when performing developing activities.



Figure 7 - Major real estate development activities and primary tasks (Roulac, et al., 2006)

4 Interview summary

Qualitative interviews were used to create dialogue oriented conversations with the interviewees which were done by asking open-ended questions. The answers presented from the interviewees are chosen based upon the objectives stated in the purpose.

4.1 Real estate development phases

Phases included in a real estate development are quite similar when extracted from different companies and a general overview is shown in the list below:

- Idea phase
- Initial evaluation
- Planning phase: feasibility study, program
- Decision to continue: Often board of directors or the owner.
- Procurement of entrepreneurs
- Construction phase
- Sell or continuous ownership

The most prominent difference is found in whether a company is choosing to include the maintaining phase or end the development after finalised construction. Some of the real estate companies include the maintaining phase since the building needs continuous overview and development throughout its lifetime.

4.2 Organisational structure

Real estate development is a highly creative process and requires a flexible organisation that can adapt to various circumstances. A well-structured organisation does however not necessarily mean that it influences the development of an idea negatively. The issue rather lies in how the project is organised and managed. An interviewee captures the essence of this issue in the quotation stated below.

“Even if it may be beneficial, it is hard to structure such a creative process as real estate development”

As a result, most real estate companies utilise a rather slim and flat organisation when undertaking real estate development. The organisation involved in a real estate development process is quite various depending on which phase that is currently undertaken and the nature of a project. This chapter will attempt to give an overview of how companies are organised in the following list containing three phases:

- Idea stage
- Conceptualisation of ideas
- Construction phase

The real estate developer or the real estate developer department is the core in an organisation developing real estate. They are working together with actors within and outside a company during the real estate development. The actors involved in a real estate development process may differ between companies but their work descriptions are approximately the same. The core organisation working with real estate development is relatively unaltered during the project while their roles may change.

4.2.1 Idea stage

Ideas have the tendency of arising in various ways and the organisation undertaking ideas is therefore usually structured differently from project to project. Because of the changing nature in the process of creation new ideas, it is hard to define a certain type of organisation explicitly defined as coming up with new ideas.

“In order to be successful within real estate development it is important for the whole organisation to think and breathe project development”

The quotation highlights the importance of engaging a large number of actors in the creation of new ideas. The real estate developer is often creating new ideas in collaboration with other department, who may find possibilities for new ideas in their daily work. The creation of new ideas can be stimulated through close collaboration and regular meetings between different departments and actors where ideas are exchanged and new solutions can be discussed. Real estate developers are usually active during this process and are the ones making the initial evaluation on whether to proceed with an idea or not.

Real estate managers who is managing real estate portfolios and ar responsible for overall maintenance and client relations, is often involved in the creation of new ideas. They are daily working in close collaboration with tenants where they gain knowledge about current needs and about attractive features of the market. New ideas concerning future development on existing real estate can arise during discussions with tenants. Those discussions may result in a decision to construct new premises which better suit needs of tenants or will lead to refinement of existing buildings which eventually results in a real estate development project. When a tenant outgrows their current rental space there are in general three options. Firstly, the real estate company has the opportunity to replace the tenant to another real estate within their portfolio. Secondly, the current rental space is being badly adapted to current needs of the tenant and extensive measures have to be undertaken to make the area usage more efficient. The last option is to either invest in another building or to construct a new one, which results in a new real estate development project. By closely monitoring the portfolio and keeping sound relations with customers, the real estate manager often find new development opportunities, primarily in existing buildings. It highlights the importance of involving the real estate manager in the process to increase to possibility to discover new opportunities.

Letters have the overall responsibility for vacancies in the real estate portfolio and are constantly searching new tenants. By overlooking the market and having a dialogue with potential tenants they are able to create a good understanding of what the market is requesting. This knowledge contributes to the local knowledge of a company which is a key factor when working with real estate development successfully. Their insight might also lead to new development opportunities. One of the daily operative assignments for a letter is to communicate with potential customers to discuss needs which eventually will lead to new real estate development opportunities.

The real estate developer is serving as an anchor or a stable point managing the development process and is not always the one coming up with ideas. Instead he is often working in close collaboration with other actors and departments to increase their possibilities for finding new projects. It is common to involve at least the real estate managers and the letters in the process.

4.2.2 Conceptualisation of ideas

At first, an analysis is performed to see whether a project is financially profitable and feasible according to stated requirements and in accordance to owner objectives. The analysis is usually performed by a real estate developer or a business area manager in collaboration with a team consisting of different expertise. This team consists of real estate managers, members from the letting team, technical consultants and representatives from financial departments. When a decision to proceed is made they form a steering committee that will monitor the process and steer the project in the right direction. The real estate developer is commonly a part of the steering committee but it also commonly embracing the role as project leader.

Early phases are including evaluations of land areas and calculations covering the future development of a project. Further decision on whether to proceed or not is taken by the steering committee with the previously performed calculations serving as a fundamental decision base. On larger projects the CEO is usually involved in the decision making process and on larger new construction projects the board of directors usually got the final decision. The involvement of the CEO and the board of directors are mostly based upon project cost.

When the project is progressively starting to take form most companies bring in external technical consultants into the development process e.g. structural, electrical, plumbing etc. The project leader is managing the work and can be seen as an extension of the steering committee. The letting team is changing their function from advisor and is increasingly becoming more involved during finding tenants. It is quite difficult to sign contracts several years in advance for a real estate that does not presently exist. Larger tenants are usually more eager to sign contracts early than smaller. Further, tenants of significant size do often have more specific requirements on the real estate which requires more customisation. The construction phase is usually not starting until a certain amount of contracts are signed which is established from each particular company point of view.

4.2.3 Construction Phase

When the real estate development project faces the construction phase the major reformation of the organisation is done. Most companies use external contractors for the construction where a party from the original organisation takes the role of a client. The real estate developer and the steering committee are continuously decreasing their influence and are rather serving as a monitoring unit. Regular meetings keep them up to date, but the further into the process it gets, the more seldom these meetings are arranged. The project leader and other managing roles often start working with new projects before the project is finished.

The hiring team is continuously trying to find new tenants suitable for a real estate. When a real estate starts to take form a new advantage arises since there is a possibility of being able to show tenants the building on-site. In addition, smaller companies are now more eager to sign contracts which they were not earlier. Small businesses are usually rapidly changing and are therefore seldom signing contracts until six months before they have access to the real estate.

The real estate manager is continuously increasing their involvement in order to avoid surprises when it is handed over to them in the maintenance phase. To ease the transaction when the real estate is handed over to maintenance, the real estate manager is given a manual which is made in cooperation with different specialists. This manual is containing all the necessary information needed for future operation and maintenance of the building.

4.3 Actors

Some companies are choosing to have more resources in-house within the internal organisation than others. This is dependent upon company size and whether it is economically beneficial to provide a service themselves or if it is externally procured. This chapter describes the roles taken by the companies themselves and which roles that is bought externally.

4.3.1 Internal and external actors

Due to the complexity and changing nature of a real estate development project it is impossible to have all necessary competence needed to implement a project in-house. In addition, most interviewees did not always have a real estate development project up and running. The lack of continuous project would result in a very inefficient organisation with a lot of unused resources if the company chooses to hire all actors in-house. Even if they had ongoing projects all the time, the magnitude of projects required to make it defensible from an economical aspect where outside their horizon. Not even the largest construction companies in the world keep all competences needed within the organisation. So it is unavoidable to bring in some sort of expertise externally. However, services obtained in-house or by external consultants vary depending on a company size and purpose. Most functions such as technical consultants, architects, and market researchers are usually services bought externally. The reason most often given is that companies do not see any purpose of

having specialisations of professions as that is not part of their core business. Most companies undertaking real estate development prefers to work in a slim organisation that enables flexibility and creativity.

Since most companies are working with a rather slim internal organisation it is important to find out, from an economical perspective, what roles that should be kept in-house. Other aspect that has to be taken into consideration is what knowledge may be gained from having a internal actor on the position and whether that knowledge would ease future ownership of the real estate. The internal organisations is focusing on designing the project in the early phases and then taking on a managing roll when it is time for construction. All major decisions are taken within the early phases: building solutions, designs etc. In the later phases it is often more practical issues that have to be dealt with. The overall impression seems to be, as an interviewee says:

“The construction phase is the phase with the simplest decisions”

Even if it is a lot of money involved during the construction phase, all major decisions should have be done in the design phase. The real estate development organisation is largest in the beginning of a project and then phased out. In the construction phase most companies works with some kind of turnkey contract, where the whole organisation is external. The exception is a few who use their own project manager in order to maintain control over the project. Others do however always use external managers due to economic reasons. Using internal resources enables the knowledge to be kept within the organisation.

4.4 General decision chain

The decision making process consist of several different levels. Whether to proceed with an idea or not are evaluated on different levels dependent on the magnitude of a project and what project phase that is currently undertaken. Large investments have to be approved by the board of directors while smaller refinement project may be approved by the real estate developer or CEO without the involvement of the board of directors. The purpose with this chapter is to follow the decision making process from idea to construction start.

4.4.1 Real estate developer

A real estate development department has people working with managing some or all stages in the real estate development process. The role within the department differs slightly between the interviewees both regarding their work tasks and their official role in the company. However, someone in the real estate development department is usually the one that picks up the ideas or at least the first instance where the idea may be evaluated. They are usually most active with managing the projects in early phases.

4.4.2 Business area manager

The business areas manager usually has the responsibility of a large number of proficiencies with different positions in a company which enables the manager to get

a lot of different inputs on specific projects. The business area manager is usually also a part of the steering committee and works as a filter between the project leader and the steering committee on smaller day to day decision.

4.4.3 Steering committee

The steering committee has the task of monitoring and keeping the project in line. The steering committee reports back to the board of the organisation. The committee is usually created after the idea is created but before the project is defined and is usually active until the construction phase is over. The influence of a steering committee is decreasing the further into a project.

4.4.4 Board of directors

The board of directors is coming up with general guidelines and directives for how a company should act on the market. For larger investments the final decision on whether to proceed with projects or not lies on a higher level than the department chief or even the CEO. Most investments for new construction projects are made in the company's board of directors due to the large amount of money often involved.

4.5 Refinement versus new construction

Development of new real estate is an expensive and a time-consuming process whilst refinement of existing real estate generally requires less time and money. Refinement of existing real estate has often a lot of built in limitations which makes it less flexible. It is therefore a bit more of a challenge to change a real estate that meets the needs of future tenants through refinement compared to new construction. Typical limitations concerning refinement projects of existing real estate compared to new production are e.g. worse energy efficiency, difficulties changing layouts, hidden risk elements etc. All these limitations are influencing and restricting possible project outcomes. In new construction there are much greater possibilities of adapting the building to the tenants every requirement since there are in general no built in limitations. New construction is in most cases easier to manage and predict due to fewer unknown elements which makes it easier to apply standardisation of various processes. As a developer put it:

“Refinement is never cheaper than new construction”

It is generally regarded as very hard to create higher value by buying an existing real estate building and refining it than developing a similar one from scratch. One reason is that companies are forced to bond a fairly large sum of money when performing the initial investment in refinement projects. In contrast, the largest investment is made during later phases in development project concerning new construction. Another reason is the limitations associated to an existing real estate which is complicating construction processes and restricting possible outcomes. The majority of the interviewees agreed upon that new construction are more profitable than refinement of existing real estate apart from a few exceptions. Some real estate companies believe

that it is easier to get a refinement project more profitable than new construction. It may depend on that current owners have more knowledge about the building than a developer who just invested in it. The yield from projects are seen from slightly different perspectives as a real estate developer puts it:

“The yield on the invested amount is usually higher on refinements, but since more money is involved in new construction the total profit is greater”

It is hard to predict a future market when projects are prolonged over several years which are especially applied to new construction projects. To shorten the process most real estate companies prefer to buy land with detail plans. Even though adjustments to detail plans are performed, the time spent is significantly reduced.

4.6 A speculative approach

Whether a company is constructing or buying land, on speculation or not, is dependent upon current prerequisites such as: business strategy, financial strength, local knowledge, demanded risk levels, in which city they are operating in, existing detail plans or not, access to land etc. Whilst some are claiming they never make any speculative investments other say they always do. What is clear is that certain type of real estate has less risk than others and the willingness to build on speculation is often connected to the risk level. A speculative approach is easier to undertake and support on office buildings than industrial buildings, since the real estate's then requires less tenant adaption. There are examples of companies investing in land where they by good local knowledge can therefore almost guarantee there will not be an issue of finding tenants or investors for the future real estate. Even though this example can be considered as a close-to-no-risk-speculation, the risk level is may be higher than having customers from start. This image is however a bit too simplified as it is far easier to find tenants to land located in immediate city centres than in peripheral areas.

Municipalities are seldom selling land without knowing that a future developer will start constructing within a preset number of years. This has largest impact in areas not immediately connected to dense city areas as land in dense areas in general are too expensive to developing adopting a speculative approach. Setting up regulations concerning construction start prevents companies from making pure speculative investments in the sense of buying land as an investment to save in banks for future usage. Land is although bought from private actors where no idea has yet been developed. If looked upon traditionally, acquirement of speculative pieces of land were a lot more usual than today. This is partly because of an increasingly competitive environment, land prices making it unprofitable when owned over several years and municipalities adopting a very restrictive approach when selling land. The reason might also be that companies are changing business strategies to adapt to environmental changes.

No investment can enact on itself without any influence of the current financial status surrounding the industry. The knowledge of the market is therefore a crucial aspect

when deciding upon what type of building that is most appropriate. Some companies are always requesting a certain vacancy rate before procuring entrepreneurs and are therefore avoiding the high risk of developing purely on speculation. Others are open to work speculative when an adjacent possibility arises close to an existing real estate or ongoing project. The general perception is that companies are more enthusiastic about sites located in attractive areas because it is generally a safe investment. The attractiveness of a certain piece of land has to be evaluated from the knowledge of the current market point of view and a company has to decide upon how much risk they willing to put into a project. Companies with a strong financial position have the possibility to take advantage of their capital where smaller companies cannot afford making equally as risky investments. Financially stronger companies can also afford to wait longer for more prosperous opportunities. It seems important to realise that companies might be reluctant to lock too large amounts of money into a site with an uncertain prospect.

A deal-breaker may be is whether a site has a detail plan or not. Sites that have are usually more expensive than sites without. Hence, it is important to underline that land without detail plan is owned during an extended period of time as the process of bringing a new detail plan forward is time-consuming and therefore also expensive. If a company is investing in a piece of land lacking a detail plan, they have to calculate the cost of the activities processing the detail plan.

4.7 Critical factors

The success ratio in a real estate development is dependent upon a number of factors. This chapter will further and more into detail elaborate the most critical ones as presented by the interviewees. Predefined target yields are used when creating value and to reach them there are a couple of factors that are pointed out as more crucial than others. Some companies require a quick turnover focusing on a single project whilst others are aiming for optimisation of profit on a slightly longer time-horison. The management triangle (time, cost and performance) (Figure 8), was pointed out as a fundamental basis serving as a wide-ranging portrayal of what is of importance concerning real estate development. Within this triangle there are a couple of concrete factors that can be pin-pointed.

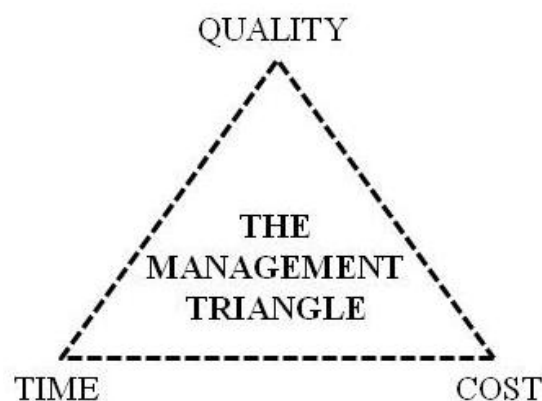


Figure 8 - The management triangle

4.7.1 Finding new projects

The location is repeatedly pointed out as a very important factor to consider when developing a project. The immobility of a piece of land leaves a developer to no other choice than to make as much out of a certain location as possible. In comparison to other businesses e.g. a ship has in contrast the possibility of being removed quite easily whilst a real estate has to be developed and made more effective on spot. If a business is not going as well as planned the only option left is to perform adjustments and development activities. The main objective is to enhance the value by making a real estate fully suited and interrelated to the surrounding environment.

Finding land in attractive areas to a reasonable price is getting harder in Sweden today. Even if the cost of land is usually not of any significant amount in relation to the projects end price, it makes quite the difference. The reason is that land is acquired at an early stage which is forcing a company to lock up money during a long period of time which is increasing the required yield and is also preventing them from investing in other projects. Several years are usually passing from initial investment in land to a finished product and it might be tough to get enough yields if the cost of land is high.

4.7.2 Local Knowledge

Local knowledge contains market related knowledge about current business movements and future development. To make a profitable investment today it is crucial to have a sufficient amount of local knowledge. Local knowledge may consist of a number of different factors which influence what kind of real estate is suitable for a certain area. It is not only the visible factors such as location, infrastructure, surrounding environment etc. that influence but also hidden values which may prevent certain kind of businesses. These hidden values may be that people generally does not want to go to an old industrial site to buy groceries because of aged mindsets even though the location is the most appropriate. Other may be social or traditional aspects that affect certain areas. In order to get this kind of knowledge companies says that they need to work close to the local market. Actors are describing their closeness to the local market in different ways. Some are recognising themselves as a local actor when managing several buildings in a specific area whilst others are residing in and are requiring an office in a specific area to be fully connected. One company disregarded local knowledge in the sense of acting locally or owning a property in a specific location. Instead they are buying market research conducted by specialised companies and basing investment decisions on those.

Included in the local knowledge is the understanding of actors influencing the market e.g. potential tenants, local companies, municipalities, politicians etc. It may be beneficial to figure out what forces that drive actors in order to understand their way of working. It is primarily done through continues contact with actors and to some extent through market researches. It gives also an understanding of municipalities' attitude against the real estate market. The municipality is an actor with grave importance and should therefore be considered as one of the most important stake holders in a real estate development project. They influence to large extent through

their city planning and willingness of selling land and accepting new detail plans. Some companies are critical towards municipalities due to their lack of engagement and shortage of resources put on city related developments. Further critic where put on the municipality for not selling enough land to build on attractive locations and thereby inhibit new development. In other cities were the companies' attitude were more positive and they thought their collaboration worked fine. No matters if they thought it was positive or negative all interviewees agreed that a good contact with the municipality is an important part of the local knowledge.

4.7.3 Analysis for future development

Having a sense of timing and being able to finalise a project when the economical situation is beneficial to the project is hard when looking several years into the future. Real estate development is generally seen as a time-consuming process because of complicated regulations and long-drawn decision chains when applying for detail plans. Several factors are influencing the development of a real estate e.g. infrastructure changes, business relationships, development of surrounding areas, political decisions etc. All factors mentioned above together aggravate the predicament for future development, but by having a continuous contact with actors influencing the future area development, it increases the knowledge and thereby the possibility of doing better evaluations. The commercial real estate market may also influence of factors which are not directly connected to the local market. The establishment or closure of a company's business may depend on recession both locally and internationally.

4.7.4 The Product

A building should be designed in a way that suits as many different tenants as possible. All buildings are therefore constructed in a very general and simplistic manner and adapted to tenants' specific needs. Exceptions can be made for large clients with certain needs. In those cases the yield has to be higher and is usually secured by a long-term contract. It is important to choose the right degree of client specification regarding the product where the features the client requires and are willing to pay for must be precise. As clients are sometimes incapable of fully expressing their needs, the ability of meeting demands is crucial. The experience of a real estate manager suddenly becomes very vital when evaluating and helping the client to recognise their needs.

By choosing the right level of optimisation the profit will increase. One of the interviewees exemplified the ability to accelerate and break. To know when to accelerate or break is a metaphor when adapting to a project in accordance to the current prerequisites. It could for example concern choosing the right level of quality and specifications on a product in accordance to client needs. By not construction to spectacular or to simple real estate no resources will be spent on details which will not increase the value for the tenant.

Project optimisation is a way of optimising and finalising a product with as high quality to as low price as possible to get as much “*value for money*” as possible. This can be done on several levels and might e.g. concern; deliveries to the construction site or improving the different actor’s schedules to minimise interference.

4.7.5 Tenants

Some companies undertake real estate development without having signed contracts with future tenants but the process of finding tenants is often starting quite early in order to secure a certain percentage of signed contracts before construction start. Letting out a not-currently-existing real estate is seen as harder than letting out an existing since they are not able to show the actual product for their future tenants. To circumvent this issue some companies work a lot with simulations e.g. 3D-models to give tenants a clearer vision of a real estate. Several interviewees believe that market requirements of 3-D models will increase in the future.

Vacant rental spaces are lowering company yields and extensive measures should be performed to avoid empty space. On exceptional basis it is beneficial to maintain a small percentage available as that enhances the flexibility when processing and alternating the portfolio. Even though companies are trying to rent out as much as possible the strategies behind the rental process is differing. For some companies it is not enough to just have signed contracts with tenants to fill vacancy rates. Instead they are concerned about selection processes where tenants are analysed meticulously, in order to find the most suitable ones. Well established companies with solid economies that have been on the market over a longer period of time are generally more preferable as tenants since they are considered as lower risk than smaller or newly established companies. Another approach for lowering the risk of vacancy occurrence is to use long term contracts. It is commonly used with real estate that has undertaken a high degree of tenant adaption or on real estate considered to be relatively hard to rent out to others than that specific tenant.

In some cases a stable company with solid economy is not always the most important criteria since the company business may not be in the best interest of a real estate. The most attractive tenant may vary depending on the buildings prerequisites and purpose. For a shopping mall it is important to have a broad variety of shops with different orientation in order to attract a wide group of customers. It is beneficial if the shops are not in direct competition with each other, since it may result in one of them closing, resulting in vacancies.

4.7.6 Working Process

Applying a holistic approach on projects and thereby avoiding looking too much into details in earlier phases should be a generally adopted practice. As one interviewee expressed himself:

“The devil is in the details”

He continued by explaining that details should not be disregarded but rather put aside in early phases. The holistic approach is a vital characteristic and ought to be the weapon of choice instead of getting too involved in details. Focus should rather be put upon the main objectives in the earlier phases and details at the later. The cost for modifications is rapidly growing the further into a project it gets and especially when construction work has begun. Major adjustments can be prevented if complex issues are dealt with before construction starts.

4.8 How are ideas created?

There are two main ways in which an idea can arise:

- The idea is developed and initiated from a need. The need can arise in various ways such as; a customer is requesting new facilities, a political decision to construct a new hospital etc.
- The idea is created on its own, leaving the need to be created or found. This is more of a speculative approach where the knowledge about the current market comes to play a vital role. On some occasions the market are not presently requesting a certain type of real estate, whereas the developer has to rely on gut feelings about future development. A company is aiming towards giving the market what it needs, but is not presently aware of.

The ways of coming up with ideas are numerous (Figure 9) and dependent upon the prerequisites present for each company these are differentiating.

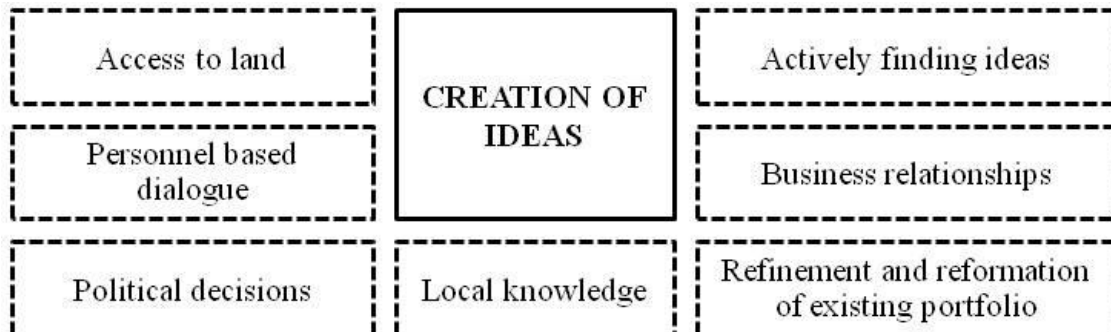


Figure 9 - Parameters influencing the creation of ideas

There are no standardised formulations of procedures prior or during the creation of ideas but the working process is rather a reflection on what needs is currently on the market. Coming up with ideas does not necessarily signify that a company is actively searching for business opportunities internally. Ideas can also occur from external parameters such as needs from outside spectators e.g. client. An attempt in categorising underlying factors and how ideas are created out of these factors have been made to provide an overview. These factors are not mutually exclusive from each other and should rather be seen as an overview than exact parameters.

4.8.1 Personnel based dialogue

There are seldom specific roles within an organisation specifically prescribed to find new ideas. Instead it seemed important aiming towards employment of creative, dynamic and innovative co-workers working within the early phases of a project. Because of the fact that ideas often are discovered through daily routines it is of great significance having personnel and an organisation able to adopt possibilities arising. Open-mindedness comes to play a major role because of the constant dialogues that need to be undertaken when coming up with various solutions. Ideas are often produced during sessions when other issues are discussed. Possible solutions can result in an idea not initially thought of from the very beginning. When meetings are being arranged it is advantageous if as many instances as possible are involved to obtain diversifications of viewpoints. By providing a mixture of different professions and adding to that a sense of general creativity, will enhance the chances of finding new ways of creating business.

4.8.2 Actively finding ideas

Another approach when finding ideas is to actively search for ideas. This can be done quite simplistic by undertaking tours in a certain areas and by just looking at the landscape, adding onto the general understanding of the location. Further elaboration within the concept of actively finding ideas is undertaking creative meetings such as workshops. Other ways of actively searching for new ideas are by organising regular meetings between different departments and through workshops. Workshops are often performed when specifically trying to come up with concepts applicable to a certain need.

4.8.3 Access to land

In this case an opportunity is already found and the task is to be able to get as much value as possible out of the land. Dependent upon the access to land, whether presently owned or about to be obtained, there are different ways of finding suitable projects to specific land areas. When a piece of land is acquired the process of finding suitable real estate's gets started in order to get as much value as possible out of it. The awareness of what actors are requesting and what the market is of absolute significance if even attempting to develop unexploited land. Simultaneously, companies have to relate to regulations, political decisions, detail plans, required rate of return on investments etc. Within this cluster of aspects which could be considered to be hard facts or measureable information, there are areas in which accurate calculations is not possible namely; soft values. These soft values can only be achieved from experience, local knowledge and a general feeling for the market, long term customer relationships etc. By adding all these parameters together one can start creating and conceptualising an idea.

4.8.4 Business relationships

Having conversations with a spectrum of different people is a good way of understanding others perceptions and opinions. It does not really matter whether these are business contacts, customers or persons of “less relevance”. On some occasions they are not able to obtain all needed information and there might be necessary to hire consultants to receive input from other segments of the market. There is always a chance of finding new angels which could further help the development on certain matters. Therefore maintaining a sound and long-term contacts with actors is for some companies crucial in order to get an opportunity to develop real estate. But this is also dependent upon if a company has a broad variety of customers or if they are restricting themselves to simply a few. If a company has a broader customer base without much reliance on previous contacts, long-term relations might not be of as much importance. Creating an image of business wise professionalism is a way of getting customer hiring a company based on its reputation.

4.8.5 Political decisions

Political decisions are a powerful force, which will have an impact on all companies on one way or another. City planning actions are often giving rise to new business opportunities as well as hindering companies from carrying out ideas to their full extent. Municipalities have monopoly on large land areas and most of them are quite restrictive when selling or lease them out. A fundamental necessity is to understand political processes, long term objectives for the city and how municipal decisions are interrelated to the real estate market. By understanding these factors it is easier to come up with ideas that are fitting into a market which might serve as a ground where further collaboration can take place. Competitive bidding is another factor where companies essentially are given a project if they leave the best offer. By being one step ahead and able to present real estate developing activities, beneficial for the public welfare of a municipality, a lot can be won against their competitors.

4.8.6 Local knowledge

In the majority of cases a company cannot compete in a high competitive environment if their local knowledge is worse than others. Local knowledge is something that derives from being situated on a market for a long period of time. It is very time-consuming to learn about political processes, how actors are behaving, what is important to a customer, what areas that are considered to be of high value etc. Ideas have a much greater chance of being implementable when local knowledge is integrated as a part of a company’s culture.

4.8.7 Refinement and reformation of existing portfolio

Opportunities and ideas can often arise when the current portfolio is changed, developed or altered due to changes in close-by environment to existing buildings. There needs to be flexibility in order to be able to adopt these changes and bring them into the organisation with open-mindedness. Clusters of buildings are often seen to be beneficial and a company should strive for block covering ownership of real estate.

Ideas concerning refinement of existing building are often coming from tenants using the real estate in their daily activities, which in later happenings can give rise to major reformations in the company's portfolio as a whole. A single request from a tenant may in later stages have been the single event contributing to major changes within the portfolio.

4.9 Economical aspects

All privately companies owners primary goal is to get as much value out of their invested money as possible; a well-functioning building to as low price as possible. Financial stability is a repeatedly reoccurring factor when discussing real estate development. As projects are prolonged over several years and due to the large investments, companies have to bind fairly large amounts of money during a considerable period of time. The ability to predict risks such as delays and cost overruns is crucial when setting up a project budget. The economical aspect shows that real estate development is not just restricted to the physical real estate but rather the way of commissioning long-term planning.

Whilst most of the interviewed companies consider it to be relatively easy to get access to capital others claimed it to be an issue. It was however always a limitation in the number of simultaneously ongoing projects due to budget restrictions and limitation of personnel. The most significant difference were to be found between pure developers and real estate developers and it was the amount of borrowed money invested in each project. Real estate companies are usually using their own money (40-60%) and financed the rest by a bank loans or other alternatives. Hence, real estate development department is usually forced to find ways of financing projects. A more commonly occurring way of finding funding in later years is through collaboratively sharing costs with other actors e.g. through consortiums and partnering projects. The companies does not usually have a lot of resources just laying around waiting to invested, therefore it as an interviewee said:

“It is important to be lean when it comes to capital”

Companies are trying to get maximum yield out of their invested money and it is therefore generally seen beneficial to invest others money for free or to a relatively low cost. Instead of loaning from banks or investors the largest developers are able to finance their entire project themselves by internal loans within the organisation. The money is primary coming from their construction division where clients are paying in advance. This method seems to work out well since they do not have to pay any external interest which would influence the owner's profit, but it does however rely on a constant cash flow from construction.

4.9.1 Risk and yield

Required yields are usually based upon estimated risk levels when executing a project. The risk depends on a number of factors e.g. what kind of real estate, earth

prerequisites, location etc. The risk is generally continuously increasing when moving away from immediate city centres. There are although exceptions e.g. an area outside of the city may be very popular since they are considered suitable for certain kind of business e.g. an outskirt area with good communication may be very suitable for heavy industry. A few interviewees put a lot of emphasis on the future tenant influence on risk levels. Real estate with large and historically credible tenants on long term contracts is e.g. seen as a lower risk than a real estate on a location rated as lower risk but without any trust-worthy tenants. This phenomenon is further strengthened by the fact that companies with the lowest yield demand motivated it by having the municipality as tenant which generally are considered as the most stable tenant. Some interviewees do however apply a fixed yield requirement regardless of type of the investment.

4.10 Benchmarking

The extent to which companies are benchmarking is quite diverse and a range of answers were given, often concerning beneficial aspects and in what areas benchmarking is applicable. Companies that are benchmarking use different methods when evaluating certain processes. Benchmarking is performed when measuring activities numerically compared to either themselves or competitors with the goal of improving processes and ultimately the end goal. The main focus when performing benchmarking is usually to evaluate results and working processes against previous projects and thereby try to find weaknesses in ways of working. This is mainly done internally due to lack of data from competitors. Several interviewees underlined the difficulties when finding relevant parameters to measure because of the various aspects of real estate development.

Benchmarking can be divided into two categories; internal and external. The main focus when performing internal benchmarking is to evaluate results by comparing details in individual projects. External benchmarking is rather focusing on economical factors by comparing major key performance indicators and other hard data. Rental income and net costs are typically benchmarked as these parameters are resulting in the future yield of a project. This kind of information is fairly easy to get hold of and is applied to individual real estate or the portfolio as a whole both internally and externally. There are publically published databases in which companies are able to compare themselves to other actors i.e. the customer satisfaction index (Nöjd Kund Index, NKI). Many companies are however critical towards how applicable such indexes in reality are. There are different meanings on whether it is possible to benchmark building costs in respect to other actors on the market. An interviewee at one of the largest developing companies considered it pointless to compare with competitors as relevant information needed for accurate benchmarking rarely is exploited. On the contrary, a real estate company that is, to a great extent, undertaking benchmarking did not consider it as an issue to get hold of relevant data. They explain that listed companies in general are quite transparent which enables them to count backwards in order to get the information needed. Working processes is found hardest

to benchmark because of constantly changing contextual circumstances. A couple of companies compared working processes from project to project and worked simultaneously with platforms which purpose are to standardise working processes.

5 Discussion

The ways in which companies are choosing to structure their organisation and their ways of creating ideas for new real estate development projects are highly interrelated. Ideas are occurring within different contexts and the actors/roles initiating and bringing specific ideas further into the organisation are various. Ideas arising from interactions with current tenants are mostly adopted by a real estate manager whilst ideas arising from purchase of land are further developed by a real estate developer. These two cases are not illustrating a prearranged way of working but are rather exemplifying that ideas are having different origins and thereby are adopted by organisations variously. Organisations are bound to enact flexibly as ideas are arising diversely dependent upon contextual circumstances and current prerequisites. The ability to fully understand regulations, requests from tenants, tenant's needs and requirements given by the company internally are crucial when undertaking real estate development. The amount of different actors is putting a real estate developer into the position of a coordinator when overlooking and assembling teams within the early phases of a real estate development. Because of these parameters there is not a specific way of working or organising superior to other ways.

The main objective for any real estate company is to create value for their owners. Dependent upon the current status within the real estate market and what strategies companies are applying to relate to that market, the creation of value is differentiating. Value is created by providing a product which customers are willing to pay for. The income generated from that product is acquired differentially dependent on type of company. Real estate companies are acquiring most of their income from rents within their existing portfolio whilst developers are vending their real estate after finalised development which generates their income. Both alternatives require a finished product that are meeting customer needs.

Directives stated within some companies are requesting a yearly growth on their portfolio. This enhancement of value can be achieved in three major ways: refining an existing real estate, investing in an existing real estate or developing a new real estate from initial idea. As companies are experience a shortage in buyable items on the open market, real estate development has lately been the most competitive weapon of choice.

5.1 Two ways of creating ideas

The ability of adopting and finding ideas is crucial for a professional real estate developer. Ideas are emerging in two different ways:

- The idea is developed and initiated from a need
- The idea is created on its own, leaving the need to be created or found

Within these two alternatives there are a range of opportunities a real estate developer has to be aware of. Meeting current needs do usually carry less risk than creating or

finding the need retrospectively. When a current need is satisfied, given a tenant is signed from start, the local knowledge may not be required to the same degree as when actively searching for tenants. When a need has not yet been identified a greater understanding of the local market is required in order to make a better predicament of the future development. An additional risk-element is added since no contracts have been signed and the importance of knowledge about the rental market therefore has to be significantly increased. The local knowledge is often brought up as an essential when performing real estate development.

Business movements within a real estate are bound to better fit on particular areas than others. Local knowledge is generally seen impossible to acquire unless company staff are living and acting in the area of development and its surroundings. They thereby are getting a deeper understanding of the hidden forces behind the areas development. If not acting locally, it becomes incredibly hard to understand and makes sense out of invisible and unspoken value barriers. Value barriers may consist of e.g. land appearing attractive at first glance but due to hidden parameters is not. Knowledge about planned future developing activities is crucial when looking on a long-term perspective. Maintaining continuous conversations with local actors such as e.g. municipality, competitors and customers is important when gathering information about a market. Hidden parameters cannot simply be obtained through brief investigations. Being successful in providing and finding the right level of exploitation is increasing the possibility of maximised yields and satisfied customers.

5.2 Organisational structures

Organisational structures, when applied to real estate development, are generally quite flexible and reactive towards present surroundings. Whilst overcoming critical factors, a company has to stimulate idea creation processes and making sure those ideas are conceptualised and brought into the organisation effectively and with great precision. Real estate development is commonly project based which means the structure of the organisation is different dependent upon project type and current prerequisites. Idea creation can either be stimulated or held back by the organisation. Stimulation of ideas can be achieved by engaging all employees in the idea creation which often is more preferable than simply putting a selected group of few into the role of finding new opportunities. By choosing a flat organisational structure, employees have a greater chance of communication over boundaries of responsibility.

“To be successful within real estate development it is important that the whole organisation think and breathe project development“

The quotation underlines one of the most important parameters, namely the matter of engaging and stimulating all roles within a company to embrace the creative process called real estate development. This thesis categorises the creation of ideas into six major groups:

- Personnel based dialogue

- Actively finding ideas
- Business relationships
- Political decisions
- Local knowledge
- Refinement and reformation of existing portfolio
- Access to land

This categorisation implicates the necessity of a broadly involved organisation as ideas are occurring in various areas of expertise. Cohesiveness and team spirit are often enhanced when employees are being able to influence working processes. Real estate development allows employees to work in an inspiring and creative environment which is increasing overall motivation. This creative environment makes staff more appertained to projects, leading to improved end results. Motivation levels and general inspiration can be related to the type of project. Interviewees referred often to the process they did not mainly work with as more of a creative and exciting approach, than the one they mostly undertake. New construction might for some be seen as more creative than refining existing real estate and the other way around for others. Although it did not influence their decision making since the most profitable and the most efficient alternative on a long-term perspective are always chosen when contemplating future development projects. Set apart from the financial aspect, interviewees generally prefer working with projects offering high levels of stimulation and allowing high creativeness. This might be seen as an indicator on how a creative environment is advantageous when looking upon end results. Workshops and other meetings where different proficiencies are gathered to share knowledge are generally efficient ways of engaging different roles within a company and thereby promoting the creation of new ideas. The real estate developer makes sense out of those gatherings and coordinates sequential events. In the role of a coordinator, the real estate developer brings newly gained knowledge into the development process and structures the idea conceptualisation process. Open-mindedness is crucial when adopting others ways of thinking and putting various competences together. Ideas should be evaluated from the perspective of a unity represented by all roles involved when the idea was initially brought up. Actors have to overlook traditionally set borders as those are hindering companies to perform knowledge sharing effectively.

A mixture of competences is set up when establishing the group of people commissioning and managing a typical real estate development. The steering committee has the overall responsibility when monitoring and making larger project specific investment decisions and has the responsibility of establishing a project group consisting of various areas of expertise. One of the most important aspects concerning real estate development is to provide a variety of proficiencies. Representatives from all groups active within early phases, construction and future usage of the real estate should be involved when defining and undertaking a project. A sufficient composition of this project group may be:

- Project manager

- Real estate developer
- Future building manager of property building services
- Letter (Closely related to future tenants)
- Technical consultants

This diversity of proficiencies is serving as an anchor providing stability and guidance throughout a project.

5.3 External parameters

A real estate development is constantly affected by external parameters. These parameters are acting outside the reach of a real estate developer and have to be interrelated and brought into the development process. A real estate company has to apply conformance when making sense out of current regulations and surrounding environments.

5.3.1 Municipality

Municipalities have great impact on real estate development activities. Real estate developers are however variously affected by city planning actions and regulations. Whilst some actors are considering the municipality countervailing their business activities others are pleased with their collaboration with city planning authorities. Municipalities are often operating bureaucratically and acting differently in different cities and actors are therefore variously willing of collaboration. The influencing aspects of municipalities cannot be foreseen but the utter benevolence of real estate developers to rely on city planning authorities is differing dependent on city. Some actors were more amenable towards the municipality and this difference was very noticeable dependent on where a specific company is located.

A sound collaboration between real estate developers and municipalities is a fundamental prerequisite when undertaking real estate development with a long-term perspective. The ability for companies to influence city planning actions is dependent upon current relationships, regulations, knowledge about the market etc. Real estate developers have the possibility of affecting city planning actions by developing ideas deriving from the understanding of the market. By creating ideas, beneficial for a specific market, it is easier to get hold of land presently owned by the municipality. As municipalities are the largest land owners it is important to be able to collaborate and understand long-term goals set-up for a city. Officially, most municipalities strive towards healthy collaborations with actors on the market. In reality, it seems on some occasions to be quite the opposite. Some actors were especially critical towards the municipality of Gothenburg who they thought did not encourage companies to entering the market and of collaboration.

5.3.2 Detail plans

Real estate development is suffering from extensive lead times when processing detail plans. Future city actions are often approached quite bureaucratically which leads to prolonged periods of administration. There are ongoing investigations on how to

simplify and speed up regulatory whereabouts but the sheer complexity and the amount of involved actors are slowing down this process. The interviewees could not see any efficiency improvements in the nearest future. Long lead times may on the other hand play a vital role when contemplating development actions. Major decisions have to be thorough and considered into smallest detail. Ideas are often grown and improved through time and this might be one positive parameters deriving from complicated regulatory contexts. Hence, to keep up with increasing demands, some efficiency changes have to be performed. One interviewee drew a parallel to some states in America where they do not have any regulations applied to private property. That might be seen as a quite extreme approach with obvious downsides but it shows how it may look on the other side of the “regulatory scale”. By minimising regulations they are able to keep costs and lead times down.

5.4 Real estate companies and developers

There are dissimilarities between pure real estate developers and real estate companies undertaking real estate development and because of different prerequisites these types of companies becomes separated. Real estate companies have the advantage of tenants paying rents in their current portfolio. This thesis has previously stated that ideas often occur in collaboration with tenants. Developers do not have the same chance of maintaining that close relationships to tenants. Real estate companies keep close collaboration and are able to relocate tenants within their portfolio and by doing that, avoid vacancies. Developers are bound to be more aggressive when marketing and binding business contacts and are in that perspective not as flexible as real estate companies. On the other hand, real estate companies have a lot more capital invested in existing real estate and are not nearly as agile as developers. Developers are able to put capital deriving from vending real estate directly into new development projects and can often rely on internal banks providing finance. Real estate companies have to be more aggressive when borrowing money which is a disadvantage of locking up capital in existing real estate.

The willingness of actors of taking on risk differs. Real estate companies are generally reluctant to take on high risk projects whilst developers are more willing. A developer drew the parallel of themselves being the matador in a bull fight. When the bull, considered being real estate companies, starts to approach and attack the matador, the matador pulls away his cape and prevents the bull from hitting its target. This example illustrates how the relationship between pure developers and real estate companies may appear. Developers have the capital necessary to undertake major development projects with high risks and higher yield. They are capable of financing their projects cheaper than real estate companies in comparison. Real estate companies are forced to endorse quite large loans, which entail them of lowering their risk levels. When developers notice real estate companies are approaching a specific market they are starting to look for other business opportunities. The exemplification of the bull moving towards the matador is, rather than telling the complete truth, showing how the relationship between developers and real estate companies tends to look like.

Developers are usually the ones developing raw land, meaning no details plans exist. Exploiting raw land is generally considered to be of high risk character mostly because of rather extensive periods of time before completion. Those types of project are to a large extent attracting other businesses and when this happens, the developer realises it is time to aim for another market to find projects with higher yields. Development of raw land is very time-consuming but is often more profitable. On the other hand, a centrally positioned piece of land or real estate has low risk levels and naturally lower yields. Companies interested in those kinds of projects are accepting lower yields. Companies aiming for high yields need to accept prolonged lead-times and higher risk-levels, which requires a high degree of local knowledge and business experience.

It is important to elaborate a bit further into what actors meaning when defining long-term and short-term development. To be accurate, there are two ways in which such a division can be made. Real estate companies are referring to their real estate development to be of long-term character because of continuous ownership and future care taking. Developers are generally developing large time-consuming projects which are extended through a long period of time. They are referring to their projects as long-term because of the sheer magnitude even though they are not planning on any future maintenance.

6 Conclusion

The most critical factor for a successful real estate development is the ability of creating new profitable ideas. There are a number of working methods which may promote the creation of ideas. There is however no one established work method in which an idea can be created, developed and conceptualised. It is due to the various contextual circumstances within which ideas are created that prevents a single work structure from being created. The lack of structure may cause issues restraining the real estate development but also give rise to new opportunities. By improving a company's ability to pick up new ideas for new real estate development projects they will thereby be able to gain a competitive advantage. The difficulties concerning real estate development derives from a highly flexible surrounding and the lack of a pre-set way of working when projects are being developed. In the list below a number of factors are presented which were found to often be essential for a successful real estate developer.

- **Contextual knowledge**
 1. **Local knowledge**
 2. **Organisational knowledge**
- **Broad engagement among staff**
- **Risk sharing**
- **Cross disciplinary collaboration**
- **Long term perspective**

Contextual Knowledge is a term summarising the knowledge that is accumulated through making business in a certain area and on a certain market for a long period of time. It could be divided in to two subcategories namely: local knowledge and organisational knowledge. Local knowledge is easiest described as the knowledge concerning the external business environment while organisational knowledge concerns the internal environment. Contextual knowledge compounds these two into one term covering the knowledge required to successfully perform real estate development. A real estate developer is constantly under a lot of pressure and the contextual knowledge is a fundamental necessity when making real estate developing decisions. The ability of coordinating actors involved or influenced by real estate development process is crucial when gathering knowledge in order to minimise the possibility to oversee areas of significance. One way of collecting knowledge is through establishing regular meetings and workshops involving a wide variety of stakeholder. It is further essential to bring a wide variety of expertise and experience into the project. Involving actors within the early phases is fundamental when making ideas more efficient and prosperous. It might also eventually lead to more proficient projects in the future. To conclude, contextual knowledge is partly consisting of market related knowledge; knowledge about how a specific market is functioning and how actors are behaving. The second part is consisting of internal organisational knowledge; where a real estate developer has the understanding of the internal structures within organisations and how that organisation is responding according to

the market. In order to create the contextual knowledge it was found important to act locally during a long period of time and to adopt a very communicative role when interrelated to actors on the market.

Broad engagement among staff

A well functioning collaboration between different actors is crucial when undertaking real estate development both internally and externally. By bringing in various expertises in early stages within a project to discuss and to collaborate over traditionally set boundaries were found to be good recipes for success. The efficiency, proficiency, smoothness and in the end the success of a project rely upon if all actors involved are willing to collaborate. Project success are therefore further enhanced and secured when employees are able to work creatively and are given the opportunity to be greatly involved in the development process. It is very important to engage every part of an organisation to create a unity of team members collaboratively working together towards a common goal.

Risk sharing

The competition on the market is steadily increasing and companies have to decide how much risk they are willing to take. Dependent upon e.g. location, type of project, local knowledge, experience etc. companies have to decide on where to put risk levels. As it becomes harder to find profitable projects, the targeted required yield has to be adapted to contextual circumstances. When looking at the real estate market today it is usually the pure development companies who take on the largest real estate development projects and they are also the ones securing the highest yields. By exposing themselves for higher risks and by working with a wide range of projects in their real estate development project portfolio it enables them to take drawbacks with less successful projects from time to time and still come out ahead of their competitors.

Cross disciplinary collaboration

Since companies owners usually do not want to change their business directions and start taking larger risks there are other ways of facing the issue with not being able to take on larger profitable real estate development projects. One solution is by entering consortiums which are when several different companies join their resources in a specific project. It enables real estate companies to take on projects which otherwise would not be possible due to its pure size or risk. By joining a consortium the actors will be able of exchanging knowledge which benefits the project and on a longer run also the company. They will also share the cost but perhaps most importantly, sharing the risk.

Long time perspective

Real estate development should not be seen as a short term project with a quick return of the investment. On the opposite it is a rather time consuming process and according to our research, short time projects where often found to be consist of higher competition and also less profitable. It is therefore important for a real estate

developer to have long term goals in order to dare taking on the time consuming projects which may stretch for over a decade. When comparing the interviewed companies' views on how long they considered long-term perspective to be, the answers were differentiating. The most distinguishing difference were found between developers and real estate companies and it was most likely due to the fact that developers more often worked with land areas without a detail plan which prolonged the process. The work with raw land may be a segment within real estate development in which the real estate companies not yet have exploited their full potential.

Summary

Real estate companies have to develop their work with real estate development in a manner closer to the way developer works. Since they rarely have the resources necessary one way is through collaboration between other actors (competitors). In order of being a successful real estate developer a sound collaborative cross boundary interrelation, both internally and externally is required. Working with this kind of openness enables real estate companies to explore new grounds within the real estate development market which may open up new possibilities and secure a sustainable business.

6.1 Implications for Castellum

Our recommendations for Castellum is for them to continue to expand and develop their work with new construction projects in order to be a strong competitor on the real estate market. They should further develop their collaboration with actors active within the development of new real estate including other competitive real estate companies. It will enable them to gain more knowledge by sharing experiences and taking on larger real estate development projects without risking short-term economical goals or expose them for higher risks than traditional projects. A good example of such a real estate development project is "Atollen" which is executed by one of Castellums subsidiaries Corallen. In project Atollen three companies joined in a consortium which made it possible to take on a large project. In addition they managed to rearrange and withdraw the municipality's contract with a third party by collaboratively presenting a trustworthy project plan for the municipality. As a single actor it would not only be hard to find the sufficient funds for the project but it would also been a lot harder to influence the municipality and to deliver all required expertise needed for such an extensive project.

We further believe it is of great importance to continue working with local offices in each city they are active in. When establishing in new cities we find it beneficial to not only get good knowledge of the market and its actors but also especially investigate the municipality's attitude towards the real estate market. In our research we were able to find large differences regarding the municipalities' attitude especially towards access to land but also by accepting more building permits. A market might at first sight seem attractive but the municipality's position may inhibit business in that certain area. So no matter which direction Castellum will take in their future

development we believe that they should keep their way of working with locally established subsidiaries.

It has shown to be beneficial to set up long-term goals for a company rather than focus too much on a yearly growth. Their current system is well functioning today but by not limiting themselves to short-term goals they will have greater possibility of being successful within real estate development. It will enable subsidiaries to invest in larger projects and generate higher yields in the long run. Today Castellums subsidiaries said that they were working with real estate development on a long term basis but when asked to quantify the term, they defined “long term” as much shorter than many other interviewed companies. They were also less willing than competitors to take on long time projects where they in most cases had to handle raw land. This may be their business strategy which is fine but there seems to be unused potential regarding the subject.

Finally, Castellum does not make any difference between the required yields in different cities which might lead to that the subsidiaries have to develop rather different organisations and business strategies in order to be able to reach the required yield. It does to some extent prevent a cross collaboration with a common structure which they could develop together and thereby maximise knowledge sharing.

6.2 Summarising notes

The focus has often laid on real estate developments changing nature and how a no standardised working process may cause issues. However, it is important to highlight that all these obstacles may also be seen as possibilities that enable actors to gain competitive advantage over their competitors by facing them as sufficiently as possible. There is not a single solution but by using some of the presented tools and by being aware of possibilities that exist will increase the success ratio among real estate development projects.

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