

How players in the real estate industry are affected by and respond to transformational processes



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Empirical evidence from the German real estate industry by structural equation models



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Table of Content



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- 1. Problem and research question**
2. Some background information on research design
3. Derivation and results of the fundamental research model
4. Results and discussion how players are affected and respond
5. Next research steps

The real estate industry is changing



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Real estate industry and its business models are facing a transformation process

This change in business models is triggered by megatrends and various drivers of change

Nevertheless, no systematic research about how the transformation is affecting the real estate industry has been done so far

Therefore we investigate two research questions:

- How does the transformation put adjustment pressure on the real estate industry and their players and how can it be measured?
- How real estate industry players are affected and respond to the adjustment pressure?

Sources: Picot (1981); Diller, Lorch (1984); Helmstädter (1982); Schehl (1993); Naisbitt, Aburdene (1982); Müller-Stewens, Müller (2009); Grömling, Haß (2009).

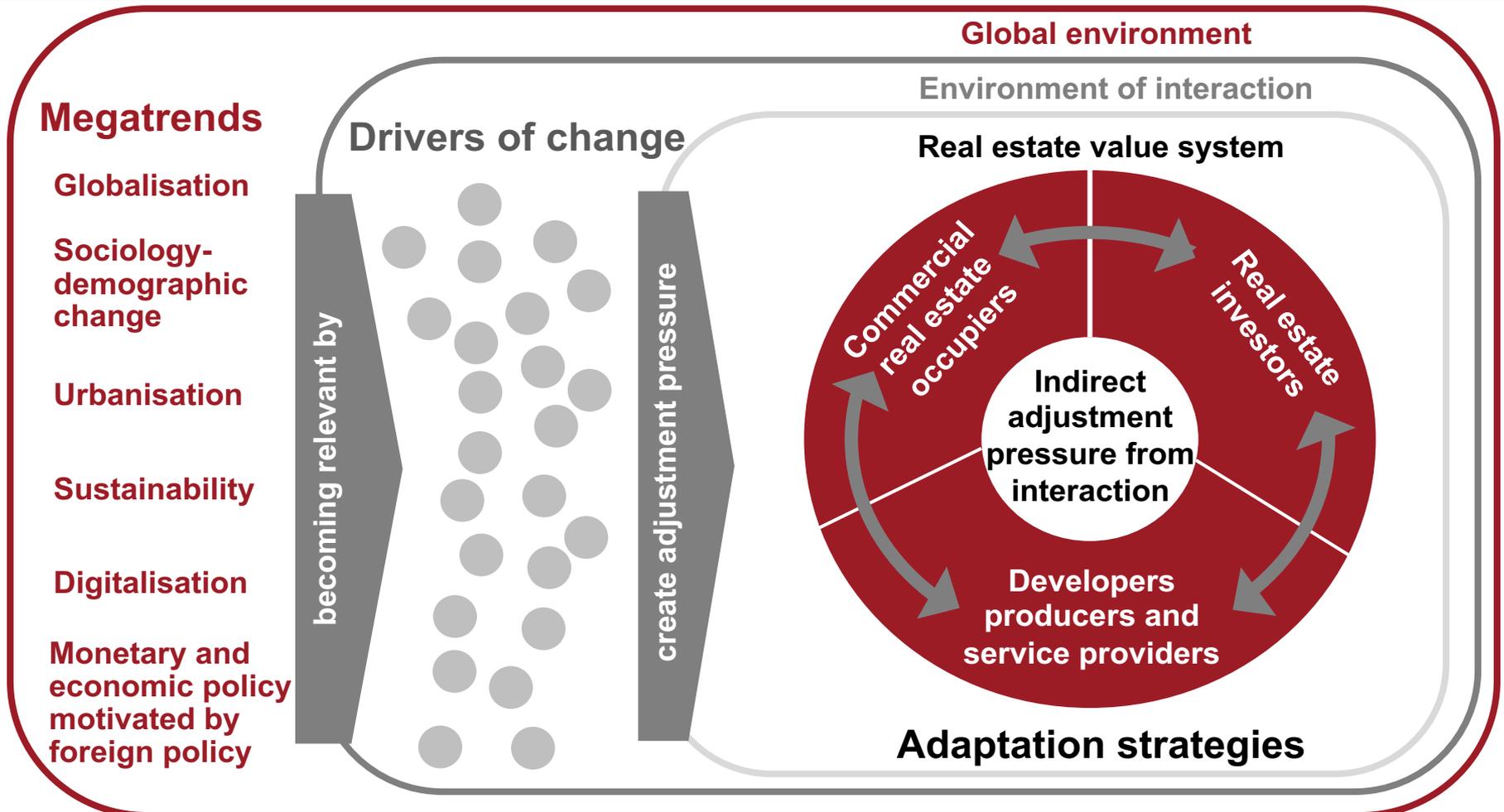
Table of Content



TECHNISCHE
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1. Problem and research question
- 2. Some background information on research design**
3. Derivation and results of the fundamental research model
4. Results and discussion how players are affected and respond
5. Next research steps

The framework of real estate industry transformation has 3 mechanisms of action



Sources: Picot (1981); Schehl (1993); Diller, Lorch (1984); Rüegg-Stürm (2003); Schwaniger (1994); Bleicher, Abegglen (2017).

In the research project, 249 decision-makers in a stratified sample were interviewed



Explorative pre-study: Literature research and 25 explorative interviews to identify relevant megatrends, drivers and adaptation strategies

Selection of 1,344 decision-makers from various actor groups according to responsibility & opinion leadership



- 249 computer-aided telephone interviews each 25 minutes
- structured questionnaire with questions about influence of megatrends and drivers
- as well as need for corporate adjustments and adaptation strategies pursued
- using a six-point Likert scale

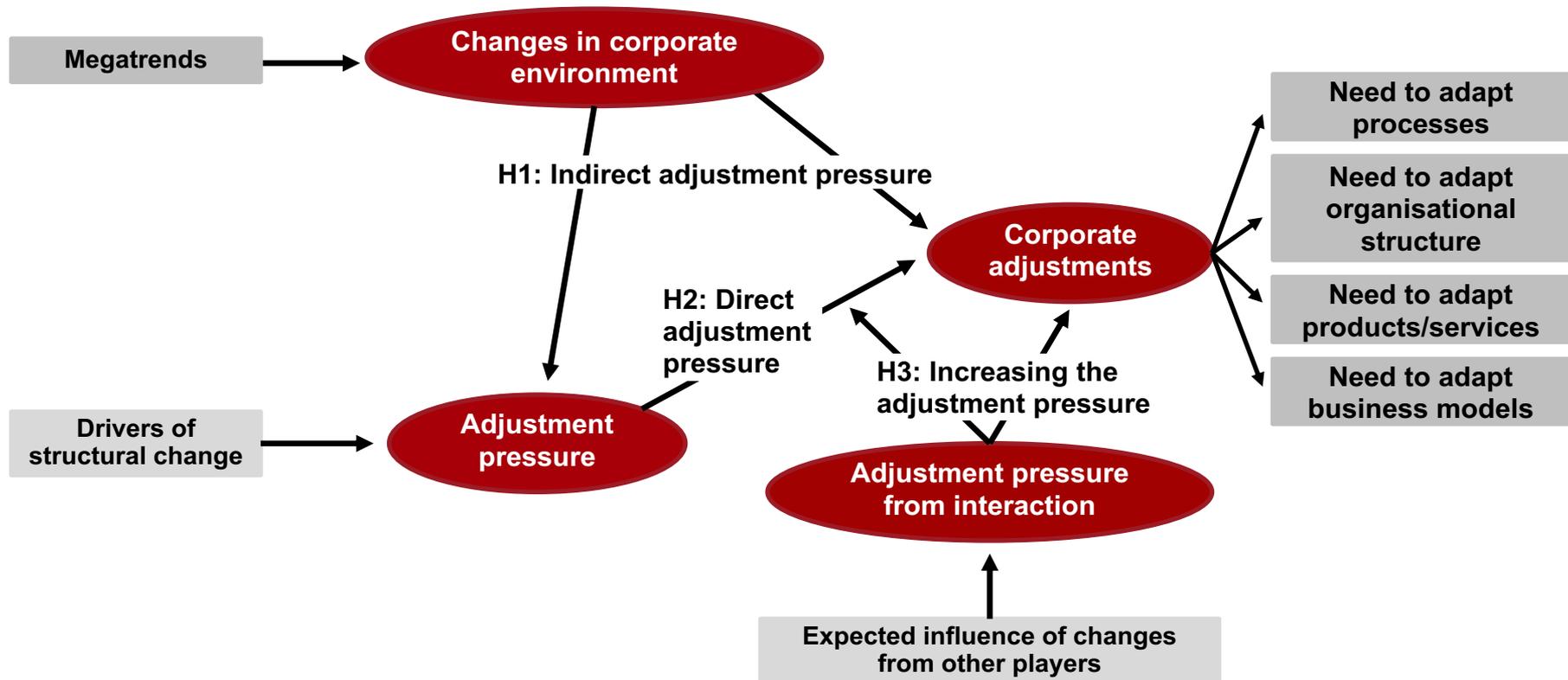
Table of Content



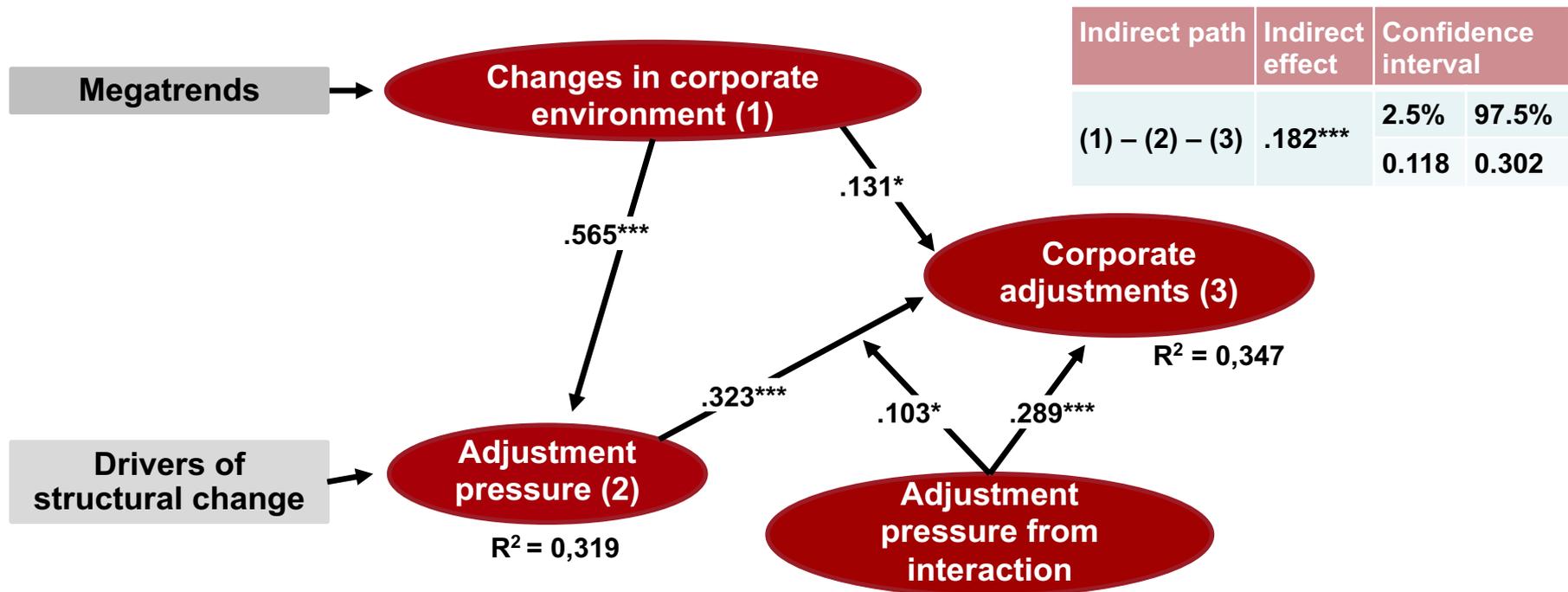
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DARMSTADT

1. Problem and research question
2. Some background information on research design
- 3. Derivation and results of the fundamental research model**
4. Results and discussion how players are affected and respond
5. Next research steps

Three essential impact mechanisms of transformation have been developed



Presumed impact mechanism of transformation can be measured empirically



- Megatrends only have an indirect influence and were overestimated in the debates.
- Main influence on the adjustment pressure comes from the drivers of change.
- This adjustment pressure is intensified by the interaction of the actors.

Table of Content



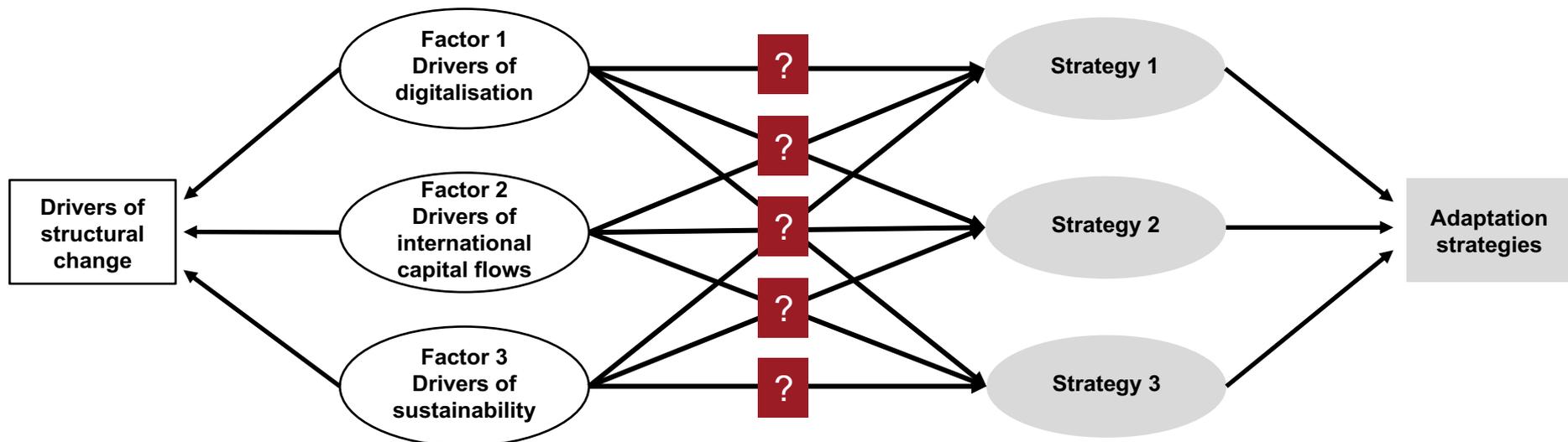
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1. Problem and research question
2. Some background information on research design
3. Derivation and results of the fundamental research model
- 4. Results and discussion how players are affected and respond**
5. Next research steps

Focus on the impact mechanism 2 is the subject of the second research question

With explorative factor analyses, the drivers can be bundled and the adaptation strategies can be summarised into essential strategies for each group of players.

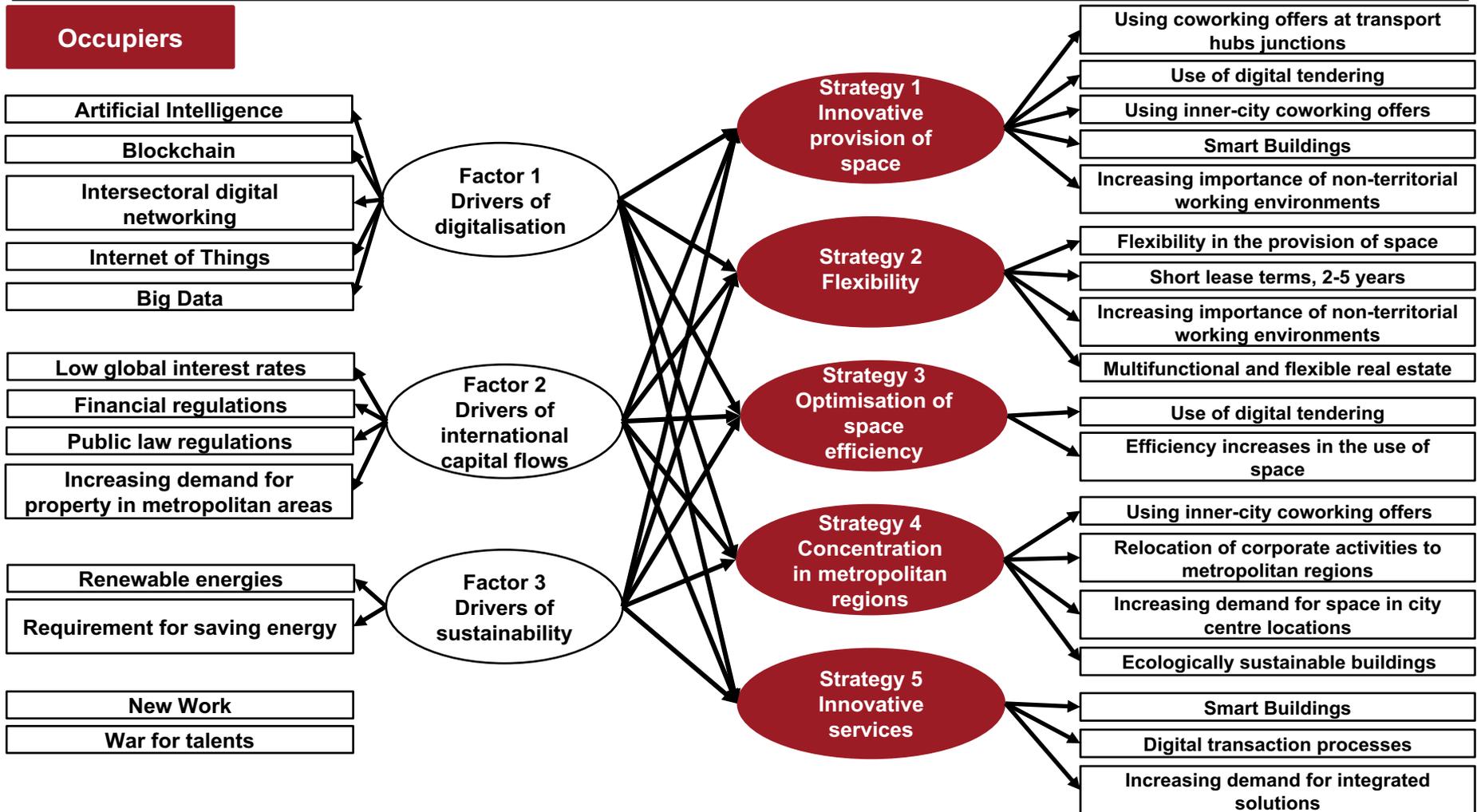
Occupiers	Investors
Operational service providers	Property developers



Showing how the players are affected

Investigation of how the players respond to the adjustment pressure

These effects can be calculated according to all group of players, for example occupiers



For occupiers the need for innovative and flexible space provision is growing



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Occupiers of commercial real estate		Strategy 1 Innovative provision of space	Strategy 2 Flexibility	Strategy 3 Optimisation of space efficiency	Strategy 4 Concentration in metropolitan regions	Strategy 5 Innovative services
Factor 1 Drivers of digitalisation	β	.463**	.461**	.387**	.075	.661***
Factor 2 Drivers of international capital flows	β	.103	.179	.081	.534***	.148
Factor 3 Drivers of sustainability	β	.272	-.231	.244	.269	.109
Arithmetic mean		2.66	2.16	2.24	3.02	2.52
Standard deviation		0.882	0.759	0.877	0.898	0.834

Results:

- Digitalisation is changing the quantitative and qualitative demand for space in business and society
- Occupiers react to the uncertainty about future space requirements with flexibility and the demand for innovative provision of space
- Also optimisation of space efficiency is important, where digitalisation drivers can act as enablers
- Demand for integrated solutions and asset services is increasing (Strategy 5), which is an adaptation to digitalisation and New Work

Developers react with a stronger user orientation in their activities



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Property developers		Strategy 1 Product innovation	Strategy 2 Digitalisation of development	Strategy 3 New asset classes	Strategy 4 Increasing the breadth of value added	Strategy 5 Building innovations	Strategy 6 Take over operator functions
Factor 1 Drivers of digitalisation	β	.352	.431***	.316	.469***	.160	.074
Factor 2 Drivers of international capital flows	β	-.099	-.088	.109	.059	-.063	.069
Factor 3 Drivers of sustainability	β	.338	.499***	.395**	.374	.677***	.523**
Factor 4 Policy drivers	β	-.058	-.437**	.206	-.349**	-.418**	-.409*
Arithmetic mean		2.57	2.50	2.51	2.72	2.29	2.96
Standard deviation		1.388	0.883	0.950	0.957	1.011	1.197

Results:

- Exposed the strongest influence of drivers and pursuing adaptation strategies with very high intensity
- Digitalisation of development and increasing the the breadth of value added -> growing importance of integrated real estate services and integrated operator models
- Weak effect of the drivers of international capital flows
- Drivers of sustainability lead new asset classes, building innovations and especially New Work leads to take over operator functions

In the overall context results reveal implications for the real estate value system



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- Transformation of real estate industry **is originating from the occupiers**, they need more innovative and flexible provision of space
- **Occupiers increasingly focus on holistic solutions**, which are not produced by themselves nor by the service providers
- Even the **investors recognize the increasing importance of the occupiers**, but hardly follow the resulting strategies
- Especially **service providers increase of efficiency** in their traditional processes, instead of evolving new business models or products and services
- This led to the conclusion that **real estate industry is not positioned as a holistic, integrated value-added system** and continues to show enormous inefficiencies
- This is **recognised in part by property developers**, but they are still organized in medium-sized companies -> **their problem-solving capacities are still limited**
- All in all the findings shows the **opportunities and risks in transformation** and help to characterize the need for change in the real estate industry

Table of Content



TECHNISCHE
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DARMSTADT

1. Problem and research question
2. Some background information on research design
3. Derivation and results of the fundamental research model
4. Results and discussion how players are affected and respond
- 5. Next research steps**

Further analyses to understand the transformation of real estate industry



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Multidimensional scaling to map the transformation of megatrends and change drivers

Network analysis to investigate the influence of interactions on adaptation pressure (impact mechanism 3)

Analysis of the corporate environment and the corporate relationships of property developers using a stakeholder survey

- Investigation of the effects of the transformation on the business models
- Sketching of recommendations for necessary adjustments of the business models

**Deeper
understanding of
transformation**

Thank you for your attention!



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Open questions



**For more information about our research center and projects please visit:
<http://real-estate-research.org/>**

Sources I



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Image

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Investors also recognize the potential of focusing on user requirements



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Investors		Strategy 1 Occupier-oriented investment strategies	Strategy 2 Strengthening of technical real estate management competencies	Strategy 3 Success-oriented control of real estate management	Strategy 4 Digital business models and products
Factor 1 Drivers of digitalisation	β	.439***	.104	.225*	.576***
Factor 2 Drivers of international capital flows	β	.283***	.326***	.176	.101
Factor 3 Drivers of sustainability	β	.188**	.116	-.013	.054
Arithmetic mean		3.01	2.22	3.09	3.12
Standard deviation		1.003	0.865	1.236	0.897

Results:

- Among investors, the strongest influence has an impact on the occupier-oriented investment strategies
- Nevertheless, they pursue rather strengthening of technical real estate management competencies
- The strong influence on the digital business models and products in the context of the low average importance of it indicates that German investors have not yet identified the potential of the digitisation drivers or that the current good economic situation means that there is no need for far-reaching adjustments
- However, a paradigm shift towards occupier orientation is noticeable

Service providers increasing the efficiency of their existing processes and activities



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Operational service providers		Strategy 1 Business area expansions	Strategy 2 Using digital technologies	Strategy 3 Digitalisation of service creation	Strategy 4 Product and service innovation
Factor 1 Drivers of digitalisation	β	.554***	.235**	.135	.376***
Factor 2 Drivers of international capital flows	β	.062	-.209	-.120	.253
Factor 3 Drivers of sustainability	β	-.196	.350**	.317	.036
Arithmetic mean		3.38	2.62	2.16	2.79
Standard deviation		0.992	1.066	0.847	1.069

Results:

- The influence on the strategy of business area expansion shows the potential that digitalisation provides, but it has not yet been used by the majority of service providers
- Same can be seen for product and service innovation which enable “as a service” concepts
- However, instead of optimizing the business model, digitisation currently serves service providers to increase the efficiency of existing activities
- Service providers use digital technologies to meet sustainability requirements in the construction and operation
- Additionally war for talents has negative effect on product and service innovation