

Competent ownership in real estate business

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Introduction

The real estate business project Competent Ownership (Oskito) focuses on the role of ownership within the real estate industry. In the real estate industry, ownership acts as the core upon which, the competitive advantages are based to the greatest extent. The project examines specific real estate business issues, especially "entities of possession" that are large and significant enough to allow the development of specialised businesses. The project is of current interest as the next phase of growth in the Finnish information technology community is likely take place primarily in areas situated far from the very largest population centres. This kind of structural development in the Finnish economy is possible only if market based real estate strategies can be built outside Helsinki region and a few larger Finnish cities. Institutional investors are very passive elsewhere. Therefore, a new concept of ownership is needed.

Similar development concerning the next phase of in information technology has taken place in specific regions in larger countries, but the idea to extend this kind of structural change in the entire national economy is new. During earlier phases of the information society this kind of thinking has not been market based.

The start up scenario

The total number of the employed labor force in Finland is appr. 2 million. In the start-up scenario Finland is a pilot community which is in the process developing second generation information society professions. During the next 10 years, a maximum of 250.000 of such posts can be created. In Europe the figure will be several millions. In global exchange, there is always someone who is always ahead of the others, and Finland is likely to have an advantage in this particular field. However, to achieve and maintain a globally leading information technology position is not an easy task and there are several risks involved. The new know-how and expertise gained during the development of the information technology society will be highly appreciated export material for some years. Nevertheless, the same skills will be mastered elsewhere, too. The process of sharing this know-how will lead to creation

of considerable foreign ownership in Finland. After this period, around 2010, Finland will have to create valuable new tasks and professions of value to the global community, as well as to achieve competence in them.

The probable number of new pilot professions created in Finnish regional centres by 2010 are presented in Table 1. The projections are highly sensitive to the action plans of regional centres.

Table 1. The Second Generation Information Society Professions Created in Regional Centres, the Underlined Regional Centres Participate in the Oskito Project.

Region	Type of region	New professions				Total
		ICT	e-commerce call centres, etc.	New clusters (bio-, nano- etc.)	Sub-contracting	
Helsinki region	a	14000	14500	18000	500	47000
Oulu	a	12000	5000	5000	1000	23000
<u>Tampere</u>	a	14000	5800	5000	200	25000
<u>Turku</u>	a	8500	6200	9000	1300	25000
<u>Jyväskylä</u>	a	5500	5500	5000	1000	17000
<u>Vaasa</u>	a	3000	2400	2000	600	8000
Kuopio	ab	3800	4500	1000	1700	11000
<u>Joensuu</u>	b	3700	4300	2000	1000	11000
<u>Pori</u>	b	2900	3100	1000	1000	8000
Seinäjoki	c	1100	1400	300	700	3500
Lappeenranta	b	3300	2300	1400	1000	8000
Salo	a	1700	1500	300	1000	4500
Lahti	b	2000	2200	900	1900	7000
<u>Hämeenlinna</u>	b	2100	2200	200	2000	6500
Rovaniemi	c	1500	1500	500	2000	5500
Kouvola	c	900	900	500	1000	3300
Mikkeli	c	1400	1600	800	1200	5000
Varkaus	c	1700	1500	500	1300	5000
<u>Kotka</u>	c	1300	1400	500	1800	5000
<u>Imatra</u>	c	600	600		800	2000
Others		0	1600	1100	22000	24700
Total		85000	70000	55000	45000	255000

Classes a, b and c characterise the speed in which each region can exploit new instruments of regional economic development. These instruments are shortly discussed in Figure 1. In real estate business, understanding the impact of growth centres on the industry is essential. The commercial and real estate strategies of the growth centres provide a course for the entire nation. It is no longer appropriate to discuss about single growth regions, in the future Finland will be considered as a single exchange entity. Many great challenges have to be faced during the transition period. A successful meeting of these challenges requires a common national policy. The national policy, on the other hand, can be constructed only on the basis of regional strategies.

The task of the national policy is to harmonise the regional strategies and activities. In Finland a national "Regional center development program 2001-2006" will be started

this year. Regional centres have presented their development programs (42 proposals) and 20-30 centres will be chosen to the program.

The research strategy in Oskito-project

The first task of the Oskito project is to find out how to create a sufficiently reliable vision of (how to handle) the future challenges. The second task is to develop real estate business so that the risks can be kept as manageable as possible. This requires active discussion concerning proper regional real estate strategies.

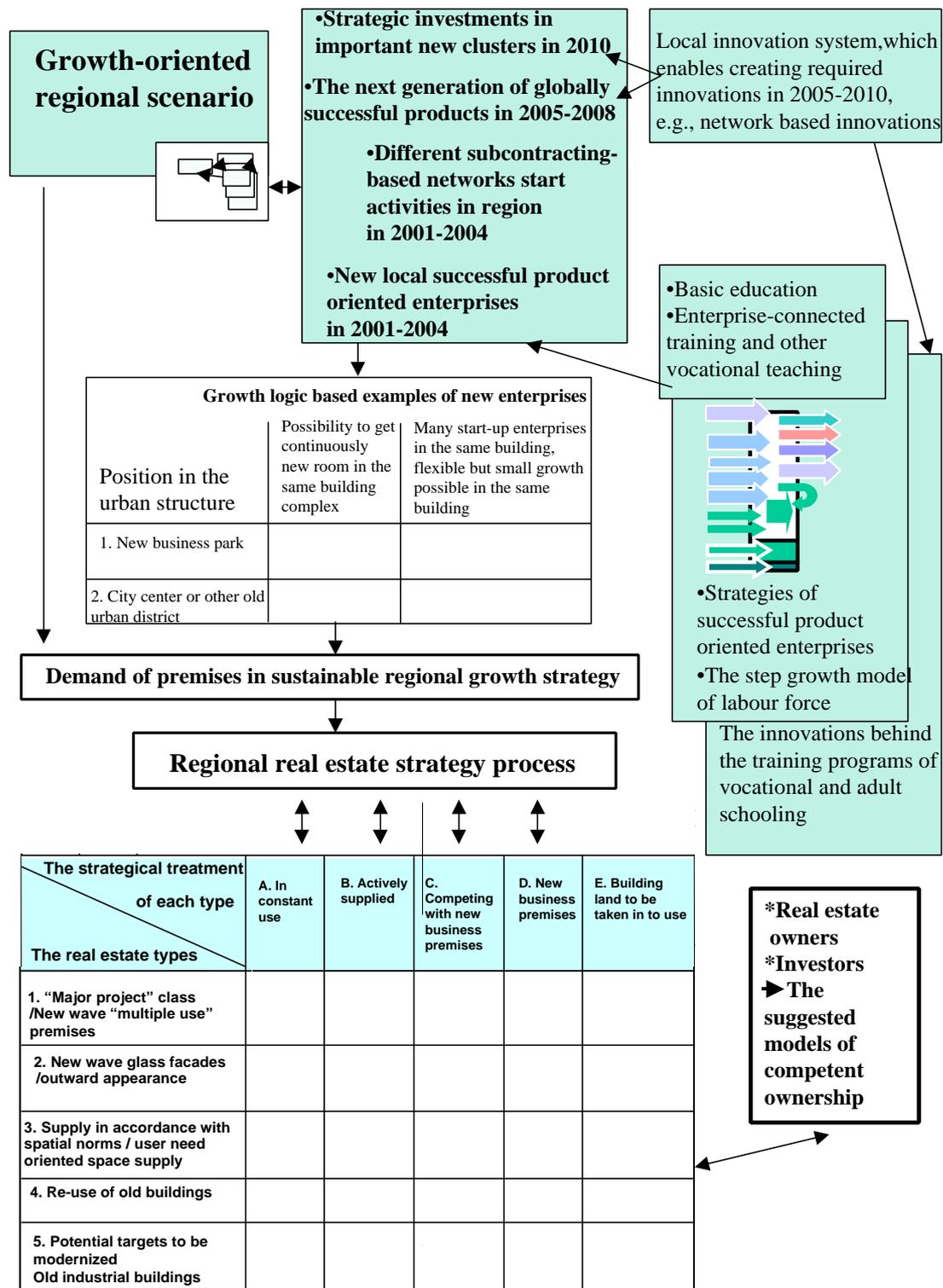
For this purpose, an estimate of the development in the participating towns, up to the year 2010, has been done in table 1. An annual conclusion both of the number of new posts created and the consequent building will also be made. The building sites are to be classified according to their special features. As a result a project map, which each participating town updates annually, can be drawn. Companies, city real estate professionals and owners, as well as the investors will be aware of the actual situation and will be able to maintain an accurate, long term regional real estate strategy.

In the long run, Finland can keep employment high only by investing in knowledge oriented growth clusters, e.g., ICT, during the next years. In the future the investments have to be altered toward nano-, bio- and other growing technologies. At the same time new patterns of decentralised subcontract strategies must be adapted in the industry. The resulting changes are extensive. On the national level, 5-10 million square meters of new business premises has to be built by 2010. This demand is caused by that 10-20 % of the total labour force, which is employed by the new clusters. The amount of this demand based scenario is so high that the real estate industry seems to be unarmed to carry out concurrent planning, financing and training of new real estate operators. In this rapid process new methods of co-operation are needed to create a sound basis for “competent ownership”.

The resources invested in adult education are the balancing factor in this development. Regions build action plans to carry out “labour force transformation strategies” to maintain high employment. These transformation strategies should be included in the regional real estate strategies. A new kind of planning is approached in the OSKITO study by combining single, but important pieces needed to create new practices for the business. At this stage of the study, these are the tentative observations and recommendations for Vaasa, (population approx. 60000, labour force approx. 30000) the required yearly adult education is calculated to be 750 people, the existing capacity is only sufficient for 250 people per year. An increase in the educational capacity would, in 10 years, create the need to technically improve 5000 work points in Vaasa. If the adult training is not carried out, the structural unemployment will easily be over 20 %. This is the reality of the second level of the information society. Being one of the first nations on the way, small and transparent Finland can be used as the test laboratory for the other countries.

The new instruments available to regional economic development organizations are connected to real estate business in Figure 1. Their detailed description in this paper is not possible.

Figure 1. The Research Strategy in Oskito Project.



Regional real estate strategy and the question of the competent owner

An important issue in regional real estate strategy is understanding the next generation products that are important to the region and to the business that evolves around them. Anticipating actions in this context binds the region to the development of global exchange. In the Oskito project, models are built to forecast the innovations behind the next generation products, and to include these forecasted innovations as a part to future-oriented adult education. This example shows how knowledge about profound issues should be produced to the persons practising in real estate business. We are facing a research model that creates genuine new concepts and ways running a business. Concurrently with the research the participating towns test the proposals of the study. The research is financed by varied/diversified participants; a number of cities, real estate owners, investors and building firms. Therefore, it is easy to test the hypothesis in real business during the research.

The essential objective of the research is to prepare an annual summary of the different real estate types. The cross-tabulation presented in table 1 describes a city with an average of slightly less than 100 000 floor square meters of business premises built in a year. The different types of real estates are related to annual demand.

The first type represents very large projects, which combine several user categories and require successful tenants. High risks are involved in this major project class. The second category represents business premises, where the tenants want to have very high level outlook. The third category represents common business premises, which are planned to satisfy the user needs. They are cost effective from the point of view of the users. Categories 4 and 5 represent buildings to be renovated.

The regional real estate strategy can set targets to get many business premises that belong to categories 1 or 2. This means that at the same time new successful enterprises grow in the regional economy. The map in Table 2 helps to see regional positions in the long run. This kind of maps are summarized for every year. Because only the changes are important, in table 2 the premises in column a. “In constant use” are not needed accurately. They are in use and do interfere the strategies directly. In column b. is presented the amount of business premises, which is vacant and in active supply. In column c. is presented the amount, which competes with new buildings. In column d. is presented the amount floor square meters built in year under inspection. In column e are the sites to be built described.

Table 2. “Yearly map” in regional real estate strategies.

The strategical treatment of each type	a. In constant use	b. Actively supplied	c. Competing with new business premises	d. New business premises	e. Sites to be build
The real estate types					
1. "Major project" class New wave "multiple use" premises				5.000	3.000
2. New wave glass façade				15.000	6.000
3. Supply in accordance with spatial norms supply in accordance with demand		10.000	3.000	45.000	15.000
4. Re-use of old buildings				10.000	
5. Potential targets to be renovated old industrial buildings				10.000	
6. Total		10.000	3.000	85.000	24.000

It seems to be possible to develop the "most intelligent way of owning" option for different real estate types. The function of the real estate strategy is to ensure that the ownership of the real estates in the region is in the hands of the most competent operators. Only in this way it is possible to maintain the potential (or the high and sustainable employment) growth of large centres constant in an uncertain future.

Several proposals for the most intelligent way of owning will be tested, when the regional real estate strategies are carried out during the next year. Proposals can be characterized as following:

The intermediary owner:

Market entry and exit situations for the intermediary owner must be in connection with regional strategy, similarly contacts and co-operation with different local "accelerator-organisations" must be available. Tentative types:

Type 1: Intermediary owner during building process

Type 2: Intermediary owner during the start-up period, when the building gets permanent users

Type 3: Intermediary owner during renovation processes

The most appropriate owner in the long run:

The general idea of appropriate owners in the long run must be in mind when the regional real estate strategies are being done. Otherwise the outcome will be surprising and the intermediary ownership will be unefficient. Tentative types:

- For example partnership, which has expertise in both real estate business and in the businesses of real estate users,
- Local operator having abilities to keep certain, specialised business premise rented.

The combinations of this apparently simple *intermediary->most appropriate owner in the long run* -chain vary greatly in different regions. Therefore, the regional real estate strategies creating durable market-based real estate business, are very sensitive to the synergy between different regional actors. This synergy is possible only by creating completely new forecasting systems. These forecasting systems are under development concurrently in other projects.

This project with seven participating towns and a budget of FIM 2,5 millions, is a part of REMBRAND-technology program.

Conclusions

The introduction of the concept of competent ownership gives possibilities to set specific targets in each regional center. The targets differ from each other in accordance to the set ambition level of development. Possible ambition levels are dependent on growth supporting factors in the regional economic life.

Highest level

Whole city or community can be changed, if several major projects for new wave multiple use can be financed by the incomes of new enterprises. The regional strategy must be very innovation-oriented. On the basis of these experiences, totally new projects for concurrent development of R&D-operations and structural changes of industry can be launched in any region.

Lowest level

Only single business premises can be taken as targets. This is the situation in regions having shortage of instruments to create success product oriented activities. On these areas, the chains from intermediary ownership toward owners of long duration are difficult to build.

General conditions to build paths from intermediary to long duration ownership are characterized followingly:

General atmosphere in the real estate business

The idea of calculating the real estate investments in accordance with the incomes of new entrepreneurs. New enterprises/production lines create returns during next 10 years. Part of these returns are paid as rents, and at its highest, the level of investments can equal with the rents. A concept of "real estate capital based on forthcoming business profits" is needed. In this way, the number of regional real estate capital can be calculated in advance.

Through this process the necessary and sufficient conditions for profiles of most appropriate owners in the long run can be seen.

Necessary conditions:

NC 1:

The regional strategies show confidentially foundations for sustainable growth and demand for business premises in the form of new industrial clusters. Only in this way the building period finance is quaranteed with acceptable interest rate.

NC 2:

Efficient intermediary ownership can be operated and it "furnishes" single business premises for the appropriate owners in the long run.

NC 3:

The ability of intermediary owners to carry start-up enterprises to stable position and to transform the ownership from intermediary to durative.

Sufficient conditions:

SC 1:

Suggested profiles for 2010 long duration owners (Herma Technology Center, Kapiteeli Ltd, local real estate funds, international specialised investment institutes, partnerships around “major class” projects etc.)

SC 2:

Rent deposits in case the buildings will be unpopulated for a while. The regional real estate strategy has to cover this issue, new operative skills must be included in the strategy to eliminate this risk. If this condition is not adequately fulfilled, interests become high or new type of owners are not available.

SC 3:

Definition and creation of the knowledge a durative owner must have in order to be able to operate or to outsource operation of premises. Access to different e-commerce systems, which include the services necessary for durative owners.

SC 4:

Identification of risk situations, where durative owners may drift outside of their actual skills. Risk avoidance mechanisms, e.g., specialised intermediary owners are needed to return business premises to markets.

Several other conditions need to be fulfilled. The general idea is to create real estate markets that are not based on value addition expectations. The other conditions and instruments to fulfil them will be studied when all regional real estate strategies can be compared.