

Management of Real Estate

Principles of Real Estate Development & Management

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Author's books

- Issues in Property Development: Tenure & Ownership, Informality and Price Formation in Property Markets in Developing Cities
- Property Markets in Colombo: Evolution and Success
- Housing Market: A Review of Purchase Decision of Potential Buyers
- Guidelines and Procedures for the B.Sc. Independent Research Report and the M.Sc. Dissertation
- Management of Real Estate: Principles of Real Estate Development & Management

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Summing up

The Objective of this Book

Purpose of the Book

Real Estate Development and Management (REDM) is multi-disciplinary in nature. Therefore, the scope of Real Estate Development and Management is very wide. This book, however, attempts to cover only some basic areas and shows the inter-relationships of Real Estate Development and Management with many other affiliated subject areas such as Marketing Management, General Management, Micro and Macro Economics, Valuation, and Planning etc. Some practical assignments are also incorporated with relevant sections with a view to show the empirical reality of the discipline.

The major objective of this book is to provide the philosophical foundation of the discipline of real estate development and management for the students, researchers, policy makers and other interested persons of the area of real estate development and management. More specifically the book expects,

- (a) To enhance the competency (through imparting knowledge, enhancing skills and developing attitudes) of undergraduate and postgraduate students who follow Real Estate Development and Management, and other related courses.

- (b) To strengthen and motivate of the students and practitioners to undertake responsibilities in developing and managing real estate with more confident in achieving the highest and best use of them that is an important requirement at the national level.
- (c) To encourage undergraduates, graduates and related professionals for research in the field of real estate development and management.

Some of Key Areas Concerned under the Subject

Since real estates are multifaceted components by nature, real estate professionals should be in multidisciplinary to ensure the expected development and management. Followings are some of fundamental areas that should be comprehended by to developers, managers and related professionals such as planners and valuers.

- Principles of Real Estate Development and Management.
- Classification and Identification of Different Properties.
- General management (aspects including four functional areas i.e. Financial management, Human resources management, Production and Marketing management).

- Strategic management.
- Role of different stakeholders i.e. developer, investors, managers etc.
- Best and highest use of lands and properties
- Cost Benefit Analysis.
- Cash flow, Net Present Value, Internal Rate of Return etc with regard to real estate investment projects.
- Investment appraisal and portfolio management.
- Real Estate Development process, real estate life cycle.
- Property and the macro-economy, globalization of properties.
- Obsolescence of properties and remedies.
- Different costs and values in real estates.
- Environmental effects on Real Estate and vice versa.
- Building facilities & service management.
- Management of Condominiums.
- Ownerships, tenure types, different interest and legal aspects of real estates.
- Real estate management in non-real estate firms i.e. Corporate Real Estate Asset Management (CREAM).
- Review of real estate industry and public policy (real estate sector/real estate markets etc).
- Real estate research and consultations.

However, the book deals with few selected areas of above mentioned.

Learning Outcomes of the Book

By reading of the book, the readers will,

- Be able to understand the basic as well as a wider range of aspects with regard to the real estate development and management.
- Realize the multi-disciplinary nature of the subject and thereby learn to incorporate other particular subjects with real estate development and management.
- Understand issues in real estates development and management in your organization and in the country.
- Be able to identify researchable issues in the field of real estate development and management.
- Have confidence in undertaking responsibilities in development, management and use of real estates assuring the highest and the best use of them converting properties into “valuable properties”.

Chapter 01

Introduction to Real Estate

Chapter One

Introduction to Real Estate

- Some Key Terms: Real Estate, Land, Real Property
- Classification of Properties
- Characteristics of Different Property Types According to the Legal Basis, Usage, Ownership, and Management etc.
- Real Estate Development
- Real Estate Management
- Defining of Real Estate Management
- Some Issues with Increasing Property Assets
- Some Macro Level Socio-Economic Issues
- Why do we need to know Property Management?
- Public Property Management vs. Private Property Management

Introduction to Real Estate

Learning Outcomes

The objective of this chapter is to describe the scope of the subject and the limit of this book. Hence, it is expected that you will achieve the following learning outcomes by reading the chapter.

- You will be able to recognize the significance of the subject.
- You will know how to define the subject.
- You will know meanings of some key terms relating to the subject.
- You will realize the relevancy of the subject with the various professions such as Real Estate Development and Management, Valuation, Town and Country Planning etc.

Some Key Terms

Firstly, it is important to understand three main terms, which are referred throughout the book such as;

- Land
- Real Estate
- Real Property

Land: Land is defined as the earth's surface extending downwards to the centre of the earth and upwards to infinity, including things permanently attached by nature such as trees and water. The term "land", thus, refers to not only the surface of the land but also the underlying soil and things that are naturally attached to the land, such as rocks and plants. Land includes the minerals and substances far below the earth's surface. It also includes the air above the land up into the space. Therefore, land consists of three layers known as respectively the "surface" the "subsurface" and "airspace".

Land is one of the basic factors of production. Primary production functions are taken place in rural land (non-urban land) whereas the other functions are allied with urban locations. However, due to the development of the infrastructure facilities, it is difficult to demarcate urban uses and non-urban uses easily. Anyway, in this book, more

concern is given to urban property development and management.

Real Estate: Real estate is defined as the land above and below the earth's surface, including all things that are permanently attached to it either natural or artificial. Therefore, the term "Real Estate" is broader than the term "land". It includes not only the natural components of the land but also all artificially improved immovable features made by the man.

Any artificial thing that is attached to the land, such as a building or a structure or a fence is concerned as a part of real estate. Land is also converted into real estate as it is improved by means of providing access, utilities, sewerage systems and other services that make it suitable for habitable buildings. They are also called serviced-lands, improved lands or developed lands. Such parcels of lands are called real estates since they have been reshaped from their natural features.

At the same time, it is clear that the land becomes usable when it is converted into a real estate. This means when a land becomes a real estate, it is usable for planned activities. Therefore, it is able to argue that the "usability of the land" is a more apparent and logical criterion to recognize real estate. In this way, it is also able to argue that when

the man starts to use the land it becomes a real estate.

Real Property: The word “property” has different meanings in legal term¹. In this discipline, it is the land and tangible features on the land and permanent improvements.

“Real property” is defined as the interests, benefits and rights inherent in the ownership of real estates. Indeed, a real estate is valuable, usable and marketable as it possesses several real properties. Hence, the term “real property” is broader than both the terms “land” and “real estate”. It includes the physical surface of the land, what lies above and below to it, what is permanently attached to it, as well as the bundle of legal rights: legal rights of ownership which is attached to the ownership of a parcel of real estate.

Real property includes not only the surface, subsurface and airspace but also the surface rights, subsurface rights and airspace rights, all of which can be owned by different individuals. There are, however, some limitations as well. For instance;

¹ Moveable property, immovable property etc... In this subject, the term property referred only to immovable properties.

- Surface rights are restricted by different legal conditions such as Planning Law which aims to control haphazard development, Law of Delict, which aims to protect others from nuisance made by one who enjoys benefit(s) of a real estate etc. Further, restriction of cutting some trees like jack, coconut etc, and excavation of sand, granite etc are examples of limitations of the surface right.
- Subsurface rights are restricted by licence, tax (for instance gem mining) while some substances are fully restricted by having state ownership such as fossil oil and some minerals etc.
- Airspace is also restricted by civil aviations law, electricity and other service lines etc. Further, it seems in many countries of full restriction for fling by individuals or need of very special permission for some selected journeys.

Land = (Soil) + (All natural attachments up to the space and below to the centre of the earth)

Land = (Natural Surface) + (Natural Subsurface) + (Natural Airspace)

Real Estate = Land + All Man Made Fixtures

Real Property = (Real Estate) + (Rights and benefits attached to real estate)

Classification of Properties

Properties can be classified according to different criteria. Followings are some of categories used for general purposes.

According to the **law** (ownerships/tenure)

- Freehold
- Leasehold
- Customary

According to the **Usages/nature of development**

- Residential property/ condominiums
- Commercial property
- Agricultural property
- Public property
- Industrial property
- Service property

According to the **ownership**

- Private (individuals, companies and social organizations etc)
- Public (state departments, incorporated bodies etc)

According to the **location**

- Urban
- Rural

Some more special classifications can be made if needed. For instance, properties can be classified according to the age, materials used, technology adopted, value, size of properties and so on.

Characteristics of Different Property Types

According to the legal basis: *freehold and leasehold,*

- The legal interests of property differ from country to country. Sometimes, even in different regions of a country have different practices.
- According to the law of property in Sri Lanka, there are two main property interests, i.e. freehold and leasehold.
- Freehold or outright title of a property is the highest form of land tenure accepted in many countries at present.

- The freeholder is vested with a perpetual right to use or dispose of a property as the owner's wish. (However, this is the general situation and there are some restrictions as explained above).
- A leasehold interest gives the right on the lessee or the tenant to possess and use the property for a specific period and presumably according to the given conditions.
- Generally, there are long term leases of 50 or 99 years and short term leases of 1 to 5 years. And even some medium term leases can be created according to the needs and wants of parties as 5 -10 years period.
- It seems that when offering the state lands for development purposes, lease term is usually a long period as 30, 50 or 99 years. However, when a long term development is not expected and especially in case of private property transfers, lease period is mostly a short period.
- The lessee may create a secondary lease if there is no restriction in the lease agreement.
- In such a case, the first lease holder is known as the head lessee or head tenant. Sub lessee

or sub tenant is the term used for the secondary leaseholder(s). The sub-tenant has to use the property according to all conditions of both the head tenant as well as the freehold owner of the property.

According to the usage: *Residential and non-residential (nature of development),*

- Under the usage criterion, all properties can be classified into two main types, i.e. residential and non-residential properties. There may have mix uses of properties, for instance multiple purpose condominiums. However, separate unites are supposed to use for particular purposes or in such a situation major purpose can be considered to classify the property according to the requirement. There may have some particular circumstances as well. For instance, in case of tax, identification of the property can be done according to the definitions of the particular law if available.
- A region or an area can be recognized according to the major type of property available or permitted in the area. Accordingly, residential zones, commercial or industrial zones are common practices. In case of residential zones, residential density is the key

factor that decides the labelling of the area. Further the different housing types such as luxury, middle income and low income etc is a criterion for specific clarifications. There are some specific property types in each category of properties. For instance, apartment in flats is a common type of residential property available in inner cities in many urban areas. Some countries have housing condominiums according to a particular law.

- Shops and offices can be identified as main “commercial properties” which is a sub category of non-residential properties. Industrial, warehousing, hotel and leisure properties are considered as other non-residential properties which are also identified as a specific sub category known as “industrial properties”.

According to the ownership: *Public, private or joint ownerships,*

- There are two main property types; the public sector property and the private sector property.
- The main public sector property is the crown property. However, state departments and corporate bodies can purchase properties time

to time on different basis either as freehold or leasehold. At the same time, according to the statutory power that is rest with the state; it is possible to acquire properties for the development purposes. Then such properties become public properties.

- Local authority properties and the properties owned by statutory boards and corporations are two other sub categories under the public property ownership. This means there are few categories of public properties. However, particular local authority or statutory body may have specific set of conditions over the right of property.
- Private sector properties are owned by the individuals, companies and different forms of institutions such as a charity organization, political movement and so on.
- Condominium properties are special entities, which have individually owned units and jointly owned common areas that are maintained and managed by a legally appointed management body may be formed either by the unit owners or other party. For the creation, use and management of condominiums, there are special legislative arrangements in countries. This type of

property is a better solution for the problem of lack of lands in city centres. Also the highest and best use of land can be achieved.

- Units of a condominium can be owned either by the private sector or the public sector or as a joint ownership. There may be local owners/users or foreign owners/uses as well.

According to the purpose of having properties:

Operational or investment property,

- Irrespective of the interest, use and ownership of properties, two distinct types of properties can be identified considering the purpose of the acquisition (by means of developing or purchasing or compulsory purchasing or given) of a particular property or properties by organizations or individuals.
- Accordingly properties can be identified as either operational properties or investment properties.
- Operational properties are used for carrying out the activities of an organization and are occupied by the organizational activities without letting to other parties.

- The properties which are used fully for investment purposes by letting to other parties are investment properties.
- According to the strategic decisions of the management, the organizations either purchase or lease properties that are required for the operations of the organization. Similarly the management can decide to have properties not for the main business activities of the organization but as an additional work i.e. earning income by letting the property to others.
- Purely, the investment properties are held by property investment companies (real estate firms). However, according to a particular strategy, some business firms prefer to have properties under their investment portfolios. At the same time, individuals also tend to have their own properties for investment purpose.
- For operational purposes, large organizations have operational properties in their property portfolios according to the activities that they have planned, geographically distributed activities and the amount of work handled by them.

- Operational property of one organization may be an investment property of other organization. Therefore, each property has both faces according to the different owners' interest of the property.
- This is, therefore, a relative phenomenon. An investment property of an organization is an operational property of the other organization, which is using the leased property for its activities. Hence, in case of total property census, double counting of properties is a possible error. Therefore, for national or region or sector-wise property census, it is able to consider properties which are used for earning or production processes as "investment properties" while properties used for consumption purposed (there is no income flow) as "non-investment properties". Under this situation, employee's quarters can be considered as investment properties for that particular organization.

According to the fact that indicated above, it is clear that the classification of property is complicated and it is essentially a relative phenomenon.

Real Estate Development (RED)

“Real estate development is an **idea** that comes to **completion and use** the **bricks and mortar** put in place by the **development team** (Mike *et. al.*, 1995)”.

The above definition can be rephrased as “Real estate development is a refined and confirmed **idea** that comes to satisfactory **completion and satisfactory use** of right **bricks and mortar** put in place by the specialised **development team**”.

This definition implies that the real estate development is not a single or a simple activity. It is a long term process. Also it is a continuing process. It is a number of activities. It has three main processes such as,

- (a) A process of “idea generation”
- (b) A process of “physical construction” and
- (c) A process of “use of the built property”

It needs a team of experts to complete a development. Whatever the effort put into a development, it is worth only if the final product is usable, funtionable, and adoptable to satisfy the different and changing needs and wants of different users of the property. Therefore, the **idea** of acquiring a particular property should be refined and confirmed having properly done “need analysis”.

Completion of the project should be properly monitored not allowing any deviation from the expected needs and wants but having necessary alteration according to altered needs and wants if any in order to maximise the users' satisfaction.

The development team is responsible to select the right input (bricks and mortar) to realize the expected needs and wants. It seems that the "completion" of the development is not met by the completion of physical construction alone. Actual completion means that the physically constructed structure becomes a property only if it is fit for the continuous use for the beneficiaries' satisfaction. Therefore, it is clear that the real estate development is linked with the real estate management.

Real Estate Management (REM)

Property management starts with the property purchase idea (idea of acquiring/ building/ purchasing or simply having a property) of the users and investors. Generally, there are two main areas in property management. They are

- Property portfolio management.
- Property assets management.

Property portfolio management is dealing with strategies of formalising and monitoring of an organization's property so as to achieve the

maximum portfolio return and minimum portfolio risk. Hence, this mainly deals with the financial and investment decisions in connection with real estates (land and landed properties) at the strategic level of organizations. For instance, critical decisions relating to properties such as acquiring, constructing, changing the uses and users, and demolishing or selling properties etc are highly expensive for organizations. And also implications of such decisions for the entire organizational activities are very high. Therefore, such decisions are usually taken by the top management as they are strategic level decisions.

“Property asset management” is about the use of properties in maximum level. Therefore, it deals with the objectives of increasing the life span of properties together with the contribution to economic worth of the assets. Hence, through property assets management, organizations expect to ensure proper care and attention of benefits of properties. Thus, property assets management functions deal with the operational decisions. These decisions are usually taken by the middle and lower level managers of organizations.

In case of properties of private sector organizations, it is expected to have separate property management plans along with the corporate business plans of organizations. As far as the management of the

public sector properties are concerned, there may have some approved laws relating to the respective public sector agency. Sometimes, necessary regulations and circulars are issued time to time and strategic level and operational level decisions are taken accordingly. Decisions according to circulars are not rational as it does not always concern the professional requirements rather than administrative requirement.

Definition of Real Estate Management

- (1) Real Estate Management is simultaneously a generic description of a **broad range of activities** and a **specialist technical discipline** (Stapleton, 1986).
- (2) Property is simply one that consists of a number of resources of an organization, which need specific skills to manage (property oriented management skills).
- (3) According to the RICS policy review in 1974, the Estate Management (The generic activity) is considered as “All facets of case, development and Management of urban land, including the sale, purchase and letting of residential, commercial and industrial property and management of urban estate and advice to clients to planning ...

- (4) As Thorncroft pointed out, Estate Management (the specialist activity) is defined as “the direction and supervision of an interest in landed property with the aim of securing the optimum return; this return need not always be financial but may be in terms of social benefit, status, prestige, political power or some other goal(s)
- (5) Arnison has recommended 03 personals in connection with the real estate management such as;
- **Skilled practical person** to give services of valuing, managing or disposing of every day property interest and property problems.
 - **A smaller group** to manage more complex problems.
 - **A small group** providing the innovation, the critical appraisal and reappraisal methods, techniques and attitudes which ensure the vitality and **adaptability** of a **profession**.

The above few definitions imply the broader context of real estate.

Student activities

You are needed to discuss more on the following concepts, which are in the above definitions, for better understanding.

- Different skills **(a broad range of activities)**.
- Property is a number of resources of an organization **(multifaceted nature)**.
- Professional orientation **(specialist technical discipline)**.
- Unending role **(innovation/ adaptability relating with the property)**.

Some issues relating to the increasing real estate assets of organizations

- *Rapid changes in technology*: This is beneficial as it paves the way for innovations, highest and best uses etc. At the same time, it is a challenge as it leads to a heavy cost and functional obsolescence of properties etc.
- *Variety of social needs*: Since social needs and wants are rapidly changed,

adoptability of properties is an expensive task.

- *Unforeseen expensive maintenance problems:* This may collapse property functions interrupting all operations of organizations.
- *Continuous management needs:* To minimize the above risk, it incurs heavy cost for overall property management.
- *Having properties without interested parties/ clients/ demand:* This pushes organizations to be bankrupted due to unbearable property cost.

The above mentioned are general challenges for any organization. Organizations can only be able to face these challenges by applying proper management. Similarly, organizations have to deal with some common macro-economic issues when managing properties.

Some macro level socio-economic issues

- Interest rates over the cost of money.
- Inflation on construction cost.
- Tax/ subsidies etc.
- International trading issues.
- Establishing international property market.

- Oil crisis/ cost of energy/ electricity/ gas etc.
- Scientific development.
- War/crisis/ natural and artificial disasters.
- Ultimate result of determinants of property prices: difficult to renew/ difficult to test/ difficult to focus.

Why do we need to kwon property management?

- To ensure the maximum use of scare resources at the minimum cost. Inefficient uses may be due to the lack of financial discipline. For instance, mismatching the income and the cost of occupation. Therefore, efficient and effective management can reduce the cost of occupancy.
- Real estate is an industry, which generates resources and the wealth of the economy. For the purpose of achieving this broader function of real estate, efficient and effective management is essential.
- Real estate affects on the economic life of all individuals. Hence, for the wellbeing of individuals, management of property is a must.

- Real estate affects on land use pattern and vice versa. Therefore, in order to maximize the use of scarce land resource, management of property is a prerequisite.
- Effective real estate management requires clear knowledge and understanding of the needs and wants of owners of real estate and owners can fulfil their objectives.
- Only the competent manager can manage the property, refurbish and redevelop (sale/ lease out) in the most desirable way.

Public Property Management vs. Private Property Management

National estate or national property or public property and the need of managing them for the interest of the nation are important areas of any economy. “Private property management” does not provide this service at all. However, all individuals are fully concerned on public property. Individuals expect proper land use control, high environment quality, proper infrastructure services, equal housing and so on. It is questionable whether individuals can achieve these requirements by them. How far the individual’s property decisions and activities help to achieve the above needs and want of other individuals?

Usually in countries, statutory planning policies give higher concern on private property development and management. At the same time, national property management is needed especially as a controlling measure in national level property plans. There are some key sensitive areas in a country that the public sector has to be responsible such as;

- Preservation of forests and cultivation of vegetation.
- Energy conservation, management, and distribution.
- Maintaining appropriate infrastructures, road networks, sewerage, water, electricity etc.
- Natural resource management and conservation, controlling deforestation, protecting water streams etc
- Conservation of valuable properties eg. Filling of paddy land is prohibited, cutting of some trees shall be permitted or banned like jack trees, coconut trees etc.
- Preventing vandalism over public and private properties.

- Providing public buildings, common area for leisure, relax or other basics needs.
- Development, management and use of sanctuaries and reservoirs.
- Keeping records and information to support decision making process in property development and management.
- Managing natural disasters, risk prevention and management.
- Constituting, amending, and implementing policies (legislatives), standards etc. relating to the overall real estate sector development.
- Ensure the proper land use pattern and supply of land for the overall development of the country.
- Evaluating and monitoring the development.
- Providing space with necessary services for international activities.
- Providing continuous academic/professional development in the area according to national and international standards.

Students' activity – Knowledge based questions

- (1) Define terms of
 - a. Real Estate
 - b. Real Estate Development and
 - c. Real Estate Management
- (2) Point out general challenges in REDM
- (3) Why should real estate be managed?
- (4) What is the state role in managing real estate in a country?

More questions – for further studies: questions beyond the knowledge based

1. Critically analyse the evolution of the real estate sector of the country and identify the current challenges
2. Identity new types of real properties that are socially beneficial in market economies

Chapter 02

Real Estate Development (RED)

Chapter Two

Real Estate Development (RED)

- Real Estate Development
- Is the Need of RED a Constant? Why?
- Definition of RED
- What do today Real Estate Developer/ Investor Should Know?
- Real Estate Development Process
- Real Estate Developer's Role
- Different Partners in the RED Process
- Public Sector, Private Sector Role

Real Estate Development (RED)

Previous Chapter

In the introductory chapter, we attempted to define and be familiar with three major themes relating to the subject as,

- (a) Land, Real estate and Real property.
- (b) Real Estate Development.
- (c) Real Estate Management.

In this way, the chapter one attempted to understand the width and the depth of the discipline of Real Estate Development and Management. You also have to answer for some questions at the end of the chapter through which you can enhance your awareness of the subject furthermore.

Learning Outcome of the Chapter Two

The objective of the chapter two is to extend the introductory level discussion on the Real Estate Development. This chapter expects to achieve following learning outcomes by reading and conducting the given exercise in the chapter. Accordingly, at the end of the chapter,

- You will understand the process of the real estate development project.
- You will know different partners of the development process.
- You will realize why, when and how valuers, planners and other professionals be active in the RED process.

Real Estate Development (RED)

It is impossible to study real estate development without looking at the both who are involved in the process and who are ultimately using the property (Mike, Richard, Hayle, 1995).

Why it is needed to examine both parties? Since real estate has multiple affiliations with different individuals and groups. Who are the members of these parties and why they are important in case of a particular real estate? Following are some facts of different affiliation of different individuals and groups.

- It is unmistakable that many people affect to real estate development and are affected by the real estate development. For instance, developers, users, neighbours, investors, competitors, public authorities, general public and so on influence on development of a real estate and are affected by the development through various cost and benefits. Development of Kandalama Hotel, development of Weerawila Airport and development of Norechchole Coal Power Plant etc. were in huge debate among many groups of people in the country pointing out the possible disadvantages of those projects. However, through negotiation and awareness programmes, such barriers can be overcome. Similarly a development of a large scale poultry farm or a piggery farm in a village may have controversial issues. This may be in connection with the pollution, congestion, increase of general land price, land use patterns, land ownership etc.
- Individuals ultimately provide finance for projects. Even a private property, general public would have to commit directly or indirectly for the real estate development.
- Individuals form the public sector that allows and motivates development of real

estates/property. Thus, properties are politically sensitive. Public property development is totally done by the state, which is formed by individuals. Therefore, all individuals have direct or indirect links with the property development.

- People in many allied professions produce buildings and space (real estates) that are used by people of many other different sectors and backgrounds. Therefore, the development team must examine comprehensively the past, present and future “uses” and “users” of the property.

Real estate development is the continual reconfiguration of the built environment to meet various needs of space of society. This means just finishing of physical construction of a building is only a single phase of development. It has to be reconfigured/ reorganized. Reconfiguration or rearrangement should be continued. Accordingly roads, sewerage systems, houses, office buildings, factories etc should be built, managed and thereby required space should be generated for the various social needs and wants. Therefore, real estate development is not a simple matter even if it is adequately financed, all serviced are provided, all approvals are given and developed space is quickly sold.

Is the Need of RED a constant? Why?

It seems that the real estate development is not a constant function instead a continuing function. Why? Because;

1. Increasing population requires more and more needs and wants. This is about the quantities of property. This is a continuous need within an individual family or organizational level or in a city or a country as well as globally.
2. Fast moving technical development changes the customer/users satisfaction. This is about the quality of properties.
3. Increasing of individuals' movements. Migrants have some particular needs and wants temporary occupation, travelling, leisure, food, recreation etc.
4. Size of property is very large in terms of different aspects of the property such a physical size, amount of recourses, involvement of different stockholders etc. therefore, project size tends to be larger and larger.

Exercises for students

- Real estate development is not a simple matter even if it is adequately financed. Do you agree? Why?
- Identify properties and their uses and users in your vicinity a decade ago and compare the situation at present and the past in the same region. Predict the future possible changes of the same property.

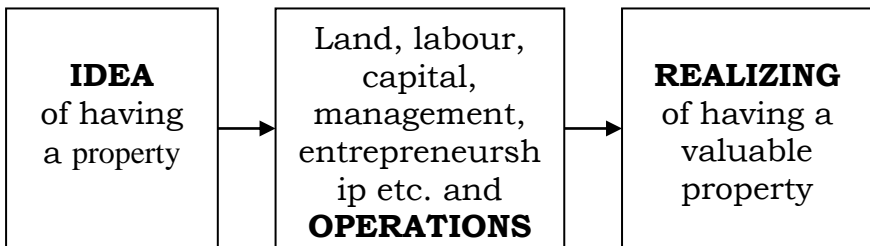
Definition of RED

1. Real estate development is an idea that comes to fruition and **use the brick and mortar put in place** by the **development team** (Stapleton, 1986).
2. At the end of a property development, a **value** is realized by providing **usable space** over the time with certain associated **services needed** so as consumers can **enjoy the expected benefits** of the building spaces (Mike *et. al.*, 1995).
3. A real estate product that may be a **new building or a redeveloped** one is a result of the coordinated **efforts of many allied professionals**.

The above definitions clearly indicate three important aspects relating to the real estate development such as;

- It needs of a range of input.
- It produces a valuable property.
- It is a process which needs a coordinated/conscious effort.

The process



In this process; land, labour, capital, management, entrepreneurship etc are usually needed in order to transfer an idea into a reality.

- **Land:** a plot of land, physical materials/ transportation of materials /necessary infrastructure services/ sewerage system and proper accessibility etc can be considered under the land in broader sense.

- **Labour:** required skilled labour, unskilled labour, services of professionals and none professionals etc can be considered as the labour in general.
- **Management:** overall management: human recourse management, financial management, marketing management, production management, information management, time management etc.
- **Entrepreneurship:** One, who bears the risk, creates an idea and struggle to realize the idea. Anyone who is supposed to be responsible for legality, insurance, approvals, tests, and experiments etc.?
- **Capital:** all sources of finance. Media of acquiring all the above inputs. This may be by means of own money/savings, different sources of loan, equity capital, donation of funds or material or land or services and so on.

The highlighted terms of the above second definition show the expected results of the real estate development. Hence this definition guides developer for correct actions towards correct results. Using a range of inputs, developer is supposed to produce a

valuable property. The value of the property is the outcome generated by the users' satisfaction.

The above third definition argues that to realize the expected outcome (i.e. a value of the property generated by users' satisfaction) is possible only by means of coordinated/conscious efforts of many professionals.

What do today's real estate developer, investor, real estate professionals, responsible authorities and real estate users should know?

Above definitions reveal that real estate development is a complicated and challenging task. Therefore, today's real estate developer, investor, real estate professionals, responsible authorities and real estate users must be well aware of various aspects of real estate development and management.

More knowledge than ever before about

- Prospective markets and their behaviour.
- Marketing of real estate related products.
- Consumer buying behaviour.
- Consumers' actual needs and wants.
- Pattern of urban growth/ land use pattern.
- Macroeconomic changes/trends.
- Legal requirements/regulations.

- Public policy and contract.
- Elements of building and designs.
- Site development and building techniques.
- Technological innovations.
- Environmental issues.
- Infrastructure services and management.
- Financing strategies and cost control.
- Risk control and maximizing return.
- Time management.
- Information management.

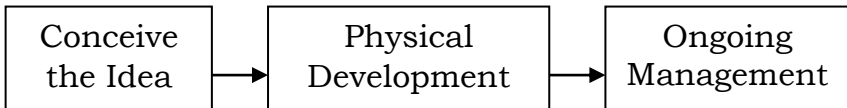
It seems that each and every aspect of real estate has become highly significant and therefore to fulfil the expected needs and wants of real estate users, it is needed to ensure followings.

- *More specializations* of knowledge.
- *More professionals* for every aspect. Need of professional orientation of services.
- The *responsibilities of team work according to the size of/volume* of real estate projects. Identification of real estate project is difficult. “Number of interested individuals and groups of particular real estate” may be a rational criterion to measure the size/volume of the real estate project rather than considering the direct/final users.

- Need of *scientific education* is essential.
- *Application of management.* Mere legal approvals, provision of finance, materials and other services are not enough. “Completion of physical construction” and “commencement of occupation of the property” are not enough. “Efficiency and the effectiveness” and “maximum satisfaction of each and every users” of a real estate are more important.

Real Estate Development Process

There is a sequence of steps to follow from the first conceive a need of a real estate in a mind to the time of completion of the physical construction and until commence of ongoing asset management.



Different phases in a RED projects

The above three major phases can be realized by means of many phases. Each phase consists of some important activities. Following eight phases include all the activities under the above three major phases.

- *Coming up with an idea.* This idea may arise due to an issue/problem/a need or a want of individuals, firms or government.

- *Refining the idea.* By refining the initial idea it makes more realistic. The first idea is mostly very vague. And also the idea is probably a need. There may have different way to fulfil the need. By refining the idea, suitable actual need will be identified.
- *Testing its feasibility.* Test the feasibility is needed to realize the idea. Once the initial idea is refined, you will know the actual need. Then it is needed to know whether it is possible to realize within the practical constrains.
- *Negotiating contracts* with needed stakeholders of the project. Negotiations with professionals, public agencies, bankers, service providers etc.
- *Making a commitment of stakeholders.* Agreements are signed, loans are disbursed, permissions are given and work is officially begun.
- *Constructing the project.* Actions are taken place, materials are purchased and supplies, workers are in action at the site and supervision of work is done.

- *Completing and opening it.* It is physically appeared, services are provided, COC is obtained, and ready for occupation and functions.
- *Managing the new property.* Continuation of uses and maximize the satisfaction of users. Ensuring uninterrupted functions of the property.

This is a process, not a set of isolated activities. Therefore, each activity has relationships with the other activities. The success of an activity depends on the success of the other activities and vice versa. (Please, see the figure below titled “The eight-stage model of RED”).

As a whole, it seems that

- The real estate development process is highly straight forward.
- Real estate development is a creative and extremely complex, partially logical and partially intuitive. It can't be taught fully. Application of common sense, contingency approaches etc are more important.
- At every stage, the developer should consider all the remaining stages of the development process. The impact of a single decision on the

whole project is colossal. Specially, it should be remembered that in most cases mistakes of real estate can not be revised or the cost of revision/ correction of a mistake is very high. For instance, if the decision of location is wrong, it can not be corrected. If the design of the building is wrong, the alteration cost is very high.

- The development process is in the nature of interdisciplinary.

The Role of the Real Estate Developer

By nature, real estate is multi-disciplinary. It is a range of components, aspects and processes. Therefore, developer's role is inevitably a multiple role in nature. Developer has to respond and deals with many stakeholders. Followings are the main groups of stakeholders with whom the developer has to work. And the next diagram shows the way of interactions.

PUBLIC

Who: Regulators, Politicians, and Community

What do they want: Sound development, valuable properties, efficient and effective space...

USERS

Who: Tenants or owner-occupants, and other interest parties (indirect users).

What do they want: Right space with right services at right price and at right time.

CAPITAL MARKET

What: Debt, equity and suitable means of finance

Want does financier want: Greatest possible financial return and its security.

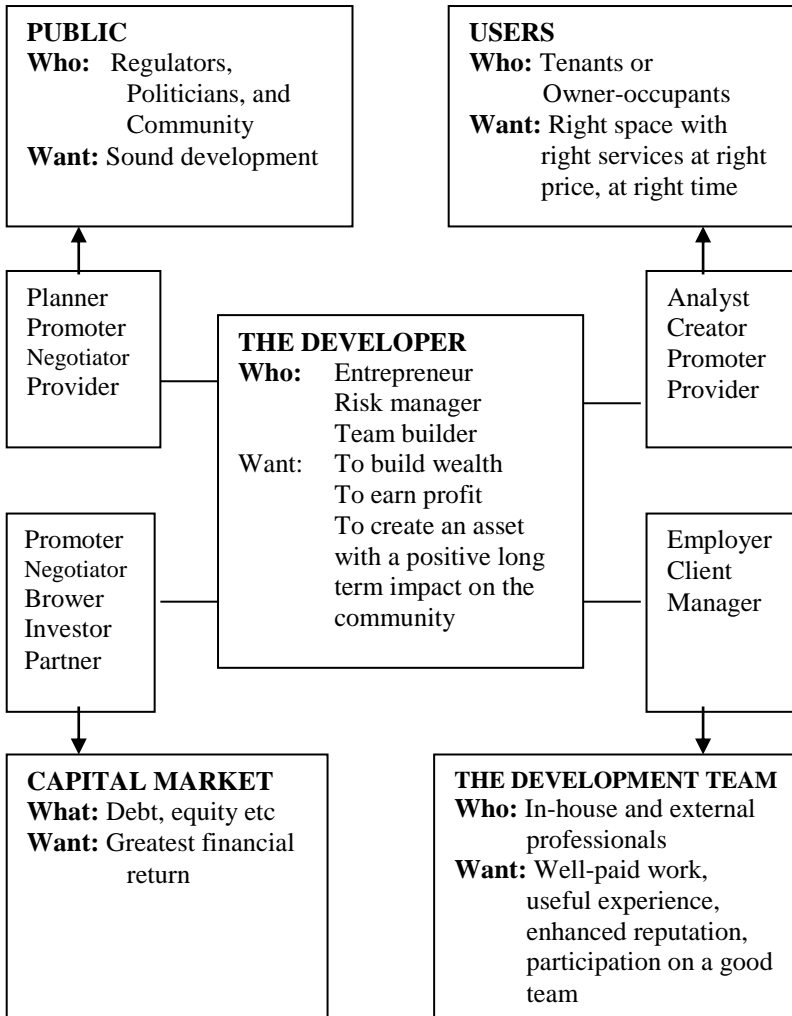
THE DEVELOPMENT TEAM

Who: In-house and external professionals

What do they want: Well-paid jobs, useful experience and satisfaction of work, enhanced reputation, participation with good team members, job security and so on.

Look at the following diagram and learn the relationship among these partners and the multiplicity in developer's role.

Developers' Multiple Role

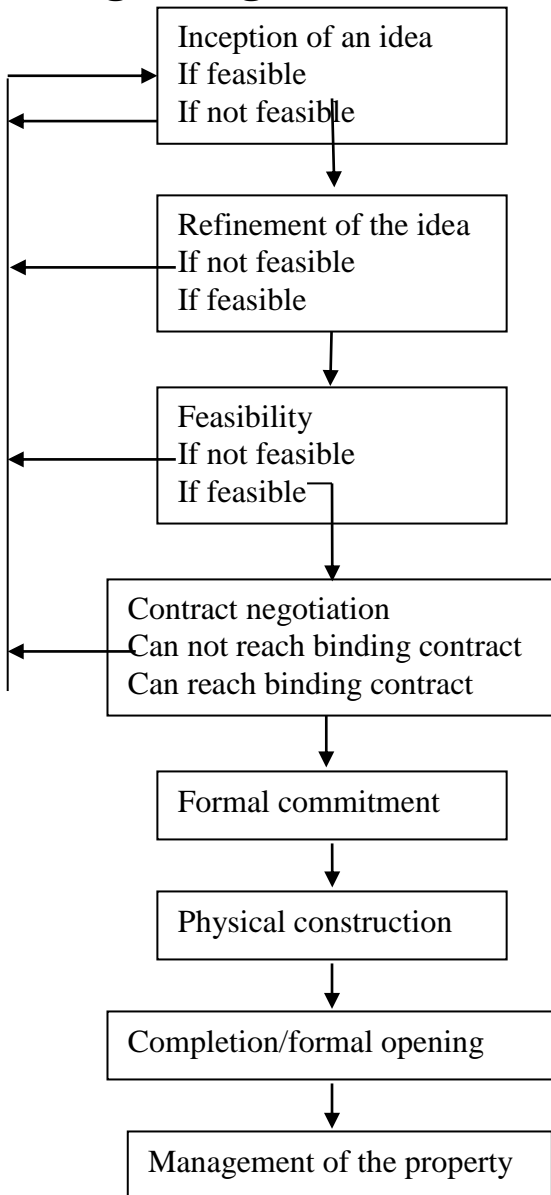


Source: Mike *et. al.* (1995), p. 08

- ***Developer is a Manager:*** Developer should be capable of assembling various physical resources and talents to complete a building and assume responsibility of managing individuals. Simply, the developer has to get work done by others. Hence the developer should be capable of managing all the recourses of an organization i.e. “**6Ms and I**”; **M**en, **M**ethods, **M**aterials, **M**oney, **M**inutes, **M**achinery and **I**nformation. This is the developer’s managerial role.
- ***Developer is an Entrepreneur:*** Developer has to accept a greater deal of uncertainty during the whole process as he is responsible of fulfilling needs and wants of many stakeholders. On the other hand, the real estate development involves a long term commitments. Usually the cost of making a simple mistake is extraordinary and implication of mistake is multiple, long term and sometimes unseen. Therefore, the developer is the pains-taker and it is the developer’s entrepreneurial role.

All in all, it is evident that the ***real estate developer has a multiple role.***

The eight-stage model of RED



Source: Mike *et al.* (1995), p. 06

Who contribute to the RED?

Different Partners in the RED Process

The public sector is always a partner...! Why?

Real estate development is a highly regularized process. Taxes, labour laws, land and property laws, public infrastructures, some financial operations, planning and zoning regulation, building permits and land supply etc. are mainly handled by the state sector. Requirements relating to these matters are supposed to be fulfilled according to regulations and public policies. Hence, the role of the public sector in real estate development process is virtually significant.

Moreover, in some areas, public sector is the sole developer and the main partner. For instance, real estates relating to the community and economic development goals of a country such as schools, hospitals, service properties (public properties) etc are mainly developed by the state sector.

Private sector developer

Private sector has different goals. It expects maximum return from investments may be in terms of development fee, profits, long term equity, capital gain, personal satisfaction and professional enhancement and so on. Welfare is not among the private sector objectives. Though any development

ultimately contributes to the social wellbeing, private sector development is always stimulated by the profit motive. If the investor can not maximize the expected profit, the investment will not be made. And since the government cannot fulfil all individuals' and firms' real estate needs, private sector involvement is essential.

The other contributors

Apart from the public sector and the private sector, many other individuals and groups are directly and indirectly involved with the real estate development process. Followings are directly involved professionals and others.

- Architect – creation of aesthetic and social needs.
- Engineer – Structural, Soil, Electric, Civil, Environmental designs.
- Land use planner – decides suitability of proposed site for the development.
- Landscape architect – Site planning is combined with the vicinity considering environment, aesthetic, social and some technical aspects.
- Contractor – Physical constructions are done. Converting the abstract/dreams into materials/ tangibles.
- Environmental consultant.
- Transportation consultant.

- Attorneys/ legal advisors.
- Accountants.
- Real Estate Brokers/Leasing Agents. Leasing and/or selling the produced space to prospective tenants or buyers.
- Valuer/ Appraiser. Primary responsible is for valuation of a project in every stage of the development process.
- Financer (banker)/donor/lender.
- Property manager. For a large scale development, on going supervision and management determine the success of the project. Successful property management is supposed to be commenced along with the development process.
- Market researcher.
- Marketing and public relation consults.
- Regulators.
- Final users/ direct users.
- Neighbours and other community/ indirect users.
- Property/project managers. Coordinate all work to realize needs of all stakeholders.

Students' activities

Knowledge Based Questions

1. What is meant by Real Estate Development?
2. Is the Real Estate Development a dynamic or constant? Why?

3. Who is the Real Estate developer?
4. Describe the State role in Real Estate Development.
5. Who are the different stakeholders in a Real Estate Development project?

Questions beyond the Knowledge Based: Discussion & analytical questions

1. Describe the advantage of having two phenomena as “real estate” and “real property” with regard to a particular property.
2. You can have many real properties in a single real estate. Comment.
3. Why is the real estate development and management described as “generic description of activities”? And why it has been identified as a “specific technical activity” at the same time?
4. Discuss more on the following concepts, which are in definitions of Real Estate Development and Management.
 - a. Different skills (broad range of activities).
 - b. specialist technical discipline (Professional orientation).

c. Unending role (need of innovation/adaptability).

5. Critically analyse the evolution of the real estate sector of the country and identify the current and future challenges.
6. Identity new types of real properties/real estates that are socially benefited in market economies.
7. Is the discipline of Real Estate a business? or a profession? or anything else?
8. Who should be aware of real estate development and management?
9. Valuer is the most appropriate professional advisor for the real estate investor. Do you agree? Justify.
10. "Efficient real estate development is a fundamental need for all social activities." Comment.

Activity - Case Analysis

Evaluate the trend of real estate around the “Wijerama Junction” of the High-Level Road.

Instructions

1. The presentation should cover the following areas,
 - a. **Introduction** to the area
 - b. **Point out** trend of real estates
 - c. **Discover** the potential for the real estate development
 - d. **Reveal** the issues for and by the real estate development
 - e. Conclusion
2. Oral presentation should be limited to 20 minutes and 10 minutes of discussion.
3. The written report should be in less descriptive.
4. Guidelines for the report
 - a. Report should be typed in 1.5 spacing on one side of A4 papers and use 12 font size of Times New Roman. Margins should be 1.25” on left, 0.8” on right and 1” on top and bottom.
5. Length of the report is around 10 pages maximum 15 pages including tables and maps etc.
6. Clarity of the presentation, application of guidelines, ability of analysis the given theme, focus, relevancy of additional literature,

reliability and adequateness of statistics and information used where needed etc are highly considered in evaluation.

Chapter 03

General Management for Real Estate

Chapter Three

General Management for Real Estate

- General Management Challenges
- What is Management?
- General Management Functions
- Managerial Role
- Managerial Skills
- Management Process
- Different Firms by Real Estate Functions

General Management for Real Estates

Learning Outcomes

At the end of this chapter you will understand,

- Management Challenges in General.
- What is Management?
- What does Management do?
- How does Management relate with real estate?

General Management Challenges

Organizations in the present world are facing many non-conventional issues/challenges that have been arisen and strengthened by conventional issues/challenges. This means these issues are the same but they appear in different faces. Following list consists of some of such issues.

- Increasing number of global organizations. Organizations are compelled to convert into global organizations.
- Organizations are essentially attempt to obtain competitive advantage through superior efficiency, quality, innovation, and responsiveness. Hence, competitiveness among organizations has become more intense.
- Increasing performance while remaining ethical managers. Debates over ethics and profits, corporate social responsibility (CSR), globalization and localization etc have become heavy responsibilities for organizations.
- Managing an increasingly diverse work force. Equal rights, human rights, child and women rights etc are areas of concerns in all organizations.
- Using new technologies.

Irrespective of the size, place, and the functions etc of organizations, managers have to face for the above mentioned challenges while achieving organizational specific objectives.

What is management?

Management is the process of using “organizational resources” to achieve the organization’s goals by means of “Planning”, “Organizing”, “Leading” and “Controlling”.

For this discussion, terms of the above definition such as “organizational resource” and four managerial functions are important. Organizational resources definitely include land and buildings i.e. real estates. In other words, land is fundamentally known as one of the basic factors of production. Hence, it is good to know how general management has understood the way of managing the land and buildings in organizations by means of “*Planning*”, “*Organizing*”, “*Leading*” and “*Controlling*”.

General Management Functions

Planning: Formulating objectives and goals and preparing ways to meet them. (Setting vision, mission, goals, objectives, strategies, action plans, budgets, performance indicators etc).

Organizing: Determining activities and allocating responsibilities for the achievement of plans. Setting up a structure to perform and to achieve planned goals, objectives etc.

Leading/Staffing: Assigning necessary human resource for each and every responsible activity. This expects commitment and motivation among staff.

Controlling: Monitoring, and evaluating activities, providing corrective measures etc. This fulfils of measuring the expected results and actual results.

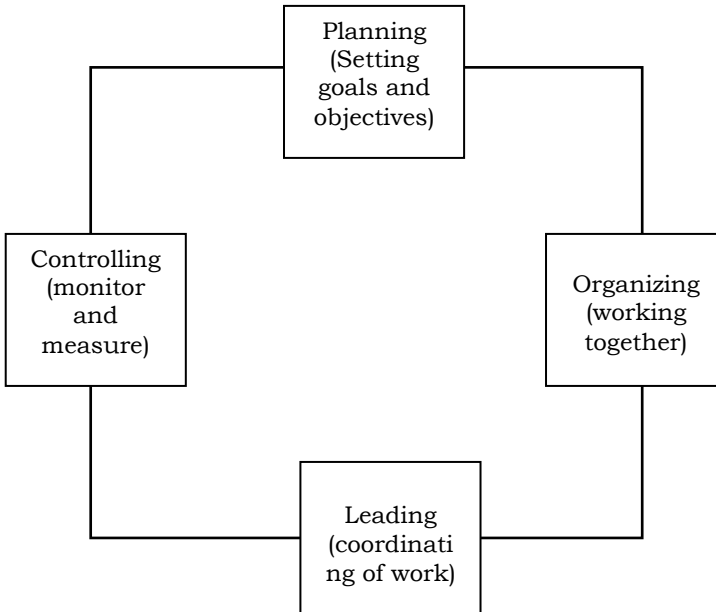
Simply, as a whole management deals with

- Setting objectives according to the owner's interests.
- Deciding required actions according to the objectives.
- Assigning responsibilities according to the activities.
- Assuring the right actions performed.

Organizational structures

With whom the responsibility of real estate rest in organizations? Is it with the financial manager? Or with the human resource managers? Or with the production manager? Or with the marketing manager? You can review organizational structure and observe how organizations have identified the significance of real estate.

General functions of management



Managerial Role

Mintzber describes managerial role as a set of specific tasks that a person performs because of the position they hold. Roles are directed inside as well as outside the organization. There are 3 broad categories of role.

- I. Interpersonal role
- II. Informational role
- III. Decisional role

Interpersonal: Managers are assumed to coordinate and interact with employees and provide direction to the organization. There are three interpersonal roles.

- **Figurehead role:** Manager symbolizes the organization and what it is trying to achieve.
- **Leader role:** Manager is responsible to train, counsel, mentor and encourage towards higher employee performance.
- **Liaison role:** Manager is supposed to link and coordinate people inside and outside the organization to help in achieving goals.

Informational: This is associated with the tasks needed to obtain and transmit information for management of the organization. There are three types of informational roles to be performed by managers.

- **Monitor role:** Manager analyzes information from both the internal and external environment.
- **Disseminator role:** Manager transmits information to influence attitudes and behaviour of employees/others.

- **Spokesperson role:** Manager has to use information to positively influence the way people in and out of the organization respond to it.

Decisional: This is associated with the methods that managers use to plan strategy and utilize resources to achieve goals. There are four decisional roles.

- **Entrepreneur role:** Manager has to decide new projects or programs to initiate and invest.
- **Disturbance handler role:** Managers are assumed responsibility of handling an unexpected event or crisis.
- **Resource allocator role:** Managers have to assign resources between functions and divisions, set budgets of lower managers.
- **Negotiator role:** Manager has to negotiate in finding solutions between other managers, unions, customers, or shareholders.

Managerial Skills

There are three skill sets that managers need to perform the assigned tasks effectively.

Conceptual skills: The ability to analyze and diagnose a situation and find the cause and effect of issues.

Human skills: the ability to understand, alter, lead, and control peoples' behaviour.

Technical skills: The job-specific knowledge required to perform a task. Common examples include marketing, accounting, and manufacturing skills.

All three skills are enhanced through formal training, reading, and practice. Similarly, you can questions as what skills are related in handling real estate in organizations.

Skill Type Needed by Managers in Different Levels

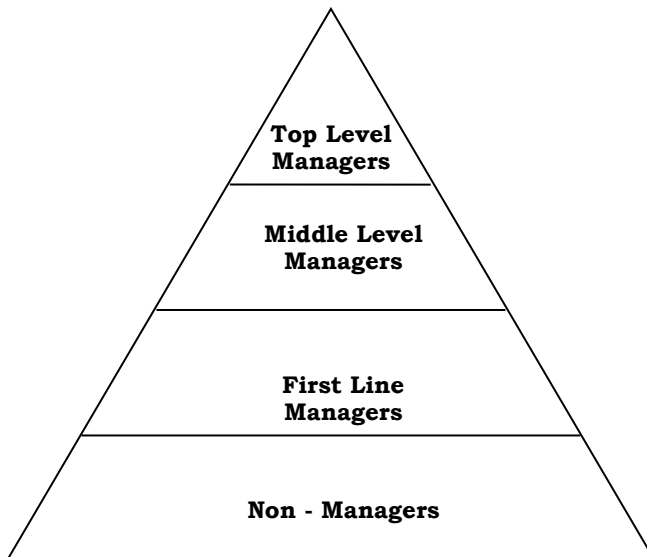
Top managers			
Lower managers			
Line managers			
	Conceptual	Human	Technical

Organizations often have 3 levels of managers:

First-line Managers: Responsible for day-to-day operations. They supervise the people performing the activities required to make the good or service.

Middle Managers: Supervise first-line managers. They are also responsible to find the best way to use departmental resources to achieve goals.

Top Managers: Responsible for the performance of *all* departments and have cross-departmental responsibility. They establish organizational goals and monitor middle managers.



The management process consists of:

- Top management prepares a strategic plan with corporate objectives and aims, in short term, medium term and long term.
- Action plan – resources and actions are coordinated by middle level managers.
- Individual level performance indicators (individual units/individuals) are monitored by lower level managers.
- Regular monitoring and reviewing at appropriate frequencies by all managers.

Hence, managers are the people responsible for supervising the use of an organization's resources to meet its goals. What resources generally managers are using according to the general management principles? In fact, resources are organizational assets, which includes "6Ms and I" as described as follows.

- **M**en
- **M**achinery
- **M**aterials
- **M**oney
- **M**ethods
- **M**inutes
- **I**nformation

Question is “where the real estates, land and building are located under the above categories...”?

Are real estates in

- Men
- Machinery
- Materials
- Money
- Methods
- Minutes
- Information

You can simply state that land and buildings are included not in Men, Machinery, Money, Methods, Minutes, and Information. And it may be represented by Materials...!

Can it be included into material? or ignore without including into any categories of resources? As we simply discussed in the above chapters, land and buildings development and management is highly complicated and multi-disciplinary, highly expensive, mistakes cannot be corrected simply. So, can you ignore real estate?

Similarly, you should question over the possibility of including real estates (land and buildings) into materials in managing functions of organizations according to the general management theories. Therefore, it is able to point out a need of separate

emphasis on real estate in managing organizations since all human activities such as production, transportation, storage, consumption or investment, and everything is supposed to be taken place on the land and/or in buildings.

There are many types of property assets belong to an organization such as,

- Operational properties.
- Commercial/investment properties such as shops/office/parks.
- Residential properties.
- Condominium properties.
 - o Housing, shops or office.
 - o Shops and office.
 - o Shops, office, housing etc.

(Please see the section of property type and characteristics of properties in the introduction chapter i.e. the Chapter 01)

Different Firms by Real Estate Functions

According to the level of property related functions all organizations can be categorized into three types as follows.

- **Real estate firms:** The main business of these firms is real estate such as real estate development, management, selling or letting,

real estate brokerage, real estate consultation etc.

- **Non-real estate firms:** The main business of these firms is not real estate but organizations essentially use real estates in order to perform the main business.
- **Policy level/Development projects** /public sector institutions/ socio-economic development projects in a country. In order to run these projects, it is needed to have real estates. In other words, the output of these projects may include new real estates. For instance, health improvement programs needs to establish new hospitals and other infrastructure. Poverty alleviation program needs to improve housing and many other services. Therefore, these projects widely relates with real estates.

Therefore, it is clear that in all organizations, all types of managers have particular role in dealing with real estates according to the objectives of the firm. However, general management theories have not emphasized particularly on real estate in organizations as other resources.

Chapter 04

Property Management: The Relationship between Management and Real Estates

Chapter Four

Property Management: The Rea...

- Why Real Estate Management is Necessary?
- Property Manager
- Manager's Role
- Knowledge and Skills Required by a Real Estate Project Manager
- Managing HR

Property Management: The Relationship between Management and Real Estates

Previous Chapters

Up to now, through the previous chapters, we have discussed following areas.

- Land, Real estate, Real Property.
- Real estate development, RED process, Different stakeholders in a RED project etc.
- General management functions.

Contents of this Chapter

- What is property management?
- Why properties should be managed?
- Who is property manager?
- Property manager's role.
- Knowledge and skills required for a property manager.

Learning Outcomes of the Chapter

In this chapter, let's discuss why we need to have proper management in the real estate sector/real estate development and functions of real estates. Upon the completion of reading the chapter, you will learn,

- Need of managing real estates.
- Some basic principle/ process/ elements etc relating to real estate management.

Why Real Estate Management is Necessary?

- To get the highest and best use of real properties.
- To meet the highest satisfaction of property users.
- Expansion of property and property development, proper management is needed.
- To adopt to the macro environmental changes such as legal, technical, cultural, markets, globalization etc. management is needed.

Moreover, management is needed as,

- Property represents the most tangible assets in organizations.

- Properties are the places of work, sources of income of people.
- Property is the collateral for finance and future investments for individuals and firms.
- Property represents a higher amount of corporate seats cost (cost per head).
- Avis and Gibson (2000) found that property was the 2nd or 3rd highest operational cost for most organizations (UK).
- Contribution to the GDP – from direct construction, materials, maintenance, facility management, and other indirect trades of real estate is huge in a city or a country.
- A higher amount of cost in the business sector. So, reducing such cost should be a key business objective of firms to reduce the unit cost of production.
- Cost of property affects on the unit cost of every products.

Following statements also describe why we need to manage real estate properly.

- Managing scarce land and landed property has been recognized as a major area in the development of any country.
- Real estate management includes a broad range of activities, every aspects of the relationship between society and individuals who occupy or own landed property.
- Property management is a real estate specialization. It involves the leasing, managing, marketing and overall maintenance of real estate owned by others, usually rental property. The property manager has three responsibilities.
 - Financial management.
 - Physical management – structure (buildings) and grounds (lands).
 - Administrative management – (recording information etc.).
- Property management commences with the property purchase idea of the users and/or investors. There are two main areas of property management i.e. Property Portfolio management and Property Assets management.

- Property portfolio management is connected with the formation and monitoring of an organization's property strategy so as to achieve the maximum improvement of portfolio return by minimizing portfolio risk.
- Property portfolio management is the management of property interests in its investment aspect. Basically the property portfolio manager has to consider the risk and return of investment and make correct balance of the total investment. Property investors are keen on the liquidity and management problems in according to the size of the investment.
- The management of property assets deals with the objective of making the life span of a building longer in terms of economic worth of the assets by giving proper care of and attention on necessary modifications and maintenance etc.

Who is the Property Manager?

- Property manager is usually considered as a general agent of the property owner. There is an agency relationship between property manager and the property owner.

- The manager handles the property as the same way how the owner handles since the manager is the agent of the owner.
- Therefore, the first responsibility of the property manager is to realize the highest return from the property in according to the owner's will.
- Property management is a specialized field, which includes functions such as leasing, managing, marketing, and overall maintenance etc.
- Property managers are used usually in residential properties as condominiums, cooperatives, apartment buildings, town houses etc, in industrial real estates as warehouses, factories, industrial parks, etc, and commercial real estates as hotels, shopping malls, office buildings etc. This is conventional understanding. However, now it has been recognized the need of property managers in all types of organizations.

Manager's Role

Manager's specific role/responsibilities are determined/mentioned by the management agreement. Usually there are three principle

responsibilities of property managers according to the conventional practice.

- Achieving of objectives of the property owner.
- Generate income for the owner.
- Preserve and/or increase the value of the investment of the owner.

Manager is responsible to provide the needed space for the various functions of the organization in case of non-real estate firms. In real estate firms, such as letting firms, manager has to perform a number of functions to achieve the above objectives. Followings are such direct function of real estate managers in real estate firms (real estate letting firm may be a condominium).

Budgeting Expenses

Property manager has to develop an operational budget for the function of the property.

- It should be in accordance with the anticipated revenue and cost.
- Should be reflecting the owner's long term goals/objectives/desires etc.
- Allocating money for fixed cost such as insurance premium, employees' salary etc.

- It needs to reserve fund for future expenses such as repairs, minor renovations etc.
- Allocations are needed for capital expenditure to enhance the value of the property in futures through redevelopment, renovation, new development etc.

Renting the property

Manager must concern the long term financial health of the property investment. Property manager has the total responsibility of maintaining and managing the property while keeping it fully occupied.

Manager can get the service of **leasing agents** when the firm is large in terms of volume of sales.

Setting rental rate

- This is basically determined according to the demand and supply forces. Manager has to do market analysis of the area and fix the rate accordingly.
 - Manager has to earn enough income to cover the fixed cost and the operational cost and expected profit.

- Manager needs to ensure enough return for the owners' investment.
- The rate must be in line with the prevailing comparable properties.
- Rate of vacancy has to be analyzed. For instance a low rate of vacancy is a indication of ability of increasing the rate of rent.
- Manager has to analyze the vacancy rate, reason of for vacancy rates.

Selecting tenants/suppliers

Manager is successful if his relationship with tenants/suppliers is long term and sound. Accordingly, the selection a tenant is very crucial. Manager has to select tenants who have similar needs of property size, facilities and services etc. Manager should realize whether the tenant can pay the rent regularly at the correct time.

Collecting rents

- Manager has to ensure the regular payment of rents. In selecting tenants, their financial feasibility should be investigated. All condition required in connection with the rent should be included to the lease agreement and tenant should be educated on it.

- Time and place of payments/method.
 - Provision or penalties for late payments.
 - Provisions or cancellation and damages in case of non-payments etc.
- Every effort should be made to collect rent without taking legal actions. Since legal action is expensive, time consuming and damaging the customer relations.

Traditional assets management includes

- Collecting rents.
- Provision of services.
- Daily maintenance etc.

However, a new objective of property management has been widened as to promote effective and efficient use in realizing the value of property through full care and attention while keeping the cost at a minimum level for the highest possible life of properties.

The relationship of management (corporate level and other level) with property is important for the success of organizations. In fact, an expert service is needed in dealing with real estate in non-real estate firms under the current highly dynamic environment.

Computing the rent per square foot

Computation of accurate rent is very important for the property owner as well as the occupier. Not only these two parties but also all the other property related functions such as tax depend on the rent per square foot.

Maintaining good relationship with tenants

A good relationship indicates a success of the role of the property manager. Dissatisfied tenant eventually vacate the property. This causes for many other expenses such as more advertisement, renovation of lease agreements, legal charges etc.

Maintaining a good communication

This is important for all management activities to get the correct decision in the correct moment. So good communication is needed;

- To respond tenants' request promptly.
- To reduce delays in performing work.
- To reduce the repeat and omission.
- A good communication system must incorporate with a good recording system/ data base (office management etc.).

Overall maintenance of properties

Supervision of property maintenance is highly important. Manager has to balance the tenants' needs and operational cost in managing services.

Daily or regular maintenance helps to reduce the major damages of the property and expand the life of the property, increasing the tenants' satisfaction too.

Manager has to determine and include necessary conditions relating to maintenance of services in tenants' agreements.

In order to keep the property in good condition, there are four types of maintenance.

- **Preventive maintenance:** This includes regularly scheduled work such as painting and seasonal services.
- **Repair or corrective maintenance:** This involves actual repairs such as AC plants, boilers, electric system, service channels etc.
- **Routine maintenance:** daily functions as cleaning common areas of inside and outside of buildings, bathrooms, lobbies, and other minor repairs.
- **Constructions:** This needs when occupiers request some improvements interior alterations, partition, changing of use of space like a room into a kitchen.

Manager is responsible to follow up the schedules. Mostly in non-real estate firms these activities are handled by general administrative officers, which is a wrong practice where a specialist service is needed.

Handling environmental concerns

- Waste disposal.
- Air quality, ventilation, pure water etc.

This kind of needs have dual obligation from tenants and regulatory bodies.

Risk management – security / insurance etc.

- Security of the property and tenants.
- Differently able and aged people, women, children etc.
 - o Providing easily accessible services.
 - o Wheel chair corridors and lift etc.
 - o Suitable counter, additional security measures.
 - o Signs, directions, information etc.

If something goes wrong?

There are four alternative measures for risk management. Avoid, Control, Transfer Or Remain (ACTOR).

- **Avoid:** removing the source of risk. Locating the kid play ground away from the swimming pool. Suitable and enough access and exit doors and corridors etc.
 - **Control:** Preparing for an emergency fire sprinklers, fire doors, fire alarms, security system, evacuating places, training to behave at emergency situation.
 - **Transfer:** reducing the risk by sharing the cost e.g. insurance policy, key money, bonds etc.
- Or**
- **Remain:** In a minor case do nothing reducing the cost, work load and busyness.

Knowledge and Skills Required by a RE Project Manager

- Overall knowledge of real estate, Financial management, Marketing management, Human resource management, public and private law, IT, Statistics etc.
- Special skills such as problem solving, Professional skills and ethics, a management background with a wide range of experience and commitment.

- Effective communication.
- Ability to lead the development team.
- Ability to sell the product.
- Negotiating skills.
- Good office management/ record keeping.

Managing HR

Real estate essentially associates many employees and therefore proper application of human resource management is not a negligible area in real estate management. Ultimate users' satisfaction and generation of wealth by a real estate depend on builders, providers, and operators of real estate. Therefore, managing of these human resources contributes for the realization of expected real estate objectives.

Students' activity: Knowledge based questions

- Simply define "property management"
- Why is real estate management necessary?
- Who is property manager?
- Describe the role of property manager.
- Explain the knowledge and skills that property manager should have.

Discussion questions

- “All organizations need to employ a real estate manager to support other managers”. Discuss.
- “Real estate manager is essential in non-real estate firms more than real estate firm”. Why?
- Real estate manager needs to know general management to fulfil his role. Do you agree or not? Explain why?

Activity – Case Analysis

Evaluate the functionality of the Building of Faculty of Management Studies and Commerce, University of Sri Jayewardenepura (Sri Soratha Building).

Instructions

1. The presentation should cover the following areas
 - a. **Identify** the expected need of the building.
 - b. Briefly **analysis the development process** of the project.
 - c. Evaluate the **outcome** of the project and the **expected need** at present and identify **gap** if any.
 - d. Recommendation (short term and long term) to minimize the gap that you recognized.
 - e. Conclusion.

2. Oral presentation should be limited to 20 minutes and 10 minutes of discussion.
3. The written report should be in less descriptive.
4. Guidelines for the report.
 - a. Report should be typed in 1.5 spacing on one side of A4 papers and use 12 font size of Times New Roman. Margins should be 1.25" on left, 0.8" on right and 1" on top and bottom.
5. Length of the report is around 10 pages maximum 15 pages.
6. Clarity of the presentation, application of guidelines, ability of analysis the given theme, focus, relevancy of additional literature, reliability and adequateness of statistics and information used where needed etc are highly considered in evaluation.

Chapter 05

Property Management Strategies

Chapter Five

Property Management Strategies

- What is Strategy...?
- Where Strategies are placed in a Plan?
- Why Strategies are needed for Properties?
- When Strategies are needed?
- Major Responsibilities of the Management Team
- Property Management Functions and the Development Process
- Developing the Real Estate Strategic Plan
- Real Estate Strategic Planning Process

Property Management Strategies

Previous Chapters

In previous chapters, we discussed mainly on following matters.

- Land, real estate and real property.
- Real estate development process.
- General management and real estate.
- Real estate management.

Contents of this Chapter

- Strategies for property management.
- Property strategic plans for firms.

Learning Outcomes of this chapter

By the completion of reading this chapter, you will be able to know;

- Need of strategies for property management.
- Some applications.
- Also at the end of this chapter you will know the property manager, asset manager and portfolio manager, process of property strategic planning, property life cycle etc.

What is Strategy...?

- Strategy simply means a particular plan, a scheme of activities, a set of policies, a specific approach, a tactic, a trick, a device or a mechanism.
- Strategy can also be known as an action or a series of actions to underpin for the achievement of set objectives.
- Strategy may be anything by which risk can be minimized.

Where Strategies are placed in a Plan?

Generic features of a strategic plan

- Vision (foundation, roadmap of the future).
- Mission (purpose of existence, a part of the vision).
- Policies (Guidelines for self-discipline).
- Goals (attainable end results in a give period, usually in a long period).
- Objectives (specific performance targets, usually in a short period).
- **Strategies** (ways of achieving objectives).
- Activities (specific actions to implement strategies).
- Budget (estimated cost and a way of financing).
- Performance indicators (feedback process).

Usually, a strategic plan is developed for an organization to achieve its objectives. This concept can be related to property businesses in real estate firms. And “real estate strategic plan” is an instrument that should be applied in non real estate firms to achieve organizational objectives.

Why Strategies are needed for Properties?

- Higher value: Property represents higher degree of monetary and/or non-monetary value of organizations.
- Difficulties in acquiring: Acquiring of properties in terms of purchasing or developing or any how is extremely difficult for individual as well as organizations.
- Difficulties in retaining properties. After acquiring required properties with many difficulties; using upgrading and retaining them in organizations is more difficult and expensive.

When Strategies are needed?

- **In acquiring a property:** in developing, purchasing.
 - Buyer, seller, developer, consulter etc need to apply suitable strategies.**(Individual/firm level strategies)**

- **In retaining/managing a property**
 - Individuals.
 - Real estate firm.
 - Non-real estate firm.

(Individual/firm level strategies)

- **Public properties**

(National level strategies)

Individual/ firm Level strategies

- Bargaining: It is a skill. You can use a suitable person who has the skill of bargaining.

- Renting instead of freehold (optional decisions). You have to get a correct option, which is a strategic decision for the success of the firm.

- Be away from unfamiliar mortgage (be careful of loans). Select more efficient ways of finance.

- Decide when price is dropped. You can purchase properties when the price goes down.

- Lower your expenditure. Cost of properties is always high. Therefore, minimizing the cost of properties is a successful strategy for your organization.

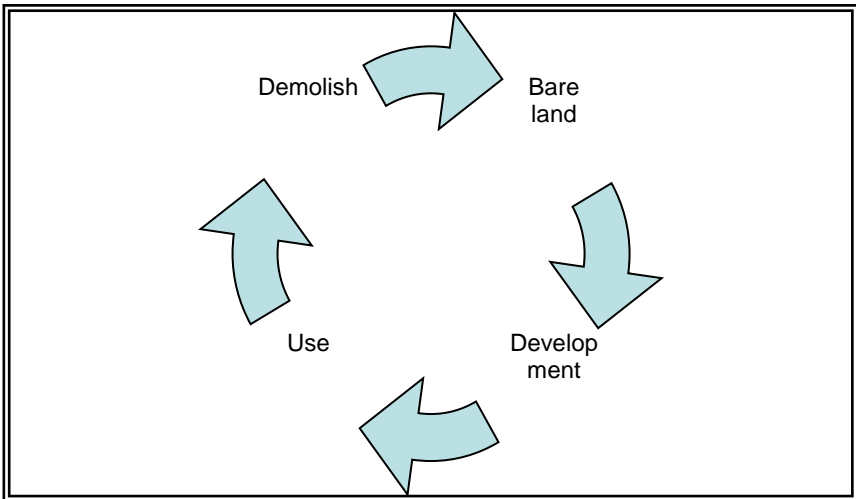
Professional Consultancies for Property Investment

- Store data with you. If you have a wide collection of data your consultancy or conducting a valuation etc would be easy, accurate and less cost.
- Application of technology (i.e. IT). Applying sophisticated technology is a good strategy for you to conduct your professional work more attractively.
- Check methods. Using of a check method is a good strategy that is advantageous for you and your client.
- Analyses like SWOT, PEST etc. Some suitable qualitative analyses can be applied as a strategy.
- Sensitivity analysis, forecasting etc (quantitative analysis).
- Team approach is always a good strategy for real estate consultancy.
- Additional information. Provide additional information so as to make your client happy.

Individual Property

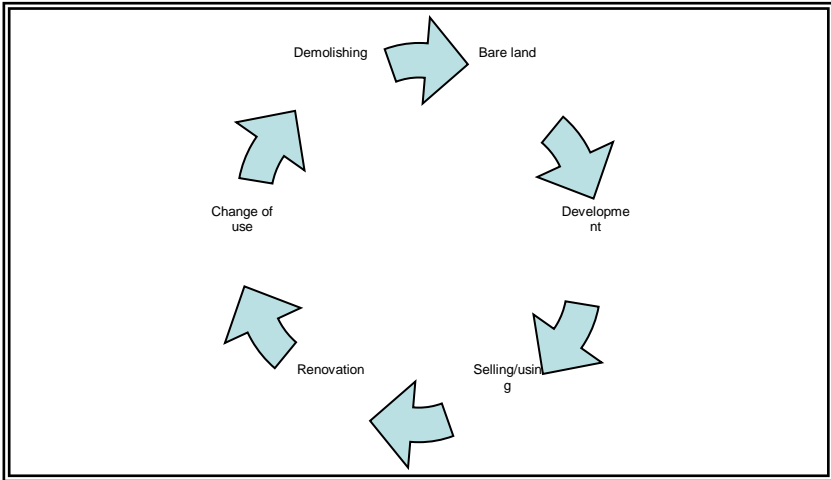
As far as an individual property is concerned, expansion of its life cycle is more important for individuals and organizations since disposing of existing properties and acquiring new properties are always expensive.

Individual property – It's a cycle

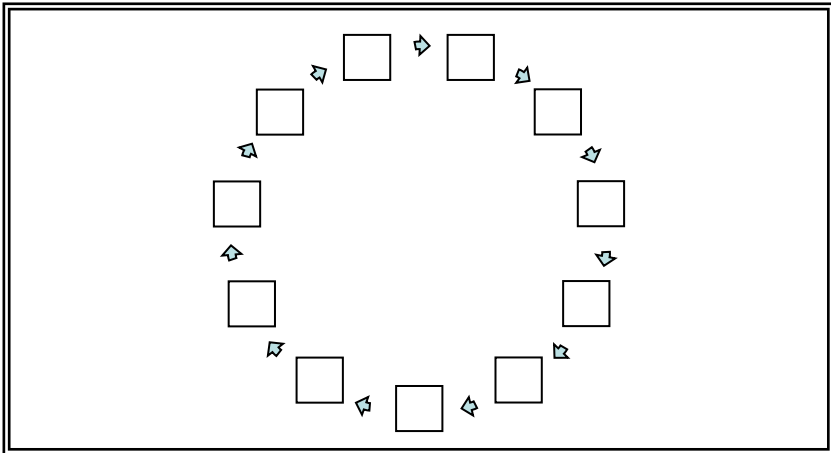


This figure explains the basic stages of a property life cycle. A bare land becomes again a bare situation after demolishing a development on the land. Until a building is demolished, it should be used at its utmost capacity or a longest possible period. That is a good strategy in achieving individuals' and/or firms' objectives.

Strategy - Have a larger cycle

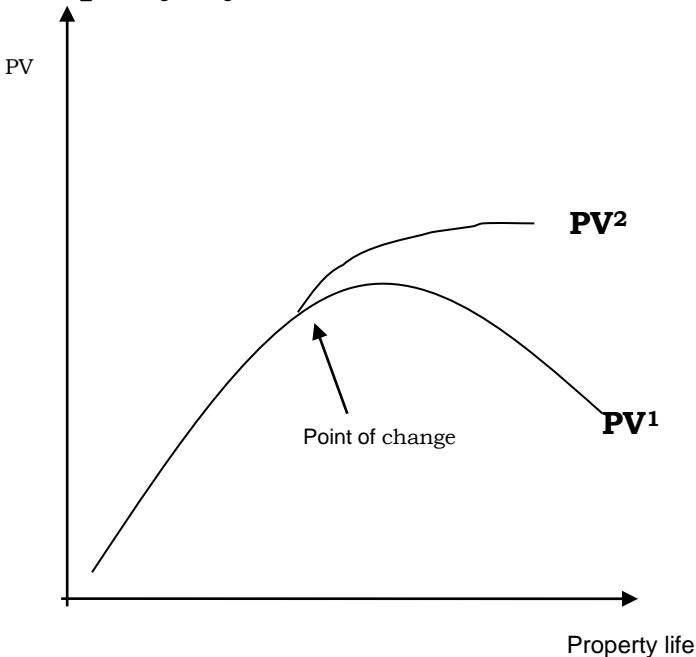


Have the largest possible cycle for each property



If all properties of an organization can be put into its largest possible life cycle, organization could get the highest possible benefits from its all properties.

Property Cycle and the Present Value (PV)



Present Value (PV) will go along with the property life cycle up to a certain point and it will go down thereafter. A wise property manager can change the PV curve of the property by applying a suitable strategy at the right time as shown in the above diagram.

Present Value of Historic buildings

There are pluses (+) and minuses (-) in case of historic buildings for cities. Cities have to use plus points relating to historic building as strategies to promote cities. For instance,

- + Strategic points of investment in cities.
- + Creates good images for cities.
- Redevelopment will be limited.
- Innovation will be limited. For instance, in Kandy and Galle cities, which are historically important cities in Sri Lanka, new development should be put in a place according to the existing landscape. On one hand, it is good for those cities as it boosts up the identity of the cities and on the other hand, it is bad as it is a planning restriction for real estates in those cities.

National level strategies along with real estates

- State policy. A particular real estate policy can be a special strategy for the national development.
- Developing new cities. A new city is a good strategy for the development of a region. This is a national level decision. For instance, new cities under the Accelerated Mahawali Development Program.

- Infrastructure: ports, high-ways etc are good strategies for national or a regional development.
- Developing economic centres: Free Trade Zones, Science Parks, and Industrial Zones etc are some regional or city level or national level real estate strategies for the development.

Firm/individual level strategies

- Restructuring, Downsizing of firms. This is done by means of reducing properties in the portfolio. Properties that are difficult to manage or expensive or higher vacant etc can be sold or rent agreement can be cancelled or discontinued.
- Relocation. Head office, stores, security points distributing outlets etc. can be relocated or restructured. By this way firms can minimize cost and maximize income.
- Diversification strategies: Investing in different property types, investing in different geographic areas.
- Strategic ownerships, uses and users (magnet tenants, anchor tenants), merging etc. For instance, establishing a branch of a bank, a cash point, and restaurant etc. in a

supermarket will attract more customers to the premise as customer can get many services from the same place.

- Strategic financing. Real estate finance is a challenging task in all countries. Therefore, innovating financing mechanism is a good strategy to achieve innovative real estates. For instant Public Private Partnerships (PPP), Real Estate Investment Trust (REIT) etc. strategic financing ways for real estate rather than having own savings and bank or personal loans.
- Real Estate Strategic Plan. This is a supplementary plan for the business strategic plan of a firm. You learn more on this from the next paragraph).

Firm level – strategic organizational structure for property management

Managing real estate assets from the completion of physical development (or property acquisition) through renovation to eventual disposition, describes the responsibilities of the property, assets and portfolio managers.

All activities of property, assets and portfolio managers are distinct but interrelated and have a

common goal i.e. maximize the value of real estate assets.

Property Manager

Property manager focuses on the day-to-day operations of the asset such as;

- Understanding the submarkets/competitive markets/competitors etc.
- Implements the strategic directives set by the asset manager, the higher level manager.
- Final aim of the property manager's role is to satisfy the owners' objectives.

Asset Manager

Asset manager is the higher level position to the property manager. Therefore, obviously the asset management is broader than the property management. It is focusing beyond one physical facility and its tenants. Assets manager is looking after several different properties where there are many property managers. For instance, Back of Ceylon can appoint an asset manager for a district to manage all real estate assets within the district while separate property managers are assigned to each branch or few branches in the district. Asset manager is mainly responsible for two functions such as;

- Monitoring property managers work.
- Providing guidelines to the higher level in developing strategic plans for the entire firm.

All the management functions are incorporated into asset management in a firm as it plays in the middle position in the hierarchy. Accordingly, the asset management contribute much by means of adding value to real estate investment of firms.

Real estate portfolio management

Real estate portfolio management is the highest or the top level managerial position in a firm in the area of real estate management. He has many responsibilities described as follows.

- Understanding and directing the owners' investment objectives. Property portfolio manager has to understand clearly the owners' objectives and work to fulfil them.
- Evaluating the performance of assets managers. Portfolio manager has to implement his real estate decision through the asset manager, who is the immediate responsible manager under him.
- Deciding capital improvements recommended by the assets managers time to time as necessary to maintain the physical structure

and competitive position of assets. So, portfolio manager has to work closely with the asset manager, from whom necessary information for the strategic level decisions in connection with the real estate of the firm can be obtained.

- Managing assets to maximize return and minimum risk. To ensure the minimum risk and maximum return from real estate is the core responsibility of the real estate portfolio manager.
- Developing, acquisition, merging and dispositions of property etc are some of serious real estate management related decisions of a firm. Taking appropriate decisions in an appropriate time is the responsibility of the portfolio manager for the interest of the owner.

Successful businesses through real estate management

The overall real estate management has to focus on an impartment reality i.e. the customer ultimately creates the value of the real estate, bricks and mortar are the only tools that satisfy the customer.

Richard Kateley and M. Leanne Lachman incorporate all three management functions describe

above into asset management. Accordingly, the asset management can be used to describe the process of adding value to real estate investment. In this way, there are three basic ways to ensure the success of firms.

- Purchase or develop extremely well properties that are fit for the short term, medium term and long term objectives of the firm.
- Operating a property to maximize annual income. Get the best and highest use of expensive real estates and minimize the cost of production per head.
- Selling at the right time. Stop the expenses on real estate at the right time i.e. soon after the business is completed or impossible by the property.

With today's sophisticated techniques, asset management can be used to deal with all the real estate activities. And the asset manager can serve as a real agent for the property owner as well as other managers.

The enterprise concept and asset management

This concept, as originally put forwarded by James A. Graaskamp (1990), real estate has been described as an enterprise. He suggested that developers should expect a world in which buildings are like businesses. Buildings are places of generating income, providing employments, producing goods and services and so on.

Businesses continuously need to be redefined, reformed and restructured to protect as to increase their market positions by means of seeking new markets and niches in the market. It is argued that similar to business, the structure of a building should have to be changed from time to time to attract new occupants and provide the need of occupants (i.e. the needs of the market). This enterprise concept is important to understand the need of adaptability, functionability and habitability of structures. This is, in fact, the role of the managers.

Hence real estate developers and managers should think that they are not providing properties as structures, as merely physical components, as mortar and bricks. They should understand that they are creating on going businesses or part of another business(es). Therefore, real estate projects should have long term flexibility in a changing environment. Therefore, it can be argued that real

estate development is continuing even beyond the completion of physical construction along with the real estate asset management.

Accordingly, the enterprise concept of real estate can be simply summarized as follows.

- James A. Graaskamp (1990) describes real estate as an enterprise.
- He suggests to consider buildings also as businesses in a competitive and dynamic environment.
- Businesses continuously need to be redefined their market positions to find new markets and niches in the market.
- Similarly, structures of buildings also should have to change overtime enabling to meet varying needs and wants of the market.

Real Estate Management Hierarchy

“Property Management” is a traditionally recognized management function relating to real estate properties. However, another two areas, called “Property Asset Management” and “Property Portfolio Management”, are broader responsibilities in real estate management. These include much broader

responsibilities to serve for the changing needs and wants of the economy and society at large.

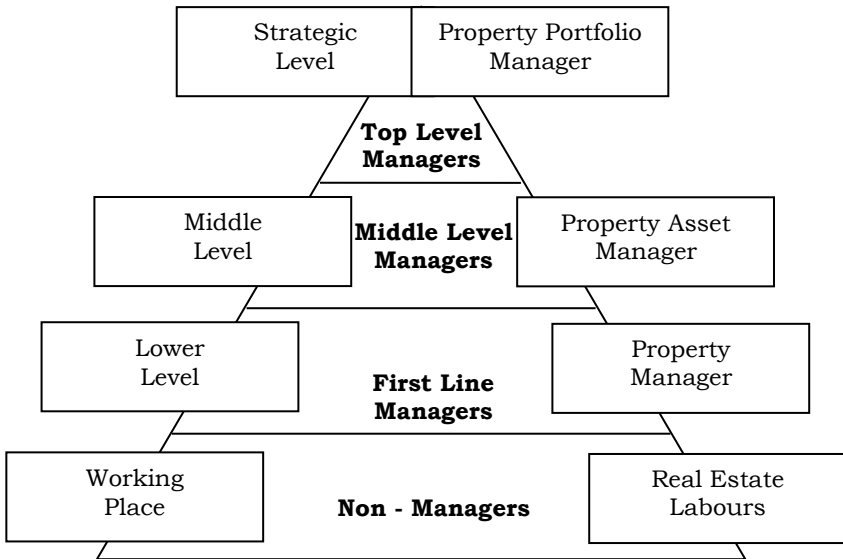
According to the size of the firm or organization, its functions, and the real estate portfolio, it is able to identify the scope of responsibilities among the three areas of management. Usually as all activities in connection with properties are interrelated, in case of a small property portfolio (i.e. small firm, premise, simple structures) one person along with few staff can undertake all responsibilities of property, assets and portfolio management. However, in case of a big portfolio, several managers have to share responsibilities. A big portfolio means not merely a number of investment or properties. It may be because of the functions of the firm or location of outlets. For instance, small properties, but if they are located in different districts or countries, it may seem to be a big portfolio.

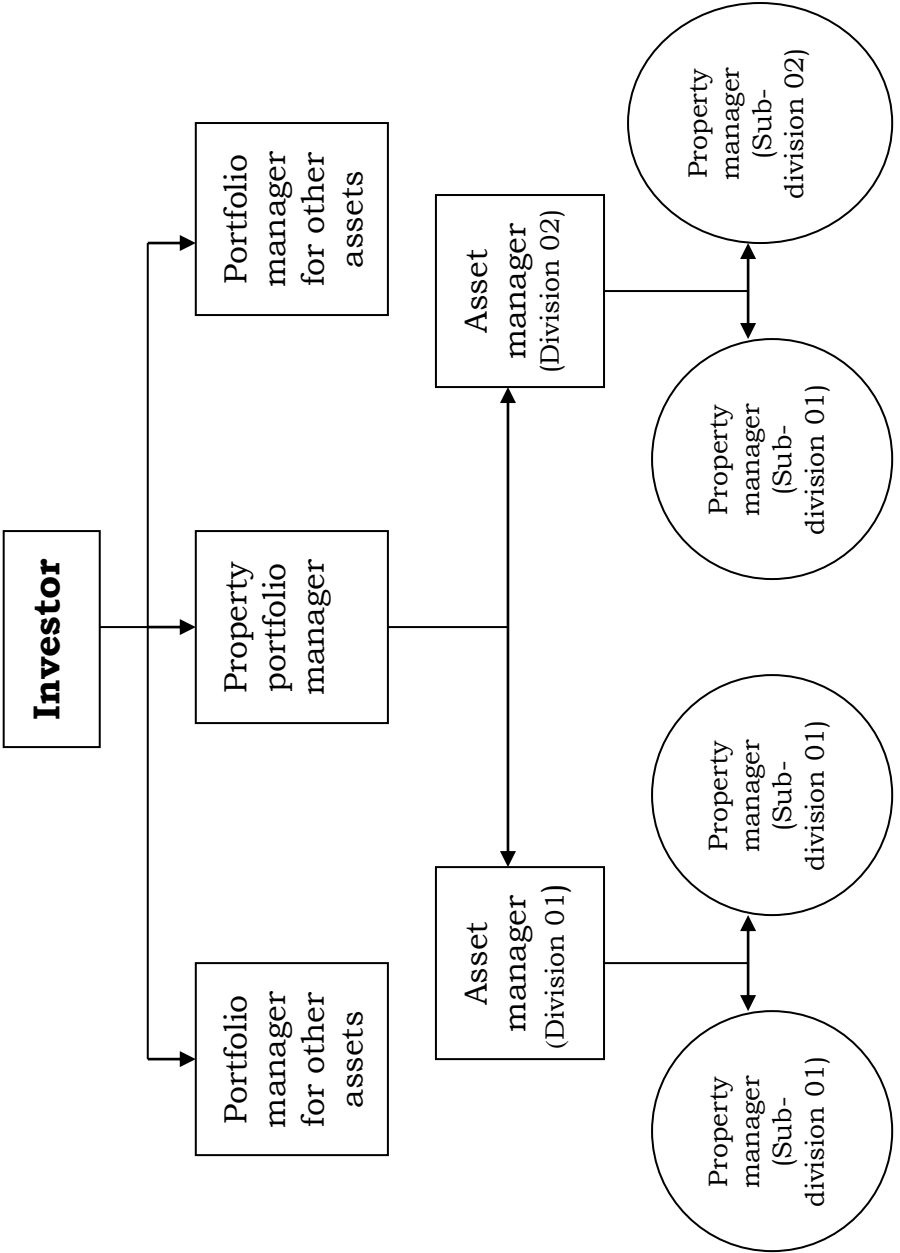
The relationship among property managers, asset managers and portfolio managers

Real estate management functions are interrelated and inter-dependent. It has a hierarchical nature too. As the general management hierarchy of a business firm like top management, middle management and lower level management; overall real estate management functions also can be ordered as higher level, middle level and lower level according to the property related managerial functions. This property

related management hierarchy has been practiced as Property Portfolio Manager, Property Asset Manager, and Property Manager. Following figures explain the hierarchy.

Managerial Levels vs. Real Estate Managers





Major responsibilities of the real estate management team

Property manager

Property management as the lower level manager is responsible to implement higher level decisions. The major responsibility is the “maintain good relationship with tenants and retention of suitable tenants. Furthermore, rent collection, control of operating expenses, reporting and record keeping, maintenance of property, providing information to the higher level manager relating to the capital expenditures, crisis management, security issues, public relations, and so on.

Asset managers

Asset manager is responsible for the middle level management functions of real estates. Assets manager has to be response to the top level management. Asset manager usually has to undertake development of property strategic plan for the firm, conducting sale analysis, reviewing of opportunities to reposition properties, and to provide justification for major expenditures, monitoring property performances, managing and evaluating the property manager’s work by means of company property performance indicators, to similar properties in the particular submarket, and assists

for the tenant relationships etc. As the middle level manager, asset manager is the one who coordinates the relationship between the top level and the lower level functions.

Portfolio manager

Property portfolio manager is responsible to the property owner. On behalf of the owner, portfolio manager is communicating with investors and setting portfolio goals and investment criteria, defining and implementing portfolio investment strategy. Portfolio manager is the one who undertake the responsibility of strategic level property decision and needs to administrate acquisitions, dispositions, total asset management and reinvestment decisions. Portfolio manager is finally accountable for portfolio performance, every client reporting and cash management with regard to the entire real, estate property assets.

Property Management Functions and the Real Estate Development Process

In general, property management plan is based on the complete position of the given property in the market and the owners' actual needs. If the services provided by the property are inconsistent with the market needs and wants, the property will not be able to generate expected level of net income over the time. All building projects must undergo with a

properly managed development process as a strategy to achieve this final objective of the investment on real estate properties. This implies that the property asset management is difficult or impossible if the development process is not managed. You can go through eight phases of the development process again as mentioned below.

Eight phases of Real Estate Development process

- Coming up with an idea. (this idea may arise due to an issue/problem/a need or a want...)
- Refining the idea.
- Testing its feasibility of realizing the idea.
- Negotiating contracts with needed stakeholders of the project.
- Making a commitment of stakeholders.
- Constructing the project. Actions are taken place.
- Completing and opening it. It is physically appeared and ready for functions.
- Managing the new property. Continuation of uses and maximize the satisfaction of users.

Ensuring uninterrupted functions of the property.

These different phases are inter-dependent. Under each phase developer has to consider the other phases in order to manage the whole development process well. If you analyse, for instance, “feasibility study” and “construction” phases, you will realize this phenomenon.

- Feasibility study, usually, looks into different aspects. For instance, the “target market” is one of the important aspects. Though this is a major area to be analyzed under the feasibility study, it is referred even in the phases of “inception of the idea of property” and “refining the idea”. The analysis of the target market is important throughout the assent management as well. For instance, maintaining good tenant relations, collection of rent, selling, reselling etc will depend on the correct information given by the feasibility study about the target market.
- If it is considered the “construction” phase, it is also relates with the other phases. Property managers must make sure that all constructions are good enough to provide the total satisfaction of the customers. In brief, what construction team should do is what

customers ultimately expect from the property i.e. required space with all services. Therefore, the “construction phase is related with the feasibility study (target market/need of the market) and the last phase of the process i.e. “asset management” phase.

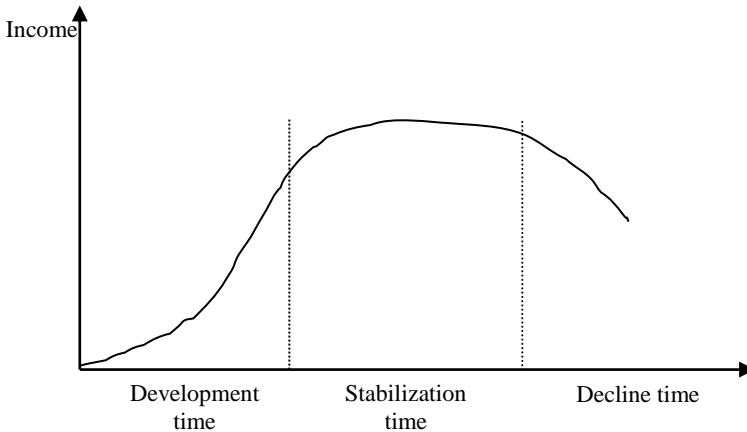
Furthermore, the quality of construction will cause for daily and ongoing maintenance, repairs, renewals, upgrading, modifications of fixtures, ventilations and so on.

Therefore, the transition from property development to property management is a difficult task if the development process is not properly managed.

Real estate project life cycles

You also can identify a life cycle in real estate projects. Once you identified the life cycle, you can apply suitable strategies to make the life cycle more favourable.

Project life cycle



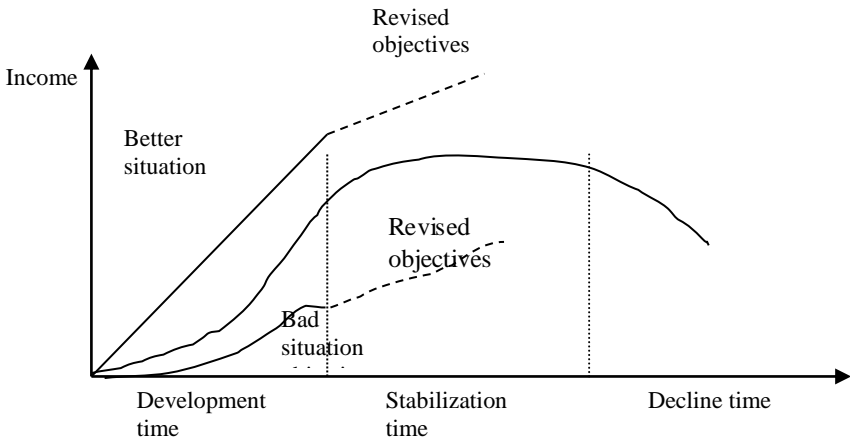
Development stage should be the shortest of a real estate life cycle. However, in practice some projects take unnecessarily a long period owing to poor management strategies. For instance to complete the “Sri Soratha Building” i.e. the building of the Faculty of Management Studies and Commerce of the University of Sri Jayewardenepura took more than 10 years although it could be finished within two years or less than two years.

Stabilization stage commences when the property is physically completed and occupied. This is the most important period from the beneficiaries’ point of view. The lengthier the period means the higher the success rate of the project. The length of the period depends on some reasons such as,

- Property type.
- Market condition.
- Quality of the asset and its management.
- Overall strategies applied to expand the stabilization period.
- Strategies applied to minimize the development period.
- Strategies applied to extend the time of declining point of the income of the property.

Developing the property strategic plan

What can the managers do if the project fails to perform as it is expected? That means the life cycle goes below the expected level. Following diagram explains the situation.



The middle line is the expected performance of the property. A bad situation presents by the line below and the more success situation presents by the line

above. Managers' role is to maintain the property performance equal to the expected level or above. For that managers need to apply strategies.

Property strategic planning process

To face the above situation, managers need to develop property strategic plans. Followings are the generic steps for a development of property strategic plan for individual properties.

(Property strategic plan for an organization is more difficult task than this. It is explained in the next chapter)

Step 01: Define and analyze property problems and opportunities. For instance, it is important to identify and analyse;

- Physical description of the property.
- Operating history of the property.
- Market conditions.
- Property strengths and weaknesses compared to competitors.

Step 02: Evaluate and revise objectives. This should be based on the current information such as,

- Local market/competition.
- Investor's needs.
- Tenants' requirements.
- The total property portfolio and other requirements.

Step 03: Consider alternatives and generate a plan to meet revised objectives for the project. In this case you need to review some major decision points relating to the property such as;

- Where you hold or sell the property?
- Rehabilitate the property or not?
- Change the use of the property or not?
- Change the tenant mix of the property?
- Change the managers/leasing agent?
- Create a new target for the property based on the plan.

Step 04: Implement the plan. For that you need to consider followings.

- Suitable staff for the new activities.
- New marketing programs.
- Preparing operating budget.
- Necessary capital budget.
- Implement the plan and supervise.

Students' activity: Discuss with group members and present.

- When and to whom strategies are needed in Real Estate Development and Real Estate Management?
- Develop an organizational structure for operation of properties of a firm.

Chapter 06

Corporate Real Estate Asset Management (CREAM)

Chapter Five

Corporate Real Estate Asset Ma...

- Need of CREAM
- Principles of Corporate Real Estate Management
- Impact of CREAM on Properties
- Impact of CREAM on Organizations
- What is Real Estate Strategic Plan (RESP)?
- When a RESP is needed?
- Who is Responsible in RESP?
- Issues Arisen Within the Process
- How a RESP is Prepared?

Corporate Real Estate Asset Management (CREAM) Guidelines for Real Estate Strategic Plan (RESP)

Previous Chapters

In previous chapter, we discussed about the following themes.

- The land, real estate and real property.
- Real estate development process.
- General management and real estate.
- Real estate management.
- Real estate strategies.

Objectives of this Chapter

This chapter aims,

- To educate the need of corporate real estate assets management (CREAM).
- To provide basic guidelines for developing a Real Estate Strategic Plan for an organization (RESP).

Learning Outcomes

By reading the chapter you will,

- Know the significance of the CREAM & RESP.
- Learn general guidelines of preparing RESP.

What is Corporate Real Estate? (CRE)

- Corporate Real Estate (CRE) means land and buildings owned by companies/organizations which are not engaged primarily in real estate businesses. This means properties of the majorities of organizations except few of pure real estate business firms.
- Manning and Roulac (1999) define CRE as a property which provides space for productive activities of a traditional corporation. According to this, CRE includes properties of all organizations except non traditional organizations. However, the term “traditional” is not defined. Any way this definition also implies that CRE covers a large amount of organizations.
- Hiange and Ooi, (2000) define CRE as both business (operational) properties and other non-

business (investment) properties of non-real estate corporations. This is also similar to the first definition.

Why CREAM is needed?

It is good to know about Corporate Real Estate Asset Management for all managers and owners of every organization since the significance of real estate for organizations. For instance,

- Real estate is the most fundamental ingredient to initiate, conduct/operate and survive/continue of any organization.
- Hence, proper knowledge to meet an organization's real estate requirements is a vital component of the organization's overall strategic business plan for its ultimate survival and success.
- Earlier some business organizations wanted to sell valuable real estate when downsizing, relocating and restructuring of their businesses. However, having realized the significance of real estate as strategic assets, companies are now taking proactive approaches for the management of real estate by introducing Strategic Real Estate Plan as a supplementary plan for the main strategic

plan. Through such plans organizations can achieve many benefits such as,

- Increase shareholders' value.
- Optimum return from existing and future real estates.
- Move only highly disadvantageous real estate from the property portfolio.
- Realize correct amount of tax, insurance and other service expenses.
- Increase liquidity.
- Raise capital for future purchases of property.
- Divert real estate assets to core business
- Organizations will have more competitive position among rivals.
- Total value of the business is increased.

Corporate Real Estate Asset Management (CREAM)

All organization necessarily involve with many real estate deals. Therefore, organizations consciously or unconsciously involve even in managing their real estate according to the level of their understanding. However, it is apparent that at present organizations are worried about managing human resources, financial resources, marketing and productions process, information and so on. However, it seems that organizations have not recognized the

significance of real estate for their existence. Hence organization should know what the CREAM is and why it is important to organizations.

- Corporate Real Estate Asset Management deals with the management of land and buildings belong to companies which are not primarily in real estate businesses.
- Large organizations may maintain a real estate portfolio for different real estates such as,
 - Property held for investments.
 - Properties being developed.
 - Properties held for future developments.
 - Properties held for disposal and so on (Hiange and Ooi, 2000).

Therefore, systematic deals with such valuable assets are a fundamental need for such organizations.

- Corporate Real Estate Asset Management (CREAM) practices in developing countries are unpopular as it is compared with Europe and America.
- When it is considered the **management of resources**, it is hardly found evidence for management practices on real estate in general

management. Generally resources are known as organizational assets, which include only “**6Ms and I**.”

- Men
 - Machinery
 - Materials
 - Money
 - Methods
 - Minutes
 - Information
-
- Therefore, it is clear that even many management scholars do not consider the need of management of real estate and its competitive advantages for business organizations. Therefore, though real estate is significant for organizations, it is always being under-managed.
 - Many responsible executives of organizations are used to state that they are not dealing with real estate business; hence, it is not a significant issue for other organizations.
 - Further, it seems that Corporate Real Estate Asset Management is considered as a function of “Finance Department” and considering mostly the accounting and investment perspectives.
 - According to Schaefers (1999), real estate represents 10 to 40 percent of total assets and

occupancy costs can range between 3 to 10 percent of revenue or 5 to 15 percent of total costs. This is only the short term and direct monetary advantageous of real estate. However, it is invisible fact that all the functions of organizations depend of the successfulness of real estate.

- Recent studies of Schaefers (1999); Tay and Liow (2006) identified the increasing interest of non-real estate companies in CREAM as they are aware of importance of real estate holdings. According to Apgar (1995), some large US companies such as IBM, Sun Microsystems, AT&T have considered CREAM as a business function. For instance,
 - IBM could save \$1.4 billion by linking the real estate utilization to business units having understood the significance of real estate to their business.
 - AT&T exceed its goal of \$500 million cost reduction by appointing responsible management applications for real estate issues and by linking decisions about facilities with the business strategy.
 - Sun Microsystems is using real estate as a tool to help its strategic goal. This means this company prepares a

supplementary strategic plan for real estate to support its corporate business plan.

Following box provides evidence from the UK for the application of real estate management in their organizations. The BOX 01 tells you the role of the real estate manager and the BOX 02 tells you about the qualification they expected from prospective real estate managers.

BOX - 01 – Career Opportunity –Corporate Real Estate Management Consultant

The Role:

To support and maintain growth in the CRE and FM team, they are currently seeking to recruit a business advisor to join the practice at Executive level. You will be RICS qualified and have a thorough grounding in property across a variety of disciplines, but specifically corporate real estate, valuation and development. The ability to apply existing skills across a range of diverse and unusual scenarios including audit, transaction support, corporate restructuring and the corporate real estate arena is integral to this role.

Working as a Client Service Executive in the London practice, your primary focus will be to take a lead/supporting role in managing the day-to-day delivery of assignments across a diverse portfolio of clients and industries. In doing this, you will often work with teams based both within your immediate business group and across the wider firm. You will also provide support and feedback to the Project Partner and senior management who will provide direction, review, advice, and client management at a higher level.

(<http://www.propertyjobs.co.uk/jobs/job/corporate-real-estate-management-consultancy-in-big-4-london-200258494.htm>)

BOX - 02 – Career Opportunity –Corporate Real Estate Management Consultant

What we're looking for

The ability to deliver tangible project results whilst at the same time, nurturing and building client relationships for the longer term is essential. Skills sought include: Strong technical and valuation capability and sound market knowledge; An ability and willingness to work across both the public and private sectors; Competent at dealing with senior executives and management; Appreciation of the issues risks, and challenges which face organisations that both invest in and occupy buildings; Good knowledge of the wider business environment and a strong commercial grounding – able to provide credible and robust challenge in a range of situations; Strong proven client management skills – will have to operate with clients at senior levels; Proven report writing, verbal and written communication and presentation skills – ability to credibly communicate technical issues with both senior property and finance specialists; Financially numerate, good analytical and problem solving skills; Knowledge of Excel, Circle Investor / Developer; Strong interpersonal skills; Ability to work comfortably in both teams and a self directed manner; Proven ability to manage several tasks concurrently; Self starter, strong sense of initiative; Good organisational skills; RICS membership

(<http://www.propertyjobs.co.uk/jobs/job/corporate-real-estate-management-consultancy-in-big-4-london-200258494.htm>)

Experience from Sri Lanka is very rare in this area in local organizations. However at the policy level, real estate management has been recognized to a certain extent. Following BOX 03 consists of Vision and Mission statements of Government Valuation Department, which is one of the principle institutions responsible for real estate activities in Sri Lanka.

BOX - 03 – The roadmap and the purpose of existence of the Sri Lanka Government Valuation Department (SLGVD)

Vision of the Government Valuation Department

To maintain professional excellence through high profile global standards in Valuation & Management of Real Estate in order to promote socio-economic development

Mission of the Government Valuation Department

To provide a comprehensive professional Valuation & Estate Management service to the Government of Sri Lanka and to be competitive and cost conscious through an efficient and effective management structure

www.govenmentvaluationdept.lk

Further the second objectives of the Institute of Valuers of Sri Lanka (IVSL), which is another key professional body dealing with the real estate management affairs, is “to promote and foster the study of property management both urban and agricultural”.

However, such policy level recognition has not realized by applications in the country so far.

Principles of Corporate Real Estate Management

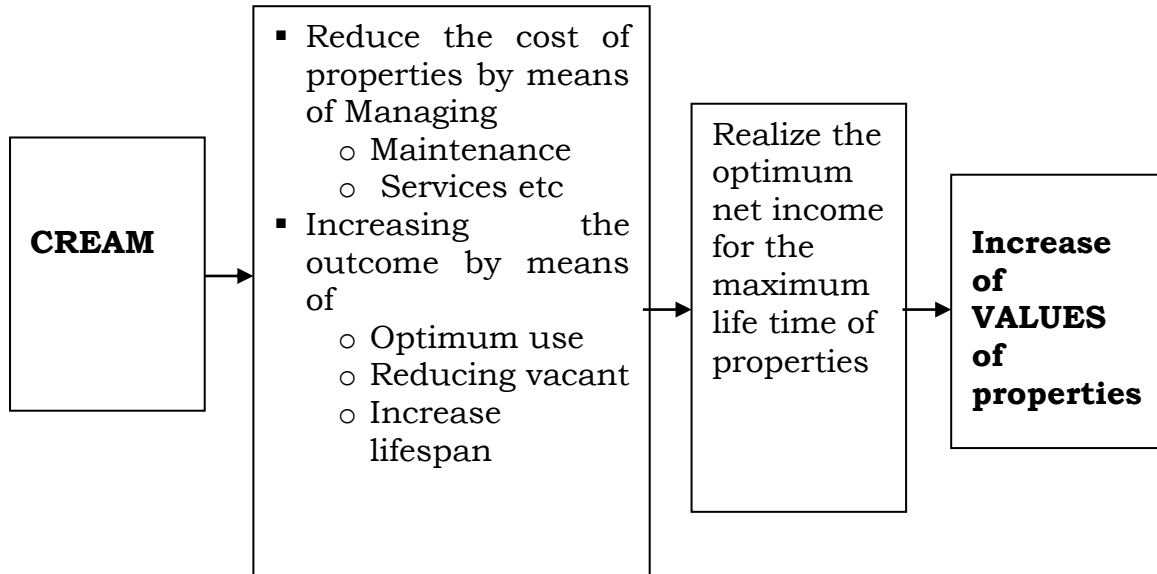
According to Rambo Bon (Professor in Real Estate Economics, University of Reading, UK), there are some principles for efficient and effective real estate management.

- a) CREM should cover the entire range of activities concerning portfolios of building and land holdings, investment planning and management, financial planning and management, construction planning and management and facilities planning and management.
- b) The main concern of CREM is to establish and maintain a close match between on organization’s business and property strategies.

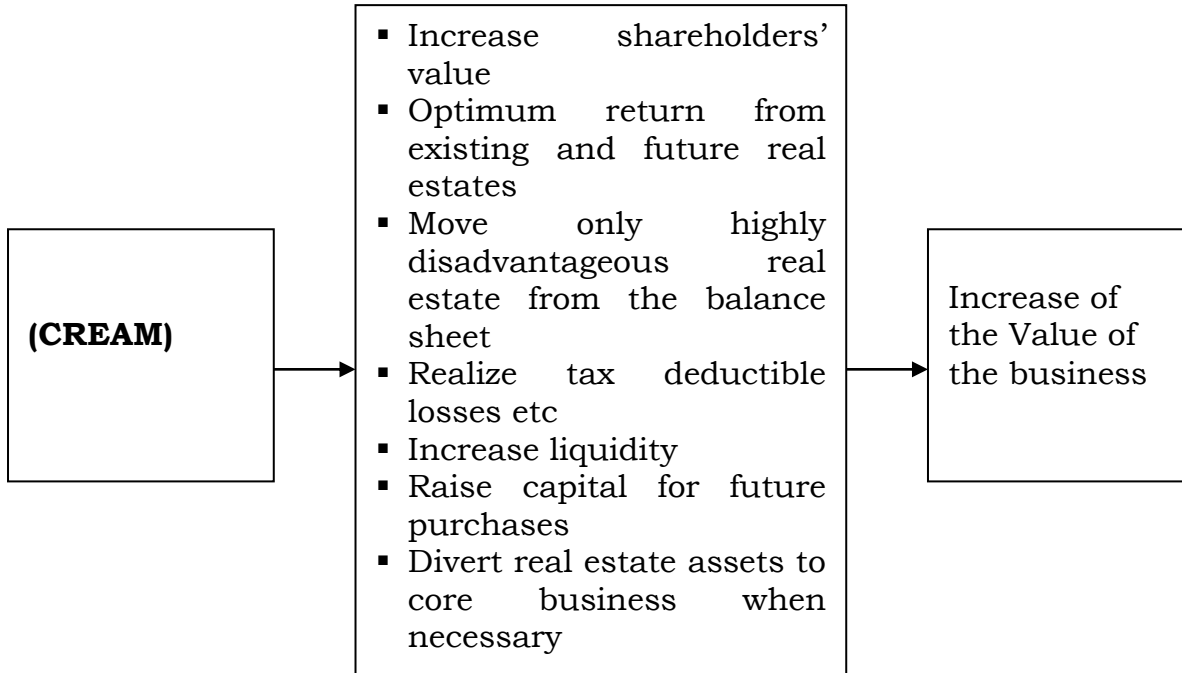
- c) CREM needs to keep an account of the available options for various components of the portfolio (Information for future decisions).
- d) Each property is going through the real property cycle, starting from and returning to unimproved land. So, CREM should concern the entire real estate cycle of each property in the portfolio.
- e) CREM tools need to be applied as early in the real estate cycle as possible.
- f) CREM provides approaches and tools that facilitate to the feedback loops between real property portfolio and managerial action.
- g) CREM requires effective monitoring of property performance by means of property performance indicators.
- h) CREM needs to maintain a continual adoptability for changing.

Managers and investors should know the impact of CREAM for their properties and organizations. Following figures illustrate in brief the impact of CREAM on properties and firms.

Impact of CREAM on Properties



Impact of CREAM on organizations



Business Strategic Plan with a Real Estate Strategic Plan

What is a Business Strategic Plan?

"Strategic planning involves a purposeful and disciplined effort to take fundamental decisions and actions that shape the organization and guide for,

- What the organization is about?
- What does the organization do? and
- Why does the organization do so?

Therefore, it seems that a business strategic plan is an effort to achieve the aims and objectives of the organization.

What is Real Estate Strategic Plan?

The answer for the question, "How an organization accommodates its' all activities", provides a working definition for the real estate strategic plan (RESP). Real estate strategic plan aims to provide all required space at the right time, right amount with right services at the minimum cost. This expects to ensure the smooth functions of organizations at the lowest cost of production per head. This means the efficient and effective use of real estate of organizations in minimizing real estate issues for the function of the organization.

In this way, it is clear that a real estate strategic plan aims to support to ensure the organization's overall strategic business plan. Therefore, real estate strategic plan should be according to the business strategic plan of organizations.

What does a RESP provides to organizations?

Mainly the purpose of RESP is to underpin for the success of business strategic plan. The expected major results of a well-designed RESP are;

- Increased efficiencies in providing space for the activities of organization.
- Maximum flexibility of allocating space for activities.
- Possibilities of having more negotiating options.
- Altogether real estate strategic plan facilitates for the business strategic plan and in turn for the successful achievement of organizational objectives.

Why we need to use a RESP? The simplest answer as well as the broadest idea behind the concept of RESP is to minimize the occupancy cost of activities of organizations. Because, components such as land, buildings and structures (real estate) are in the

top among the most expensive categories of item purchased and used by organizations.

Secondly, a company's real estate is one of the central determinants of the successful functions of organizations.

In an increasingly fast-moving world where business strategies are needed for success of organizations, RESP is a strong strategy for the success of business strategies. This means that RESP is a supplementary strategy for the success of business strategic plan of organizations.

When a RESP is needed for organizations?

Ideally, RESP seems to be a part of an organization's larger and long-term planning efforts. This should be a continuous function or a process of organizations and not an isolated activity performed at a time. However, according to some specific context, there are situations that organizations need to prepare especial real estate strategic plans to manage the situations. Most often RESP is needed:

- To control cost and operate all functions more efficiently under the normal circumstances.
- When organizations expect a rapid growth either by internal arrangements or through

mergers with and acquisitions of other businesses.

- At situation of beginning or expiration of a large lease.
- When organizations have new leaderships, new management, need of structural changes.
- When organizations attempt for new business initiatives, shifting location etc.

However, large organizations are supposed to have continually updating and reviewing of strategic business plans and RESP as supplementary plans.

Who is Responsible in RESP of Organizations?

Generally, preparing strategic plan of an organization is the responsibility rest in the hand of the senior management. Similarly the major responsibility of preparing RESP is also at the highest level of authority in organizations. However, this particular task cannot be performed by ordinary members of the top management along. As this planning process deals with very specific components i.e. real estates, it needs a team of experts to assist to the top management. Further

the top management should also be knowledgeable of real estate.

In this process the top management have to get the service of a team of real estate service providers such as,

- Real estate consultants
- Real estate market analysts
- Architects
- Engineers
- *Attorneys*
- Surveyors
- Valuers
- Quantity surveyors
- Environmental specialists
- Sociologist
- Physical planners
- IT experts
- And specialty consultants who can involve with risk management, negotiations, problem solving in unplanned situations.

Issues arisen within the process

- The degree to which the team who involves with the RESP process is permitted to carry out its work within the organization is crucial for the success of the RESP. This is a fundamental issue in organization. If the

team has limited access to inspect properties, limited information etc will be a serious hurdle for the RESP planning process.

- Will the RESP team be able to access to the top decision makers? RESP should be the supplementary plan for the main business strategic plan. Therefore, the RESP team should be aware of the top level decisions, goals, objectives, policies, strategies, financial information, issues, potentials etc. of the organization accurately.
- Openness to a full investigation of the firm's business plan and its vision depends on the trust among the team and the top management or the owners of the firm.
- In case of more sensitive element or critical decisions such as selling a property or merging with another property etc. there may have personal or hidden motives of the firm or its managers...! In such a situation, how far the RESP team will be able to diagnose is a serious issue in preparing an effective and efficient RESP to support the general business plan.

How a RESP is prepared for an Organization?

This should be a serious and purposeful attempt. Having a well articulated general business strategic plan for the organization is a prerequisite in preparing a RESP. The basic outline of a RESP process can be indicated as the following steps.

Stage one

- Establishment of ground rules for the RESP process. In this stage, it is expected to identify aim and objectives, limitations, policies etc compatible with the major business plan of the organization. For this purpose, it is essential to learn well about the major business strategic plan. It should be made sure non-conflicts between two plans.

- Formation of teams. Once the objective and activities are identified and confirmed, it is needed to have a core group and some sub groups to perform the activities.

Stage two

Data collection is a primarily important in the preparation of the plan. Collecting of all necessary and updated data and information in a right quantity is a fundamental task of the team. This is

also a heavy job in the process on which the achieving of the set objectives of the plan is fulfilled.

Scenario modelling is the next activity. Once the necessary data has been collected, tabulation and organizing of data so as to analyse and prepare the report is important.

By analysing the data and information team has to engage with the evaluation process. Through this planning team will be able to recognize strengths, weaknesses, opportunities and threats of the organization relating to the real estate. Team will formulate the real estate strategies to support the business plan of the organization.

Presentation of findings is the last activity of the team. This should be a careful and in well organized way. It is able to produce a report, oral presentation and arrange an ongoing consultation. Planning team has to justify their proposals. There may have negotiating processes and readjustments to the initial RESP too.

Data collection and analysis etc can be explained more as follows.

Data Collection

This can be one of more time-consuming steps in the process. This depends upon the scale and nature of

the organization, especially according to the real estate portfolio and real estate objectives of the organization. Like most planning exercises, however, the value and the effectiveness of the RESP plan is directly related with the quality of the information gathered. The team should know from where the relevant data and information can be collected. Followings are some general sources of data and mechanisms for data collection.

- Existing materials within the organization as well as from the other organizations or from the market. For instance, price levels, quality and standards etc.
- Company's strategic plan. This is the major information source for the RESP as the RESP is a supplementary plan for the success of the organizational objectives. If access to this is limited, RESP team should be tactful to know all important information somehow. Otherwise the RESP effort would be meaningless.
- Existing lease agreements.
- All current occupancy costs. For instance, residential property cost, production property cost, office property cost and so on.

- Existing floor plans to find the available total floor area.
- Need to visit to locations of existing facilities and all the structures and features etc. physically.
- Conducting architectural/engineering surveys of existing structures or using existing reports.
- Inventories of furniture/finishes/equipment.
- Copies of current space plans or standards.
- Growth projections done by the organization.
- Different codes, specifications etc.
- Current employees and their space need both direct and indirect needs at present and in future.
- Commuting patterns, travel requirements etc.
- Market surveys on similar properties.
- Construction costs, material prices etc.
- Benchmarking and trend analysis information.

Interview is an important method in information-gathering process. In conducting interviews, it is needed to determine followings.

- Who is going to be interviewed?
- What information are needed from them?
- How the interviews are conducted?
- How the data and information are recorded?

Scenario Modelling/ Data Tabulations

At of this stage, all of the information gathered through secondary data sources, interviews, and benchmarks/standards/specimen etc. can be incorporated into a master piece that can be called “Master Space Program”. Master Space Program is a detailed, comprehensive space program to identify required information for the management decision regarding all the activities of the organization.

Sometimes, comparisons of the situation with the other similar situations/organizations may be needed. In such events, tours of other firms and interviews with owners/manager of other firms are also important to complete your data collection and analysis.

Forecasting and predictions in connection with various aspects of the organization are usually required in this planning process. To confirm and valid growth projections, you need to look at the

firm's growth history and compute the average rate of growth. Problem in this connection may be the lack of records or incomplete recording of data.

Analyzing Process

The success of analysis depends upon the quality and quantity of data and information as well as the ability of the team. Generally the following areas are the fundamentals in this planning process.

- General availability of space in total and space for different purposes at the time and in events of future.
- Required amount of space and any surpluses or deficits at present and future.
- The cost of space in general and for different tasks at present and future.
- Number of sites, their general size, their geographic locations, their suitability for purposes and possible deviations in future etc.
- Also, it is important to consider the available options at the time and future.
- Problems of space uses and users now and future such as misuses, underuse, and overuses etc.

- Potentials of properties for more productive activities of the organizations.

The goal in the scenario process is to outline all viable alternatives for meeting the organization's space needs for various business activities. Through the plan, it is able to indentify suitable optional actions to manage the space needs. Generally these can include;

- Space restructuring by relocating uses or downsizing room size etc.
- Renovation of buildings and structures.
- Extension of existing leased facilities or ending.
- Expansion outside facilities or curtailing.
- Relocation of functions to new buildings within or outside the organization.
- Purchase or leasing of new space.
- Construction of new buildings.
- Demolish of economically, technically, or functionally obsolete building and structures.
- Merging or acquisitions of properties.
- Separation of existing merges.

Evaluation Process

With all of the options available, you can prepare a short list of more relevant, effective and efficient options for smooth functioning of the organization.

In this evaluating process, there are certain quantitative aspects as well such as,

- Financial impacts.
- Head counts of property items.
- Floor space amount and ratios.
- Different forms of costs affiliated with the space uses.

Secondly, you want to consider qualitative aspects regarding space uses for different business activities. Qualitative aspects, which are more subjective measures such as mentioned follows are essential.

- Location suitability related analysis.
- Surrounding environmental investigations and considerations.
- Image that the space generates for the staff and clients of the organizations.
- Value addition by use of properties for certain functions of the organization and vice versa.

- The value addition of each property to the value of the business/organization.

A short list of recommendations is important for organizations in efficient and effective decision making process by the top managers. Therefore, RESP team is supposed to provide a short list of options.

Separate space plans are required for each building/structure/room etc. according to the suitability analysis for the given space needs of the organization, which is compatible with the Master Space Program of the organization.

Some buildings or structures may have manageable issues in proposing more efficient layouts for certain functions. For instance, slight deviations of floor areas of buildings for the required needs; available services and so on should be addressed by effective and efficient solutions without proposing drastic changes.

The team can provide some more information for the organizations in the events of unpredicted situations or alternative decisions. For instance,

- Conceptual construction cost estimates in the event of new constructions are needed.

- More detailed financial information will be important for managers as guidelines for their computations.

- It is also good to provide projections of rental rates, costs of construction, population densities, demand, cash flows and other relevant information for the future use of management decisions.

Presentation of Findings

Ultimately the team should produce the shortest possible list of preferable optional solutions for existing problems. Though there may have a favourable solution at present, in most cases it makes sense of having multiple options in case of negotiating purpose. A draft of the findings and recommendation should be forwarded for review or acceptance by the top managers to merge with the main business plan. After reviewing of the top management, there may have some amendments or corrections.

Student Activities

1. Explain the benefits of CREAM for individual properties.
2. Explain the benefits of CREAM for organizations.
3. You have been requested to prepare a RESP for a large organization to support its major

functions. The managers of the company have no experience of such a plan previously. They want to know what RESP and its benefits etc. So, prepare a note to educate the managers of the company the way that you will prepare the RESP and its benefits to the company.

Read the following assignment, which is relating to the real estates of the University of Sri Jayewardenepura. Also the activity can be done in any other organization and thereby you can learn a different experience.

Practical Assignment

Topic

Examine the management practices of real estate of the University of Sri Jayewardenepura.

How to take part

Group work as 04-05 members in a group

Objectives

- To open doors for students to move into practical environment, from which you will get different learning outcomes that are impossible to acquire being in classrooms.
- To develop students attitudes towards self-confidence in applying what they know on a given task.

Activities

- (a) Identify the university premise in terms of different criteria such as;
 - Usage of properties.
 - Size, age, current condition. (new, old, well-maintained etc.)
 - Ownership (owned, rented, donated, hire etc.)
 - Land, buildings, and other structures and fixture, etc.

- (b) Users and usage of properties.
 - By whom certain properties are used.
 - How many number of users.
 - Nature of usage, temporary, permanent, fulltime, part time etc.

- (c) Property, acquiring, purchasing, maintenance and development procedures.
 - What is the normal procedure?
 - Who involves and their experience, relevant qualifications etc.

- (d) Impact of university premise on the neighbourhood and vice versa, both good and bad aspects, for instance,

Outside - for households.

- Vendors.

Inside - Students: part time/full time.

- Staffs: part time/full time.

- Visitors: regular/irregular.

(e) Managing information – other services – cost, wastage etc.

- Water.
- Electricity.
- Sanitary.
- Open space.
- Security etc.

(f) Overall Management Technique.

- Record maintaining.
- Maps.
- Proper workforce.
- Ongoing supervision.
- Feedback process.

Guidelines for a work plan:

- You can learn the master plan of the university before going to the field to get the basic awareness of the total premise.

- You can roughly divide the total area into zones for your initial field visit and data recording purposes.
- Activities can be roughly listed, prioritized, classified, and divided into groups.
- Assign activities and responsibilities for suitable members.
- Different rounds of field visits for data collection and group discussions for preparing presentable documents.
- Preparing charts and maps, writing the report, ready for the presentation.

Chapter 07

Market Perspectives of Real Estate Development and Management

Chapter Seven

Market perspectives of real estate...

- Real Estate is in a General Production Process
- Market Environment
- Basic Steps of a Market Analysis
- Market and Economic Studies
- Generic Outline of a Market Analysis
- Performance System for Successful Real Estate Marketing and Sales

Market Perspectives of Real Estate Development and Management

Previous Chapters

In previous chapters, we discussed about following themes.

- Land, real estate and real property.
- Real estate development process.
- General management and real estate.
- Real estate management.
- Strategies for real estate development and management.
- Corporate Real Estate Asset Management.

Contents of this Chapter

This chapter consists of following areas.

- Overview to market perspectives.
- Basic steps of a market analysis.
- Need of market analysis.
- Different market and economic studies in real estate project.
- Generic outline of a market analysis.
- Performance system for successful real estate marketing and sales.

Learning Outcomes

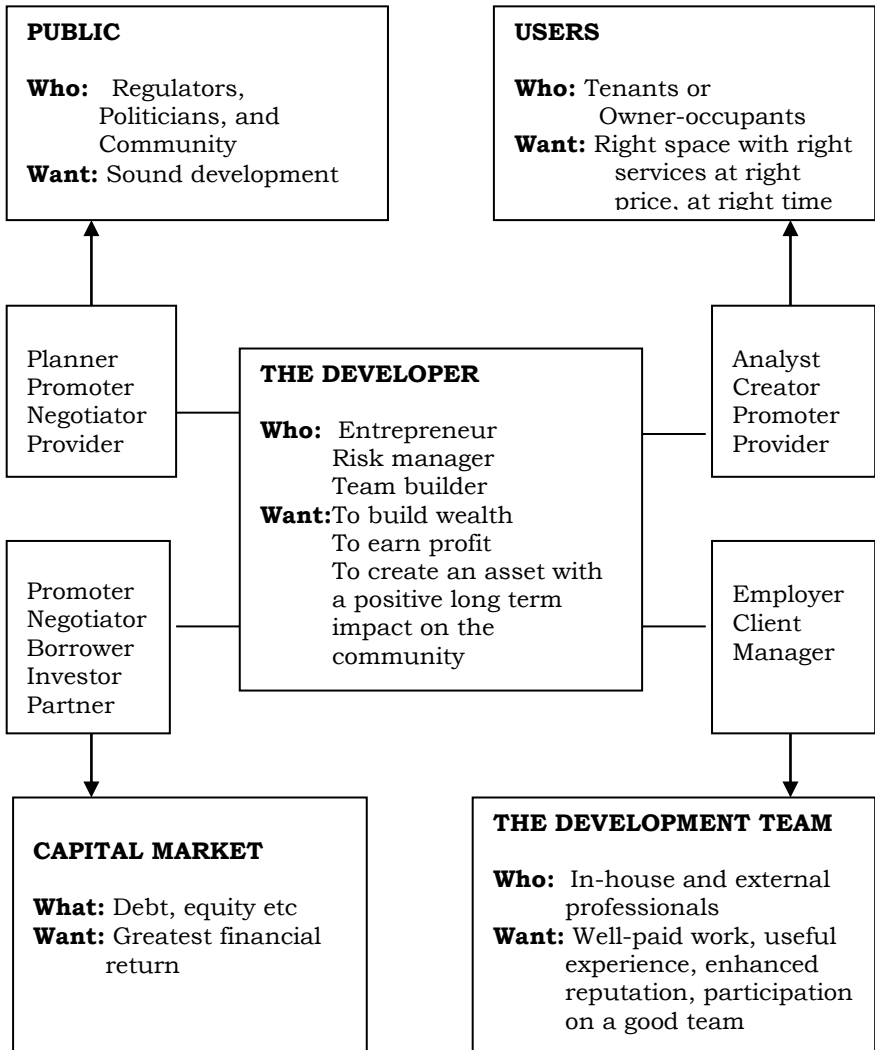
At the end of this chapter you will know;

- Some perspectives of markets and marketing in relation to the real estate development and management.
- Some key economic and market analysis relating to the real estate development and management.

Overview

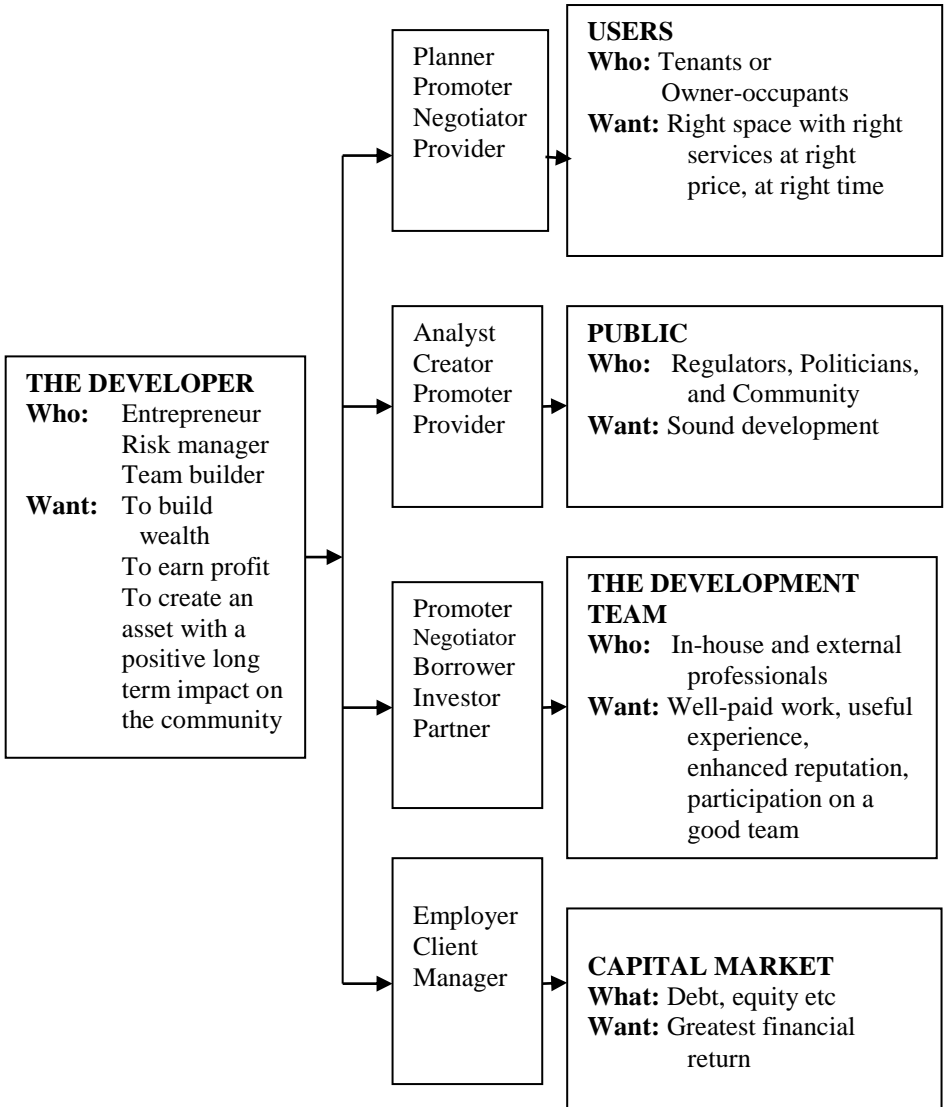
It can be argued that the ultimate objective of RED, REM and CREAM is to maximize the customers' (users of a real estate) satisfaction. Who are the customers? All the stakeholders of a real estate project will be either direct or indirect user/beneficiary/interested one/affected one and therefore, be a customer of the particular property. Following diagram illustrates different users/beneficiary/interested individuals or parties of a real estate project (real estate property).

Multiple role of real estate developer



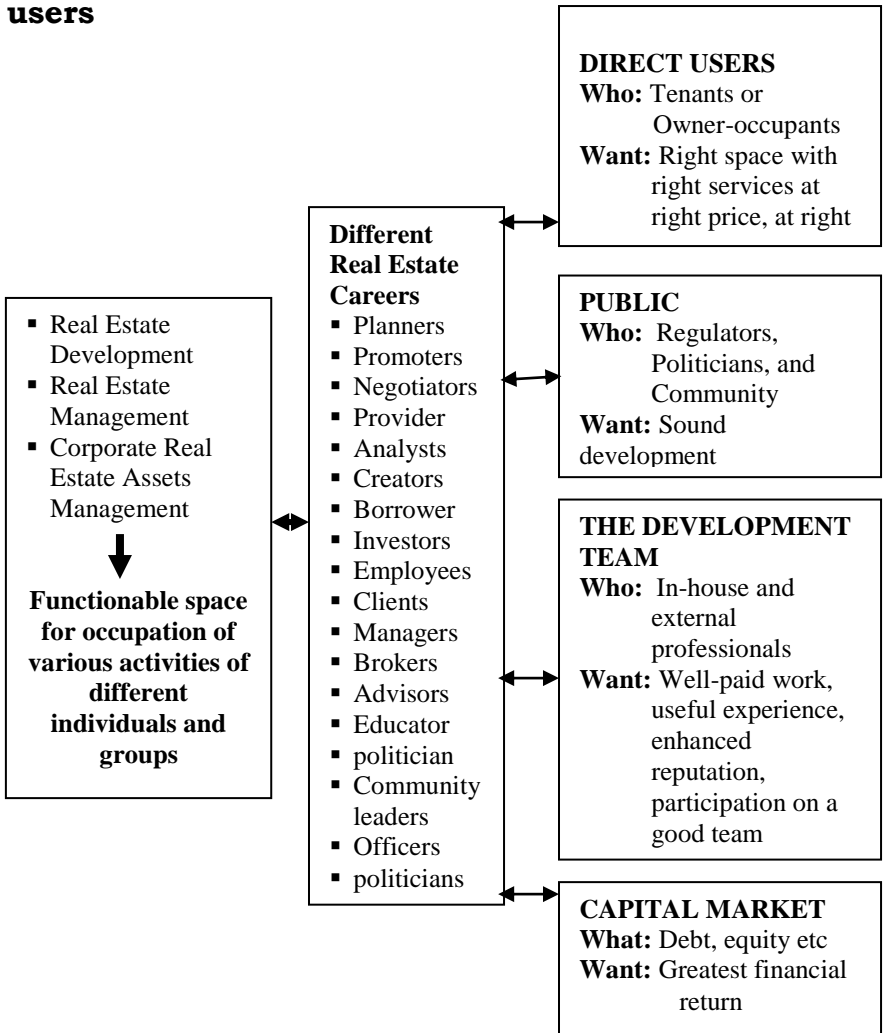
The above diagram can be rearranged as follows so as to show the property and its different users.

Different users/beneficiaries/interested individuals or parties of a real estate project



The above diagram can be further modified as shown below to describe the relationship between a real estate and different users.

Relationship between a real estate and different users



Apart from the direct uses, all the other are indirect uses as different beneficial and affected parties.

Real estate is in a general production process

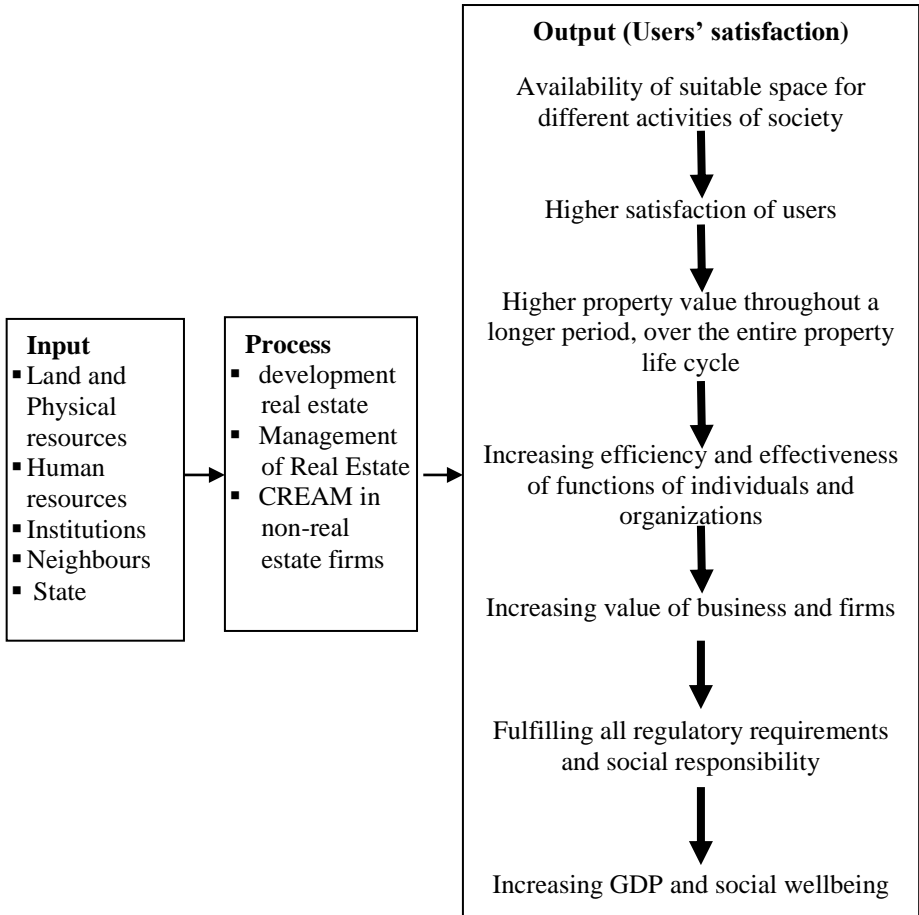


Input: Real estate development process needs various inputs. Land including other physical resources, various human resources such as different professionals and other labourers, different institutions, state authorities and society etc are the essential input for the real estate development.

Process: “Real estate development process” is also a complex one. It can be broadly defined as three major activities such as “Real Estate Development (RED)” “Real Estate Management (REM)” and “Real Estate Corporate Assets Management (CREAM)”.

Output: The above mentioned real estate inputs having gone through the secondly mentioned development process increases the social wellbeing as the ultimate outcome of real estate. Apparent indicator of higher level contribution of a particular real estate for the social wellbeing is the “users’ satisfaction”.

Ultimate Objective of Real Estate



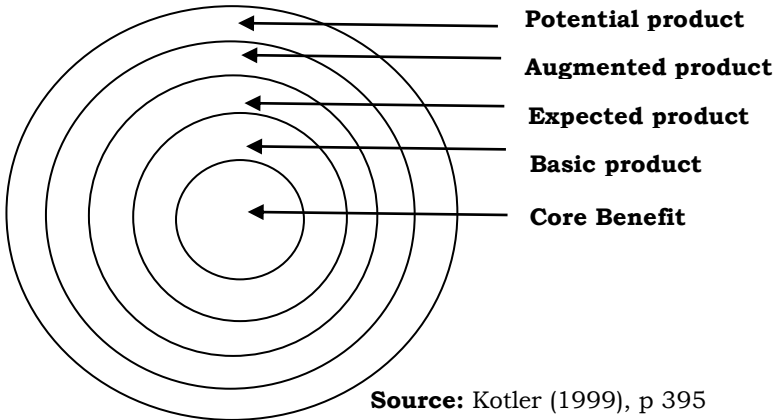
Market and its needs are decisive factors for the success of a real estate project. This may not only be relating to commercial real estates. Even a private home which is developed by you for your family should be fit for the ultimate users. Ultimate users of a residential property may be parents, children, grand parents, kids, servants, visitors, neighbours, service providers, and so on. For instance, you need to provide convenience access to your premise for electricity and water meter readers. Also it is needed to provide reachable connections to garbage and sewerage disposes. Similarly different users of an office property such as employees, different visitors, service providers, and many other direct and indirect users should be able to use the property happily.

Therefore, in any real estate project, needs and wants of various users should be accommodated somehow to satisfy the users. Accordingly, market and economic analysis are important in different phases of a project, during the development of a property, when selling the property, and thereafter at different requests such as for modification, insurance, for merging, separation, demolishing and so on.

These analyses are very important activities in the development process especially at the state of feasibility studies. In this stage, market analysis is major area of studies, which helps to;

- Establish connections between the supply and demand forces.
- Identify the competitors.
- Realized/measure possible risk factors in the market.
- Understand local, regional, national and global trends (social, economic, political etc).
- Measure the present as well as the future trends in the site and the neighbourhood.
- Recognize the expected needs and wants of potential buyers.
- Use properly collected and valid data.
- Design and produce a valuable product, a complete product, a marketable product (Including all possible Basic, Expected, Augmented and Potential products around the Core Benefit of the product). Following diagram shows the different production levels in general and following tables show the different levels of two real estate products i.e. a house and an office.

Different production levels



Source: Kotler (1999), p 395

Different production levels of a House

Product Level	Production features
Basic Core Benefit	Personal living with family members happily for a certain period or for ever
Product	Minimum space and service: a room for sleeping, dressing, relax and so on, a place for cooking, eating and other primary services
Expected product	Space, size, shape, location, price, neighbourhood and so on
Augmented product	Financial assistance, a package of services, security service etc.
Potential products	Potential for extension vertically or horizontally, possibility of reorganizing the space, adaptability and continuous functionability

Different production levels of an Office

Product Level	Production features
Basic Core Benefit	Provision of expected service for the target customers
Product	Minimum space and service depending on the functions
Expected product	Space, size, shape, location, parking, price, neighbourhood and so on
Augmented product	Financial assistance, a package of service, security service
Potential products	Potential for extension vertically or horizontally, possibility of reorganizing the space, adoptability and continuous functionability

It is able to discuss all the analysis under the theme of “Market and Economic Analysis”. Ultimate objective of a real estate is to maximize the users’ satisfaction, which is the same objective of marketing of any product.

Market environment

Market environment consists of both internal and external conditions that affect on the product. Since real estate associates diverse perceptions as market, legal, finance, economic, valuation, social, technical, environmental etc the “marker environment for a real estate includes all the factors.

Basic steps of a market analysis

Step	Aspect	Objectives
First step	Examine national and international economic conditions	<ul style="list-style-type: none"> • Project long term trends • Careful consideration of characteristics of region • Awareness of the locality • Thorough understanding about the neighbourhoods and the site
Second step	Examine the competitors	<ul style="list-style-type: none"> • Investigate market comparables products • Determining appropriate features of planned product(s) • Identify market segments • Specific functions to be played • Competitive advantages/ benefits
Third stage	Planning of the project	<ul style="list-style-type: none"> • Preparing projected schedules for identified market segments • Decide level of production i.e. how many units, at what price, over what time period etc

Need of market analysis: It is expected that market analysis will,

- Help to identify the market share, needs and wants of users etc.
- Measure the ability of existence, long term survival, competitors etc.
- Reveal the maximum benefits, cost, risk areas etc.
- Direct for the best market opportunity, available options etc.

Market and economic analyses are conducted in different stages in the development process for different purposes. Accordingly, it is important to know who, when, and why such analyses are done. It is also important to know what economic analyses and what market analyses are usually important.

Type of market and economic studies

Valuation/Appraisal

Appraisal/ Valuation	A suitable method of valuation should be applied according to the subject property.
Area of examine	Value of the improved or unimproved site? This valuation may be for different purposes such as to value the site, to value the development of the property, for mortgage purpose or to assess the best investment etc.
User	Property owner He needs to know the real value of his site and developed property, Investor and Lender need to know the value of developed property to decide the viability of his investment, wants to know the recovery of loan.
Examiner	Appraiser/Valuer Valuer plays the leading role the holds the key responsibility. Yet, he acquires various services from other experts as this a multidisciplinary task.
Major focus	Subject property Though the valuer has to focus on the subject property, he may have to inspect some other properties some similar properties, overall condition of the neighbourhood development etc.

Cost – Benefit Analysis

Cost benefit of the project	This needs to analyze quantitative as well as qualitative aspects of changing the living condition of the general public.
Area of examine	What is the net value of this project to the public? This examines the positive as well as the negative consequence. Also short term and long term results. It is also needed to realize the direct as well as the indirect outputs and outcomes
User	Government agency Usually the state agency is responsible to evaluate the net benefit of the project for the public to provide the approval and services, assistance.
Examiner	Economist Economist is the leading examiner. However, he needs the services of other real estate professionals.
Major focus	Public investment in the project When granting public finance it is needed to examine the cost and benefit. However, it is good to have this even in a private investment, particularly in large scale projects.

Analysis of economic base (and social context)

Analysis of economic base	This is also has a multi-dimensional approach. For commercial properties like shops or other rented properties for any other purposes this is important
Area of examine	What is the outlook of upcoming growth for this city/area? By this study it is also realize the suitability of the investment in the particular location according to the current trend. Accordingly, the proposed development can be prepared for the future needs for adaptation.
User	Planning agency, owner, user, investor and key interested parties of the property. Accurate analysis helps for the long term survival of the use of developed property.
Examiner	Urban analyst This study is also a multi-disciplinary in nature. Therefore, urban analyst has to get the other expert services for the successful completion of the task.
Major focus	Economy of the city or metropolitan area. The major concern is, in fact the neighbourhood area. However, it

	depends on the size of the expected development such as the scale of the current project and future expansion plan etc.
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Analysis of economic impact

Analysis of economic impact	This is another type of market and economic related study in real estate projects.
Area of examine	What is the economic impact of this development on the surrounding area?
User	Government agency.
Examiner	Urban analyst.
Major focus	City or market area.

Study of highest and best use

Highest and best use	This is generally the major objective to be achieved in any real estate project.
Area of examine	What is the optimum size of this site?
User	Property owner, investor, Lender.
Examiner	Appraiser, market analyst.
Major focus	Subject land parcel.

Land use pattern

Land use study	Proposed real estate according to the existing land used pattern and limits.
Area of examine	What is the pattern of the area?
User	Planning agency.
Examiner	Planner.
Major focus	All parcels of land in the area.

Market study

Market study	Sound knowledge of the subject market is essential for the necessary actions in the planning process of real estate project.
Area of examine	What is the demand for and supply of this type of property in the market area?
User	Developer.
Examiner	Market analyst.
Major focus	In the market area.

Marketability study Marketability study

Marketability study	Developer wants to know the survival rate in the market.
Area of examine	What price, size, function, and features, features, are required to capture the market share?
User	Developer.
Examiner	Market analyst.

Major focus	Subject property compared to competing projects.
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Financial feasibility

Financial feasibility	Once all the above studies are positive for the project, still the financial situation is crucial.
Area of examine	What financial return is attainable for this project, given constraints etc. on the development?
User	Developer, investor, lender.
Examiner	Real estate investment analyst.
Major focus	Ability and suitability of the investment in the project.

Generic Outline of a Market Analysis (analysis report)

There is no method called “the method” or “the formant” for a market analysis. However, there are some essential components in such analysis as described below.

- Executive summary including
 - Goals and objectives
 - Method of analysis
 - Key assumptions
 - Risk factors if any
 - Recommendations etc.

This provides a brief picture of the total report to the reader for quick understanding.

- Overview/background including
 - National (or global) economy and key growth areas etc.
 - Regional economic outlook.
 - Local economic situation.
 - Market description.
 - Site analysis.

This is also a short introduction but little descriptive than a summary. This also provides the rationale for the assumptions taken, arguments made, conclusions drawn, and recommendation forwarded in the report.

- Analysis of demand including
 - Projected demand.
 - Absorption rate.

This should be a comprehensive and informative and supportive for the decision making. Existing demand and possible changes in a short run and in a long run and different patterns of demand of different groups etc are some of useful areas.

- Analysis of supply side including.

- The existing stock in the market.
- Past supply trends.
- Future amounts and sources of supply.
- Analysis of existing zoning and possible changes, restrictions as well as promotions for supply.
- Implications of business cycles and property cycle, gaps between demand and supply etc.

This should also be a comprehensive and detailed analysis with supportive evidence of statistics.

- Analysis of competitors including
 - Feature, functions, and possible benefits (opportunities) of the activities of the competitors.
 - Analysis of market, different segmentations, and market sizes of segments.
 - Available and possible market size for the proposed project at present and future.
- Analysis of capture rate in detail and in specific forms of statistics including
 - Based on the analysis of the competitors you can.

- Estimate the total absorption rate and prepare schedules by market segments.
- Estimate the market share for the proposed project.
- Distinct features of the market that attracts the customers.
- Compute the detailed capture rates of possible leases or sales per period, specific the ranges of price identify the total time of completion of the sale of the product.

This final section of the report is more important since the development team will use the stated information for their decision. Also the success of the project depends on this information.

Data collection for market analysis

This is indeed a highly responsible function of the market analysis. The correctness of the information provided by the report depends on the quality and the quantity and the validity and the reliability of the data and information used for the analysis. Therefore, experienced market surveyors should involve in this regard. Decisions of what data, correct sources of data and necessary amounts of data etc. should be taken by experts. As the

demand and supply are two different forces of the market, data collection survey is a complicated task.

Auditing of real estate market supply data

- The total inventory of space. For this, square feet, No of properties, or rooms etc. can be considered.
- New constructions. Under this, already completed and ready to serve, nearly finished, under construction, and proposal stage.
- Vacancy rates and vacant stocks.
- Occupancy rates and occupancy stock.
- Net absorption.
- Average market rent and prices.
- Details on lease terms, length and concessions.

The above areas of information provide hints for the computation of supply.

Demand side

- Derived demand/driven demand.
- Factors for derived demand.
- Employment.
- Household size, composition.
- Price levels.

- Demographic variables such as total population, population growth rate, net migration etc.
- Income levels and expenditure patterns.
- Social expectations, values, cultural changes etc.

Forecast

You need to forecast different components using available statistics such as income levels, employments characteristics, population trends etc

Marketing and selling/leasing of a product

Marketing is a management process responsible for identifying, anticipating, and satisfying customer requirements profitably. This is a team work of which all the members of the development team should participate/contribute. This is not the responsibility of marketing division, marketing manager or sale's agents.

Every property has unique features and therefore need to adopt unique marketing approaches. Similarly, each property has its own marketing challenges. Therefore, successful marketing and selling depend on a combination of marketing and sale activities along with the consciously managed development process. Marketing is not a function that can be commenced at the completion of the physical construction of a real estate. Marketing of

the property should be commenced along with the beginning of the development process. There are some distinct areas needed to consider in property marketing such as,

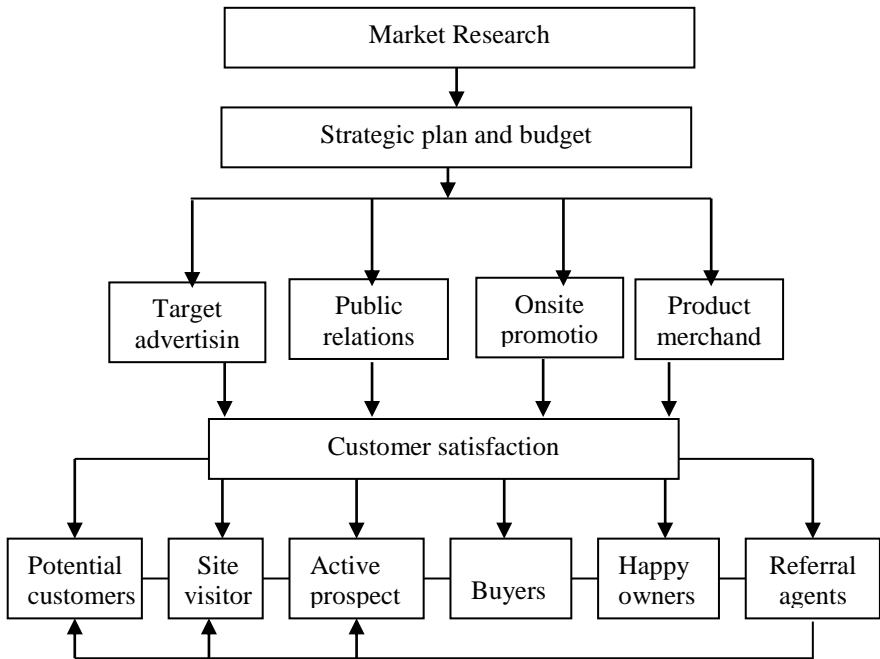
- The functions of property agencies or activist in the market.
- Marketing tools to be used as market research and information gatherings, adverting, promotions, exhibition, and the public relations to create a favourable atmosphere for marketing of the product.
- Market changes over the time and suitable strategies for protection from troubles.

The marketing strategy involves number of steps such as,

- Conducting market research.
- Formulating suitable market strategy based on the research based information.
- Designing methods of selling based on the strategies identified for instance by means of private treaty, auctions and so on.

- Identification of relevant market segmentation for each of products.
- Application of appropriate selling techniques as using brochures, mails, web-based advertisings, site boards etc.

Performance system for successful real estate marketing and sales



Market research

Marketing and sale process begins with a market research. Major objective of conducting market research is to project the absorption rate based on the estimated supply and the estimated demand for the product. This is a series of activities including followings.

- You can start with available knowledge of the team and having a discussion session if appropriate.
- You can explore actual sales amount, actual customer needs and wants, and competitors' details etc.
- In fact the market research is a part of the feasibility study at the beginning of a project and it is continued even after the completion of the construction and thereafter.
- Examine many customer details, overall economic, social, cultural, demographic variables relating to the product.

Market research is similarly to the other research in general and basically, it includes designing the research methodology, sampling, fieldwork/data collection, data analysis and presentation a report. This is a process of generating, analysing, and

interpreting information for rational decision making.

Marketing plan and budget

Marketing of any product is a challenging task. There is less possibility of accurate predictions and instead there is a greater possibility of unpredicted expenses. In fact, marketing of a product incur various costs. Therefore, for the successful marketing process, estimating the cost of marketing, selling, leasing, etc. is a crucial factor. It is hard to estimate the accurate cost. Therefore, experienced expert's opinions, gazes, research findings etc are useful in rational decision making.

Thereafter, the “target adverting”, “public relation”, “onsite promotions” etc are important processes towards the successful marketing campaign. These are inter-related activities. Target advertising must be reinforced by appropriate public relations. Ultimate onsite promotion is very important since buyer is very close to the product physically motivating him for the final decision to purchase or not to purchase. Onsite promotion is important as the target customer is invited to visit the property. Therefore, this presumably attracts more potential buyers and agents.

Finally, it is important to make sure that these all activities should aim at the highest possible

satisfaction of all sort of customers not only the final buyer but also site visitor and others as they will be in the process of selling directly or indirectly, at present or future.

Student Activity - 01

“Development of Cargills Super Market in Maharagama city centre”

Instructions

1. The presentation should cover the following areas.
 - a. **Introduction** to the area.
 - b. **Describe** the current trend of real estate at the area, what is and what ought to be etc.
 - c. **Describe** the development of the subject property and it' efficiency.
 - d. Comment on the **outcome** of the development.
 - e. Conclusion.
2. Oral presentation should be limited to 20 minutes and 10 minutes of discussion.
3. The written report should be in less descriptive.
4. Guidelines for the report
 - a. Report should be typed in 1.5 spacing on one side of A4 papers and use 12 font size of Times New Roman. Margins

should be 1.25” on left, 0.8” on right and 1” on top and bottom.

5. Clarity of the presentation, application of guidelines, ability of analysis the given theme, focus, relevancy of additional literature, reliability and adequateness of statistics and information used where needed etc are highly considered in evaluation.

Chapter 08

Real Estate Consultations

Chapter Eight

Real Estate Consultations

- What is Consultancy?
- Real Estate Consultancy
- General Format of Consultancies
- Where and What Consultancies that You May Have to Do?
- Activities

Real Estate Consultations

The previous chapter

In the previous chapter, we discussed different economic and market studies and we understood that they are needed in any real estate project in different phases. And it seems that these are the events of consultancies through which you can contribute for the planned real estate development and management providing your professional services.

Contents of this Chapter

- What is consultancy?
- Real estate consultancy
- Activities.

Learning Outcomes

By reading this chapter, you will learn,

- The need of professional services as consultancies in real estate projects.
- General format of consultancies.

What is consultancy?

A **consultant** is a professional who provides advices in a particular area of expertise such as the environment, technology, law, management, marketing, finance, economics, management, real estate and so on. Hence, consultant is an expert in a particular area that is not familiar to ordinary people or even the developer. So, consultants in different areas become members of the development team.

A consultant is working for a consultancy firm or is self-employed and provides services for various propose of various clients. For instance, management consultation refers to both the industry of and the practice of helping organizations to improve their performance primarily through analyzing the existing business problems and development of plans for required improvements. Similarly real estate consultants provide required knowledge and information for successful development and management of real estate.

Why consultants are needed for organizations? Organizations hire the services of consultants for a number of reasons, including;

- In order to gain external advices.

- For the purpose of acquiring specialized expertise.
- Only as an extra temporary help during a one-time project, where the hiring of permanent employees is not required.

Consultancies may also provide required knowledge of changes for organizations, development of skills, technology implementation, strategic development, or operational improvement services. Further the professional consultancies of experts in different disciplines are needed when commencing risky businesses, in the event of facing critical issues such as losses, when merging or segregations and so on. Accordingly, it can be argued that as real estate are usually a higher risk and challenging investments, expert services through consultancies is very much helpful.

Consultants generally apply their own methodologies or frameworks for the identification of problems, and to serve by means of recommendations for more effective or efficient ways of performing business of organizations.

In case of services of the public sector, need of obtaining such consultation is a regulatory process. This has many objectives mainly improving the efficiency of projects, maintaining transparency of activities. Specially, in the state involvement in

large-scale projects is fundamental to maintain law and order and public policies for sustainable development. Real estate related public consultancy services are very important. Developer/real estate manager should have the necessary knowledge of obtaining required services from the public sector agencies at the right time. The public sector is essentially a member of the development team of real estate projects.

Real estate consultancy is always an interdisciplinary according to the nature of real estate. Real estate consultants are experts in particular areas in real estate and at the same time, they have even a slight knowledge of every aspects of real estate. Hence, it can be argued as, “A particular real estate consultant is one who knows everything of something of real estate and something of everything of real estate”.

An accurate understanding of local, regional and global real estate markets and needs and wants of buyers is the key to the success of both financing for new developments as well as managing of existing real estates in organizations. Therefore, it is needed to integrate local market knowledge and global trends to provide real estate consultancy services to firms, governments, investors and property owners who need to maximize the gain of their real estates.

Public sector organizations, private firms and individuals generally expect consultancy services for different purposes relating with their real estate such as;

- Real estate restructuring.
- Real estate (new) development.
- Valuations of real estate for different real estate transactions.
- Property auditing for necessary changes.
- Research for searching new knowledge.
- Corporate real estate management plan to support general business plans.
- Real estate brokerage when selling or purchasing.
- Capital markets/asset advisory for investment management.
- Feasibility studies, property analysis for new investment or alteration for the existing real estate.
- To satisfy customer needs and to solve customer problems.

Globally the real estate sector/market has been going through dramatic changes over the last few years. These changes are in terms of economic growth and fluctuations, changes of market demand, innovative financials, new forms and levels of risk, growing technological advancement, and changing socio-cultural aspects of nations throughout the

world. As property companies and other investors have to deal with this dynamic and challenging new world of real estate, they often need to have various services from experts by means of different consultancies.

Real Estate Consultancy

Why real estate projects need your consultations?

- Real estates are multi-disciplinary by nature, single or few cannot complete projects.
- Complicatedness of real estate is another aspect for which developers need to consult outside experts.
- High risk should be minimized and high cost should be controlled through consultancies.
- Durability of investments on real estate is very long and therefore the developers' responsibility is very high.
- Overall social cost of real estate is very high.

Where and What Consultancies that You May Have to Do?

You have to examine full feasibility of the project, especially, some areas as financial feasibility, market

feasibility, social feasibility, environment feasibility etc. Namely, there are some common studies as described in the last chapter and as indicated below.

- Appraisal/Valuation.
- Cost-benefit analysis.
- Analysis of economic base.
- Analysis of economic impact.
- Study of highest and best use.
- Land use study.
- Market study.
- Marketability study.
- Financial feasibility.

General Format of Consultancies

- There is no format called “**THE FORMAT**” for consultancies. So, what and how can you do it?
- It is a talent, skill, a craft couple with your competency (Knowledge, Skills and Attitudes), intuition (general knowledge, common sense).
- You want to provide a service, which is expected by your client.
- You want to make your client understand about the unknown aspect.

- You want to build confidence of your client for decision making.
- You want to help your client to minimize risk.
- You want to show your client the way of maximizing profit and the productivity.

Therefore, your consultancy service should,

- Be clear and straightforward.
- Be concise and well articulated.
- Cover all relevant aspects of the issue.
- Be efficient and effective.

Generic Format for a Consultancy Report

- Title page.
- Executive summary:
This should be a very concise statement of the report.
- Content page:
If the report is a larger including many sections and subsections, a content page is needed.
- Analysis/evaluation/examinations:
Background analysis, situation analysis, SWOT or PEST analysis, analysis of the major case(s) given.

- Conclusion and recommendations: You need to provide clear conclusions over the issues and recommendations to solve the issues.
- Additional information: Annexure, charts, tables, references, maps etc for more understanding of your client.

Generic Format of a Proposal for a Consultancy

For some event, you have to prepare proposals for large scale consultancies. By evaluating the proposal your client decides whether you are a suitable consultant for the project. In case of granting funds, funding agencies evaluate your suitability of undertaking the project by means of your proposal. Therefore, consultant should be able to prepare well structured proposals for different purposes. The following elements can be included for a proposal in a normal situation.

- Title page.
- Overview/introduction about the task given.
- Background analysis: about the given issue, knowledge, statistics of general trends, other related issues etc.

- Methods of conducting the task and way of the output produced: Areas to be covered (objectives, activities), the shape of the output to be provided (the benefit for the client).
- The budget: Different breakdowns including the total amounts, tax, and payment methods etc.
- Timeframe: A chart, a map of time schedule. How you will complete the task with a certain or a given time.
- Information of experts engaged in the project: Curriculum Vitae including relevant qualifications and experience should be attached.
- Experience and capacity of your firm to undertake the particular task: Documentary evidence of previously attended work, awards you have achieved, equipments you possess and contacts you have etc.

Students' activities

Activity – 01

Marketability Survey of “Supper Luxury Houses”

ABC comply, a newly established real estate company, is in a view of producing a new product i.e. Supper Luxury House at Maharagama, in Colombo. Expected selling price of a house is Rs.50 – 60 millions (Assume that this is the biggest price so far in the housing market in the city and the country). No of housing units are 25. The expected completion time is two years. The company needs to examine whether the investment is feasible.

After few rounds of discussions, your consultancy firm agreed to work with the real estate investment company as a real estate consultant. The company requested from you to produce an initial proposal for a marketability survey.

Remember that you have to do a marketability survey on the given product i.e. a supper luxury house in Maharagama. For that you want to prepare an initial proposal. This implies that the company does not expect a complete proposal. The company

needs to know whether you can assist for the task. However, you need to think almost all the areas of the total task that you need to do for the company. Followings are model answers for a simple format for an initial proposal for the task.

Model Answer - 01

[Note: use a letter head of your company. You can include following sections in the initial proposal such as introduction, project brief, nature of the consultancy, other information, budget and the qualification of consultants and your company. Go through the details of each section below and understand the writing forms of an initial proposal]

Your address

Date

Client's address

Dear Sir,

Market survey on Supper Luxury Housing in Colombo suburbs (Suitable title)

1. Introduction

The ABC comply intends to construct and sell a super Luxury Housing Complex at Maharagama,

which is a fast growing suburb of Colombo Metropolitan Region. Accordingly, the request made by the client to the consultant (Name of your company) is to carry out a market and marketability survey to determine the feasibility of the project. As per the information provided by the client, key features of the project are given below.

2. Project Brief

- Location of the project: Maharagama, Colombo
- Total land extent : Should be aware of
- No. of housing units : 25 (details are needed)
- Types of units : Should be aware of
- Market price of a house: Rs.50 - 60 Million
- Duration of the project : Two years
- Other special features : Should be provided

[More details needed for the survey should be provided by the company]

3. Nature of the consultancy service

As per the requirement stated by the client, it is expected to investigate two key aspects related to the housing market in order to provide an overall understanding over the market behaviour.

[You can provide what you are going to do in very brief as follows for instance]

3.1 Market trends (supply side)

- a) Current trends in the luxury housing market in the suburbs of Colombo (the aspects like current market size for the proposed product, special characteristics, services and special requirements demanded by the target customers etc).

- b) Availability of new opportunities (if any) in the relevant target group (preferably upper middle and high-income groups) in relation to the housing market in the area.

- c) Available similar products and their market sizes etc.

3.2 Customer perceptions (demand side)

[You can provide briefly what you are going to investigate in demand side as well]

This study expects to,

- a) Examine the customers' perception in relation to their housing needs in the context of luxury housing market.

- b) Identification of new opportunities and trends in the luxury housing market more

than what is available currently according to the customers' point of view.

3.3 Finally the output of the study will be a project feasibility report with adequate information, data and recommendations to arrive at a correct decision on the implementation of the proposed project. For instance, market size, market area, nature of customers, marketing strategies applicable etc. will be given by the report.

[Show what you will provide are as exactly as what your client expects. In this case the client expects the marketability of the proposed product. So, you want to show whether the proposed product is marketable or not]

4. Other information

Duration (for instance, one and half month) and resource persons: names and qualifications of experts in areas such as Real Estate Markets, Real Estate Economics, Real Estate Valuation, Urban Development and Management, Property Law and GIS etc. (CVs are attached)

[Give brief details of relevant experts in your company so that the client can trust on your capacity in preparing the consultancy]

5. Detail of the budget

Budget

Item	Description	Amount (Rs)
1	Fee including the organizing and conducting the field survey, data analysis and preparation of the report, travelling, payments of the consultants, etc	375, 000.00
2	Contingencies and price fluctuations	75, 000.00
3	....	....
4	....	....
5	....	....
6	The total	....

Note: Any clarification for the items in the table should be noted in brief and clearly.

6. Any condition

Conditions for the agreement and administrative matters related to the consultancy agreement, fees, payments etc.

[Followings are some examples that you can include to an initial proposal as conditions]

6.1. Once the initial proposal is accepted, a detail proposal can be produced if needed.

6.2. A formal offering letter including the term and conditions of the client are needed to commence the job.

6.3. Agreed time period for the service should be extended with mutual agreement if unexpected circumstances will arise.

6.4. Payment should be made to the account as requested by the consultant.

[You can refer even the following format for the same task]

Model Answer – 02

Initial Proposal for the Market Survey on Supper Luxury Housing in Colombo

**Prepared
by
(Name of Your Company)**

Introduction

The cliental comply is in a view of producing a new product i.e. Supper Luxury House at Maharagama, in Colombo. Price of a house is Rs.50 – 60 millions, which is the biggest price so far in the housing market in the city and the country. No of housing units will be 25. The expected completion time is two years. The company needs to examine two basic things relating to the market.

- (a) What are the current trends in luxury housing market in Colombo? Under this, it is needed to know the market size for the proposed product, different features, functions of the product etc. expected by the target customers.

- (b) What possible new opportunities available in the upper-middle and luxury housing markets in Colombo?

The nature of the study

The demand and supply forces of the similar products should be examined. This product is highly specific due to the extremely high price. Therefore, the market size is very small and, however, the potential customers in this niche market may be from various sectors as well as within and outside of Colombo. Furthermore, it is not easy to identify them and to get appointment for normal meetings with such potential customers to collect data & information directly.

Objectives

The major objective of this survey is to identify the size of the target market and the actual requirements of the potential buyers. Therefore, the specific objectives of the survey are,

- To examine the customers' views in their housing needs in the current luxury housing markets.
- To predict the opportunities for new housing market beyond the current luxury housing market for new products.

Methodology

The methodology will be developed by the research team having verified exact need of the client after the acceptance of this initial proposal.

Presentation of findings

The survey findings will be presented in a report form and Power Point slides and including a electronic data base if necessary.

Budget

No	Description	Amount (Rs)
1	Fee including the report preparation	325,000.00
2	....	....
3	....	....
4	....	....
5	Contingencies	75,000.00
5	The total	400,000.00

Note: (Relevant notes should be included for clear understanding)

Activity - 02

“Feasibility study of exchanging two plots of land belongs to the University of Sri Jayewardenepura and Papiliyana Sunethradeevi Pirivana”.

University of Sri Jayewardenepura needs a new building complex for its External Examination Division. For this purpose the University and the Pirivana are in a negotiation with a view to exchange a land extent of 41.3 perches located at the Abeyratne Mawatha, Boralasgamuwa with a similar extent of land from the land located at the Soratha Mawatha. You are requested to evaluate the feasibility of this transaction. (Necessary information can be obtained from the University)

Instructions

1. You can produce a feasibility report covering the following areas.
 - a. **Identify** the expected needs.

- b. Briefly analysis the **development potentials** of land plots.
 - c. Evaluate the **feasibility** of exchange these lands using rational criteria.
 - d. Provide recommendation for your client i.e. the University.
 - e. Conclusion.
2. There may have oral presentation and a discussion in case of such consultancies.
3. The written report should be in less descriptive.
4. Following model report shows you a shape of such a report.

Model Report

Date

Vice Chancellor
University of Sri Jayewardenepura

Dear Sir,

Feasibility of exchange of two plots of land belong to the University of Sri Jayewardenepura and Papiliyana Suneththradevi Pirivena

Proposed lands

Followings are the proposed two plots of land (copies of survey's plans are attached).

- (a) A plot extent of 41.3 perches belongs to the University of Sri Jayewardenepura located at the Aberatne Mawatha about 500 meters from Boralasgamuwa Junction, Colombo-Piliyandala main road (120 bus route).
- (b) A plot extent of 40 perches out of a large land belongs to the Suneththradevi Pirivena located at the Soratha Mawatha 150 meters away from the Wijarama Junction, High-Level Road (138 bus route).

Main observations

No	Evaluation criteria	University land	Pirivena land	Notes
1	Extent	41.3 perches	40 perches	Fairly equal
2	Location and accessibility	Aberatne Mawatha, about 500 meters from Boralasgamuwa Junction, Colombo-Piliyandala main road (120 bus route).	Soratha Mawatha 150 meters away from the Wijarama Junction, High-Level Road (138 bus route).	Fairly equal. At a glance, it seems that development at Boralasgamuwa area is faster.
3	Developments on the land	Single storied two buildings (in poor condition)	No development	Available buildings can be used having renovation for very ordinary purposes.
4	Potential uses	Commercial, residential, (including hostels), office.	Residential, i.e. selected residential purposes, office and selected commercial	Land belongs to the Pirivana has limited land uses as it is a part of the temple land and the boundary is very

				close to the “Dagaba” of the temple (10ft). This negatively affects on the market value of the land.
5	Sub surface soil condition	It seems suitable for buildings according to the sounding development.	It seems suitable for buildings according to the sounding development.	Scientific test should be done for actual knowledge. According to the surrounding both lands are in equal condition.
6	Land surface	Flat	Slight inclination	-
7	Neighborhood	Residential, commercial, office land users.	Residential, commercial, office land users.	Fairly equal
8	Infrastructure facilities	Main infrastructure facilities are available to the land	Main infrastructure facilities are available to the land to the land	Fairly equal
9	Shape	Rectangle (width	Rectangle strep	The Shape of the

		and length is fairly equal)	is	(length is three times of the width) (68 feet and 159 feet)		Abaratna Mawatha land is convenience for planning a building. Pirivana land has some difficulties and disadvantages in planning a building. This negatively affects on the market value of lands.
10	Land values	Around 800,000/= perch.	Rs. per	Around 750,000/= perch.	Rs. per	These are average values. For the transaction, it is proposed to obtain a valuation report for this particular purpose from the Government Chief Valuer.

Overall Comment

- (a) According to the many aspects as indicated above, both plots of land have some similarities, which is a plus point for the proposed exchange.

- (b) As far as the potential land uses are concerned the University land can be used for many purposes. However, the proposed Pirivana land has some limitation as the adjoining land use is a temple. For instance, some commercial uses, students' hostel etc. may be conflicting uses with the temple. This is a disadvantage of the proposed land and that may reduce the open market value of the land too. Therefore, this can be considered as a negative point for the exchange. However, this proposed land is not conflicting with the currently proposed purpose i.e. for an office complex for the External Unit of the University. Under this condition, the negative point can be ignored.

- (c) Shape of the Pirivana land should be suitable for the proposed office complex. For this, followings are specific observations.
 - i. As per the requirement slightly evaluated by the University, it needs a 17, 000 Sqft space and other services such as parking.
 - ii. The proposed land has 68 feet width and 159 feet length.

- iii. Buildable area of the Pirivana land is limited by two building limits, one is from 'Sorath Mawatha' (40 or 60 feet from the mid of the road, at the width of the land) and the next one is 30 feet from the mid of the 'Madha Mawatha' (length-side).
- iv. Therefore, 22.5 feet should be reserved for the building line from the Madha Mawatha ($68 - 22.5 = 45.5$ feet). And some more feet from the other side.
- v. Also the rear space has to be considered.
- vi. Available buildable area roughly about (129 ft x 30 ft) 3,800 Sqft and the usable floor area is about 3000 Sqft in a floor. From four floors, usable space can be obtained is 12, 000 Sqft.
- vii. In this situation, the available buildable area of the land is not enough according to the requirement of the University.
- viii. However, a good designer can provide a good plan. And if the Pirivan can give some more perches to increase the width of the land, this restriction can be minimized.

(d) As the same time, it can be pointed out that as the proposed land is very close to the University, it has a special use value for the University for the proposed purpose.

Recommendation

Having considered all the above mentioned positive and negative facts, it can be recommended to the University to proceed with proposal paying more attention on the facts mentioned under (c).

Activity – 03

A large public residential property development project

In a city development project, it is planned to relocate horizontal residential units into vertically developed housing apartments.

Your role is to assist the city authority providing following services. (Consultancy team is required to produce a work plan including method of work, time duration, resource persons, and the budget).

- Define housing stress/housing related problems in the area.
- Identify housing stress areas in the area.
- Compute the actual housing units to be relocated.

In this activity, the term “large scale development project” has different meanings. So, you have to understand what does it mean? Sometimes the term “large scale” is a relative phenomenon. Go through the following examples.

- Geographical expansion of the project, national wide or regional wide make the project a large scale or not. For instance, One Million Housing Program was a national wide large scale project.
- Amount of investment also determines the project whether a large scale or not. For instance, an airport, a seaport, and a highway etc. are not Island wide projects in terms of geographically. However, as it costs more money and affects on many, such projects are considerably large projects.
- Objectives of the project and overall implication also determine the scale of a project. For instance, Clean Settlement Program, which has many implications, is considerably a large project.
- Beneficiaries, a large no of beneficiaries. For instance, developing a shopping centre.

- According to the investor; either public sector or private sector or individuals, sometimes project scale is different. Mostly government real estate projects are large scale. For instance, implementing economic policies by means of free trade zones, industrial zones etc. are mostly very large real estate projects. In such projects, there is a high involvement of the state sector through legislatives, policies, and necessary approvals etc.

In this way, the given case is about a large scale real estate project, which associates most of features mentioned above. According to the given case you have to engage three major activities as mentioned below.

- Defining of housing stress/housing related problem in the area.
- Identification of housing stress areas.
- Computing of the actual housing units to be relocated.

Accordingly, you need a wide range of knowledge about many concepts relating to the housing stress and factors of demand and supply to compute the shortfall. Therefore, in order to engage the activity in practical context you have to have sound theoretical

awareness. Following discussion includes all relevant concepts regarding the activity.

Defining of housing shortfall

In computing the housing shortage, it is important to know what really you want to compute. This means that you should be able to reveal where the actual shortage exists, what is the actual shortfall and its magnitude etc. The followings definitions will help you to understand this phenomenon more clearly.

- Mismatch between the total housing demand and the total housing supply is the general meaning for the housing shortfalls. However, there are many aspects to be considered beyond this definition.
- Shortage of standard or accepted level of housing is the amount of shortfall of housing. (Quality as well as quantity: one bed room two bed room etc.)

For instance, a study on housing shortfall in Sussex reveals that the private sector housing supply has failed to meet the need for owner occupied property needs. Too many large buildings had been built but the demand was from only small households. Reasons were; having children in later in life, increase of

divorce rate, increase of single parent families. So, you need to observe thoroughly such demographic variables in order to measure the correct shortfall. In such a case, you need to know the shortfall of one bed-room houses, two bed-room houses etc. in detail in specific terms.

- Availability of affordable housing is another concept to determine the housing shortfall. For instance, York city housing survey reveals that 40 Pounds per week on housing cost can be seen as the minimum requirement for affordable housing in the city. Likewise, what is the affordable housing requirement in the given area? You have to identify a suitable criteria for your study; it may be the price, rent, or the cost of construction.
- Ownership is another concept to determine the housing shortfall. How many households have freehold ownerships of house?
- Define properly the area, whether the area is a resident area, industrial zone etc. Why is it important? If you compute a housing shortage in an industrial zone your answer may not be fair enough to be generalized. On the other hand how many households have habitable houses?

Some more concepts relating to housing shortfall

You have to compute housing deficits according to the **housing types**. For instance,

- Based on the income level, house can be as luxury, medium, low income etc.
- Temporary, permanent, under-serviced etc. are based on the conditions.
- Freehold, private rent, social/public rent (council housing) etc. are based on the ownership.

Barriers to achieve

In estimating the housing deficits in an area, there are many barriers such as,

- Poor or non-availability of data bases.
- Irregular development and complicated land use make difficulties in recognizing property types.
- Informal activities in the area.
- Poor definitions, concepts, theories etc relating to housing of the country or city.

Approaches in measuring housing shortfall

Demand and Supply equation

$$\text{Demand} = \text{Supply}$$

Demand for housing is determined by

$$D_h = D_h (P_h, P_s, E(p), \text{Pop}, I, Y \dots)$$

D_h = Demand for housing

D_p = Price of housing

$E(p)$ = Expected price of housing

Pop = Population (population structure, population growth etc.)

I = Interest rate

Y = Households' Income

Regional development pattern etc....

Supply of housing is determined by

$$S_h = S_h (P_h, P_s, E(p), \text{Pop}, I, C, \text{Pol} \dots)$$

S_h = Supply of housing

D_p = Price of housing

$E(p)$ = Expected price of housing (expected inflation)

Pop = Population (population structure, population growth etc.)

I = Interest rate

C = Construction

Pol = Policy variance (providing decent housing for each, subsidy

Demolish, and conversions etc.

Optimum amount of housing is at the $D_h = S_h$

Demand of housing

There are some basic data that you probably need to estimate the demand.

- Population census, population structures, growth rates etc.
- Population projections.
- Estimated household size in the period. For instance, average household size in Tishomingo was 2.4 in 1990 and in Oklahoma; it was 0.858, which was less than one. Therefore, you have to be careful in using such estimated figures.
- Vacancy rate of housing is important. You can use “vacancy rate” and “unmet demand” to understand some phenomena such as,

- Low vacancy rate indicates shortfall and high vacancy rate indicates surplus of supply.
- Unmet housing needs such as, how many units should have been constructed but were not realized due to rejection of planning approvals, rejecting of loan applications, failures of constructions etc.

Supply can be determined by

- Existing stock.
- Ongoing constructions.
- Building approvals.
- Proposed and approved building sites.
- Possible sites.
- Reserved land for housing.
- Suitable lands that are not yet identified.
- Mobile home.
- Conversion of building into housing.
- Deteriorated housing units to be demolished.

In computing housing shortfall, you need to estimate the supply of housing. Housing shortage can be defined as housing supply is failed to cater to the housing demand. In computing the supply, if you can get the census data annually then you can add together and find the supply for the period. If the total amount supplied for the period is available,

then you can get the annual supply by dividing the total figure by the number of years.

Constrains in supply of housing

Followings are some of areas you have to consider in estimating the supply.

- Land – residential land, serviced land affordable land, related policies horizontal development, vertical development, increase of land in other ways etc.
- Environment – for instance, some lands are not permitted to develop.
- Planning regulations – planning approvals, % of timely approved, % of rejected etc. Why is this important? Because new approvals can be considered as near future supply units.
- Skills of constructions – ability of increase of supply.

Different approaches of computing housing shortfall

- We can have historic data and predict the shortage.

- Annual supply pattern. For instance, construction pattern in the area.
 - Demand pattern. For instance, demand for luxury houses and middle income houses etc. according to the population growth, and migration pattern etc.
- Sample survey and generalizing the results for the entire area.
 - Study over the total area if the area is smaller.
[(No of population/Household Size) – Available housing units = surplus or shortage]
 - A combination of above methods + (Trial and Error methods).
 - We can estimate the shortfall in the past and predict the future situation.
 - Compute the shortfall at present and add the new demand and reduce the supply in the period concerned.
 - Shortage in general and shortage in specific sectors.

Housing needs survey, using a questionnaire if necessary

For the selected area, there may have higher demand from outsiders, who are working in other areas. Likewise, you have to identify particular characteristics of the area relating to the housing demand. If the area is having mix land use pattern, a shortfall or a surplus is realistic to that area.

- Primary data, secondary data or both can be used.
- Examine the total area if possible or conduct a sample survey.
- You also have to decide wisely the length of time for housing shortage? Is it at present? Or for the next year? Or by the year 2010?

Problems of estimates

- Quality of existing housing may not be counted when you depend on estimating the shortfall by using statistics.
- Quality of data, outdated census, wrong estimations etc also some problems in estimating by using secondary data.

Example of an estimate

Affordable housing needs survey conducted for London Borough of Islington Council done by Fordham Research adopted following steps for the task.

Stages of the survey,

- Computing the backlog of existing needs.
- Computing the newly arising needs.
- Computing the supply of affordable units.
- Identified the overall affordable housing requirement.

Stage one – Computing of backlog of existing needs

- Sample was selected from four main areas of the Borough using the council tax registry.
- Used census estimated household sizes, total population etc. For instance, 35% was owner occupied, 48.9% social rented and the rest was privately rented.
- A market survey was done using estates and letting agents and interviews were made to know the minimum entry level to the market, the minimum price, and the affordable price.
- Households' financial feasibility, income level, mortgage facility etc were examined.

- Basic Need Assessment Model was used to estimate the existing housing needs and identified the number of those in current housing needs that can't afford to the housing market.

Stage two - Newly arising needs were estimated by considering,

- New household formations.
- New community groups coming into the area, refugees, and asylum seekers.
- Immigrants.

Stage three - Supply of affordable housing was computed by means of,

- Average letting and re-letting.
- New construction.

Activity – 04

Potential development in a city

The Urban Council (UC) of Maharagama wants your consultation to inquire the development potentials of its region.

The UC needs to locate all existing and all potential developments in digital maps and brief professional justifications for the proposed potentiality.

A Proposal

For the inquiry of property development potentials in Maharagama Urban Council area

Introduction

Location (Map No 01)

Socio-economic background of the area, some statistics.

Brief note on the assignment

Describe the tasks in brief: Special trends, Feature of the area relating to the task etc.

[This is important since this tells others how far you have understood the given job. And you have to organize key activities accordingly]

Key Activities

The following table gives a brief explanation on each key activity to be performed in preparation of the plan with a timeframe and cost estimation.

Table No. 01- Major Activities, Duration and Estimated Cost

	Activity	Duration	Estimated cost (Rupees)
1	<p>Collection and preparation of required basic information, documents, maps etc. especially to cover the following aspects</p> <ul style="list-style-type: none"> • Current land use pattern • Location information of development • Environmentally sensitive areas etc. <p>(It is assumed that digital maps and satellite images etc will be provided by the UC)</p>	Two weeks	75,000/=
2	Windscreen survey and site visits for further investigations	One week	25,000/=
3	Demarcation of the area on a map and the actual demarcation of the boundaries on the ground with the consultation of the UC	One week	50,000/=
4	Conduct field surveys to	Four	450,000/=

	<ol style="list-style-type: none"> 1. update existing land use 2. locate major sensitive areas 3. Identify of major potential areas for development 	weeks	
5	Preparation of relevant maps in GIS format to explain the situation like existing land use and potential areas etc.	Two weeks	50,000/=
6	Review the existing rules and regulations and development projects (if any) related to the area as to decide zoning plans.	Three weeks	20,000/=
7	<p>Conduct public consultation sessions/focused group discussions to obtain detail information on the issues and related information on the land use pattern. The stakeholders of the public consultation sessions are</p> <ol style="list-style-type: none"> a. Relevant officers, professionals b. Local politicians 	Four weeks	200,000/=

	c. Business communities d. Entrepreneurs e. Industrialists f. Residents living in the area etc.		
8	Preparation of the zoning plan in GIS format with set of detailed rules and regulations and other specifications.	Four weeks	30,000/=
9	Presentation of the draft plan to the UC for their views and improvements.	One weeks	50,000/=
10	Preparation of the final plan including the necessary revision(s).	Two weeks	20,000/=
11	Stationary, photocopying, printing etc.	-----	50,000/=
12	Total		970,000/=

*Note: Please refer the time schedules below

Time Frame

Given time period for the assignment is four months. Following is the breakdown of activities during the period.

Time schedule

Activity	Duration (weeks / months)															
	1				2				3				4			
1	■	■	■	■												
2			■													
3				■												
4				■	■	■	■	■								
5							■	■								
6									■	■	■	■				
7										■	■	■	■	■		
8													■	■	■	■
9														■	■	■
10																■

Resource Persons

You want to include details of resource persons from applicable disciplines according to the nature and magnitude of work/activities as indicated above.

Resource persons, capacity and proposed fees

No	Name of resource person	Area of specialization	Input (Man days)	Fees (Rs.)
1		Land use planner		
2		GIS Specialist		
3		Ecologist/ Environmentalist		
4		Economist		
5		Social Development Specialist/Settlement Planner/ Sociologist		
6		Real Estate Development Specialist		
6		Real Estate Valuer/ Legal consultant		
7		Data entry, Mapping Assistant		
8		Word processing and clerical work		
9	Total	-----	----	.....

Note: The CV's of resource persons are attached

Total Estimated Budget

Total estimated cost

No	Description	Amount (Rs.)
1	Cost of key activities	XXXX
2	Cost of resource persons	XXXX
3	Sub total	XXXX
4	Contingencies 5%-10%	XXXX
5	Grand total	XXXX

Facilities Available (in your company) to undertake the assignment

- The human resources with professionals in the related fields like Town Planning, Valuation, Real Estate Development and IT specialist etc.
- The research and consultancy experience in brief.
- The capacity to obtain the relevant services from necessary specialists in other fields.
- IT facilities and required software packages (Arc View, Arc GIS, ILWIS etc) to analyze the data, preparation of maps in GIS form.

- Additionally, availability of other facilities like photocopying, scanning of drawing as mapping tools and equipments etc.

Related Experience of the Company

Describe briefly the relevant experience of your company.

Contact Details

- Address
- TP No
- Email addresses
- Websites

Activity 05 – A case analysis

Purchase of a suitable land for a hostel project of the University of Sri Jayewardenepura

University is in a need of purchasing a suitable plot of land to build a hostel. At present, among several bidders, two plots of lands have been selected for the final consideration. University expects your professional consultation to finalize the decision.

Provide maximum possible facts to support the decision.

Activity 06 – A case analysis

Willing Investor for Currently Owner Operated Three Star Hotel in Colombo Suburb

- The owner of a three star hotel situated at a popular resort area closer to Colombo city is seeking a willing potential investor. One potential investor, a reputed company, which is not much familiar with the hotel industry wishes to bid for the investment and it needs your professional advice to support the decision.

- You want to present decisive factors for the Board of Directors of the company. (There will have a discussion with the Director Board).

Activity 07

Analysis of the available legislative instruments (Ordinance and Acts including amendments) relating to the real estate sector in Sri Lanka.

Instructions

1. The presentation should cover the following areas.
 - a. Introduction (need of law in real estates, legal system in brief, and development of such legislatives systems in brief etc...)

- b. Brief description of each legislative instrument. You can present it according to the following order.
 - i. **Name of Act/Ordinance** (Name, whether an amendment, Number, date etc...)
 - ii. **Relevant Section.**
 - iii. **Expected objective** (you can present your own interpretation if it is not mentioned).
 - iv. Implications.
 - c. Conclusion.
2. Oral presentation should be limited to 20 minutes and 10 minutes of discussion.
3. The written report should be less descriptive.
4. Guidelines for the report.
 - a. Report should be typed in 1.5 spacing on one side of A4 papers and use 12 font size of Times New Roman. Margins should be 1.25” on left, 0.8” on right and 1” on top and bottom.
5. Length of the report is around 10 pages maximum 15 pages.
6. Clarity of the presentation, application of guidelines, ability of analysis the given theme, focus, relevancy of additional literature, reliability and adequateness of statistics and information used where needed etc are highly considered in evaluation.

Activity 08

Analyse the planning efforts taken in Colombo and their effects on real estate.

Instructions

1. The presentation should cover the following areas.
 - a. **Introduction** (need of planning in cities, planning and real estate in brief, etc...need of planning for real estate in Colombo).
 - b. **Brief description** of each planning effort taken in Colombo. You can present it according to the following order
 - i. Plan or project (Name, objective, area implement etc...).
 - ii. Expected development and actual development.
 - iii. **Implications on real estate** (good and bad, short term and long term etc).
 - c. Conclusion.
2. Oral presentation should be limited to 20 minutes and 10 minutes of discussion.
3. The written report should be in less descriptive.
4. Guidelines for the report.
 - a. Report should be typed in 1.5 spacing on one side of A4 papers and use 12 font size of Times New Roman. Margins

should be 1.25” on left, 0.8” on right and 1” on top and bottom.

- b. Length of the report is around 10 pages maximum 15 pages.
- c. Clarity of the presentation, application of guidelines, ability of analysis the given theme, focus, relevancy of additional literature, reliability and adequateness of statistics and information used where needed etc are highly considered in evaluation.

Chapter 09

Real Estate Research

Chapter Nine

Real Estate Research

- Beginning of a Research
- What is a Research?
- Types of Research
- Real Estate Research...!
- Researcher
- The Research Process

Real Estate Research

This chapter consists of two parts as “Beginning of a Research” and “Designing of a Research”.

Beginning of a Research

Introduction

How do you find an answer(s) for a problem(s)? There are several approaches for this. Mainly,

- (1) Informal/personal/ ad hoc/conventional/ indigenous approaches.
- (2) Technical/legal/ procedural/ expert opinions/ democratic approaches.
- (3) Systematic/purposeful/concerned/rational/ scientific approaches (**RESEARCH**).

The first approach is very general, ordinary people tend to apply such methods for solving issues as a practice or habit or due to ignorance. However, the rate of successful results is very small.

The second approach is somewhat systematic. However, to solve a crucial problem this approach may not be enough. Mostly the first and second approaches attempt to find solutions for symptom not for the root cause of issues.

The third approach is stronger to find solutions for real problem as it addresses the root of the problems. This approach is;

- Base on philosophy/theory.
- Least bias.
- Least subjective.
- Highly able to generalize.
- Higher degree of applicability.
- Measurable/responsible/correctable/improvable.
- Higher reliability and validity.

What is a research?

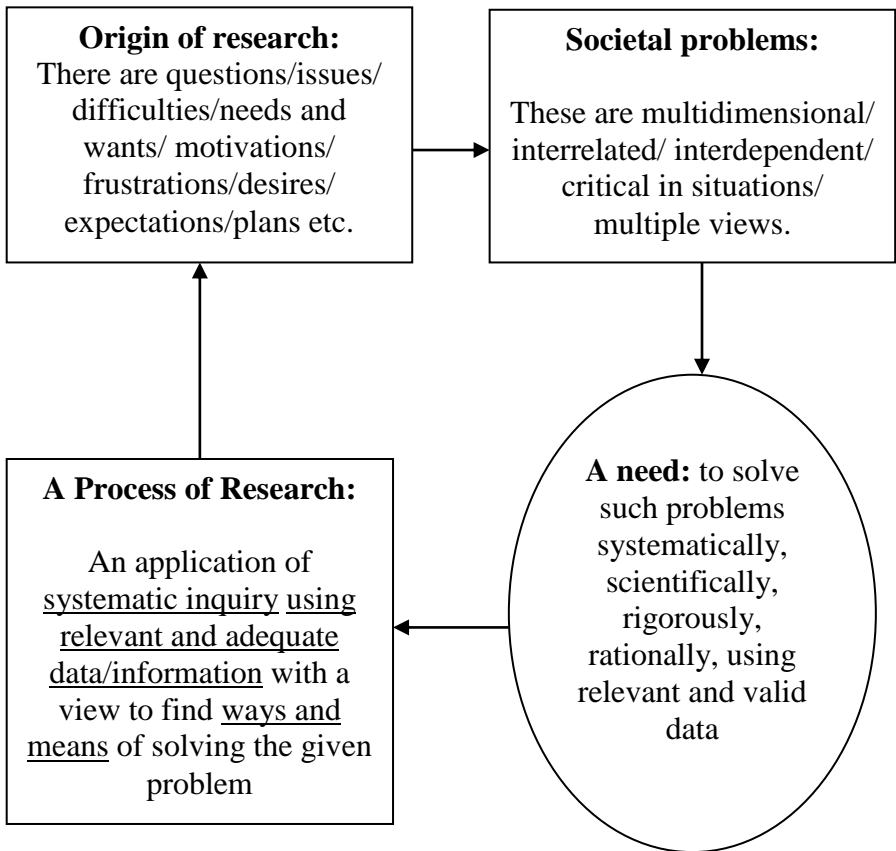
In order to find an answer for the above question i.e. what is a research, try to find answers for the questions mentioned below.

- Why do you want a research?
- How do you do research?
- When do you do research?

Research cycle: What/Why/How/When ...research?

Simply research is an attempt to find solutions for a problem. The nature of the problem for which research is needed to find solution is a considerably a long term socially painful matters. Therefore, it needs a purposeful, conscious and systematic attempt. Sometimes, it needs a very specific method for a specific problem. Following diagram illustrates what/why/how and when a research is done.

Research cycle



Every individual and group as well as family and firms have different problems, needs and wants etc as mentioned in the top left-side box. These issues become social problem gradually as all individuals and organizations are interacting with other members of society. That is why it needs to have systematic, scientific and rational approaches to

address to such social issues. In fact, it needs “an application of systematic inquiry using relevant and adequate data/information with a view to find ways and means of solving the given problem”. These underlined terms are important to understand the meaning of “research”.

Systematic inquiry: This implies a profound design of a research. Identification of the problem, establishing aims and objectives, setting research questions, review of literature, determining variables, research tools, and analysis etc; are the features of a systematic approach.

Relevant and adequate data and information: This means that you want to make sure the validity and reliability of your study. The data used should be relevant to find the real picture of the situation. And also you need to use adequate amount of data to obtain reasonably accurate results.

Ways and means: This implies that by a research you are supposed to add new knowledge to the existing body of knowledge.

Accordingly we can define research as mentioned below.

Definition for research

A research is a way of thinking and action in inquiring a problem/issue/need ... with a view to

find solution or to find a way of satisfying the need in a higher level.

The way should be:

- Scientific:- measurable, justifiable, applicable, approachable, feasible.
- Least subjective (objective) and nonbiased.

Thinking and action:

This implies that the whole process of designing, collecting analysing and interpreting data, drawing conclusions, writing the report, and presenting of the finding.

Problems/issues/needs:

- Why/how/how much/how many/ when/ and so on are problems.
- You can think and identify researchable questions relating to suitable procedures/ rules/ regulations/practices/ norms and values/ attitudes/methods/criteria/ formats/formula/ mechanism/processes etc.

Higher level:

This is very significant in a research. This emphasises that you are producing a set of new knowledge. Otherwise whatever your attempt will not be a research.

Therefore, remember research is not the SPSS or any other computer applications or the final report. It is a series of activities from identification of a problem/need, and meeting and discussions with experts/supervisors/ reviewing of relevant literature/ collecting, analysing and interpreting data and information/ writing a report/ presentation of finding and justification for the findings etc. Also the end of your research is the beginning of another research(es). The research process is generally a cyclical one.

Types of research

(1) According to the nature of what do you want to do, research can be identified as,

a. Descriptive research:

You describe a situation or the nature of a problem in this approach. You describe what is the shape of the problem? For instance, (i) Study on the changes of land use pattern in Colombo city. (ii) An empirical examination of socio-economic characteristics of slum dwellers in Colombo.

b. Correlation research:

You examine the relationship(s) between (or among) variables. (With what it is related). For instance, (i) Analysis of the impact of new tax policy introduced by

the 2008 budget on the land use in the Western Province. (ii) Analysis of the effectiveness of application of computer technology for planning in Sri Lanka.

c. Explanatory research:

You study why a certain problem or a phenomenon or a situation or a relationship etc. exists. (Why it is related with that). For instance, (i) Why the rate of increase of land price is higher in Colombo than major Asian cities? (ii) Factors for the ~~success or~~ failure of privatization of state ~~owned investment~~ properties.

(2) According to the major discipline, you may find a classification of research as,

a. Research in pure sciences:

For instance, (i) A successful medication for cancer patients. (ii) Impact of soil types on building cracks.

b. Research in social sciences & Humanities:

This is generally recognized as Social research. For instance, (i) Study of the food behaviour of cancer patients. (ii) Building cracks and developers' responsibility.

(3) According to the use of the research, you may find a classification as,

a. Pure research:

These are the researches about the research methodology. For instance, (i) Developing appropriate criteria for suitable sampling for land use analysis.

b. Applied research:

Research relating to a project, development of a product or a service etc is an applied research. For instance, (i) Pattern of land price of peripheral agricultural land in Colombo. (ii) Changes of small scale constructions after the Tsunami devastation in Southern Sri Lanka.

(4) According to the style of inquiry you find types of research as,

a. Quantitative research:

In a quantitative research, you use data from highly structured formats and analyse accordingly. For instance, you quantify relationships, classify relationships, order relationships according to the significance, compute ratios, use specific samples, and so on.

b. Qualitative research:

In qualitative research, you use data and information in unstructured forms and analyse accordingly. There, you describe the variables and their relationships rather than quantifying, use selected cases for in-depth analysis and so on.

c. Hybrid / combination of qualitative and quantitative research:

This is a mix of qualitative and quantitative methods. Therefore, this is more practical and useful method.

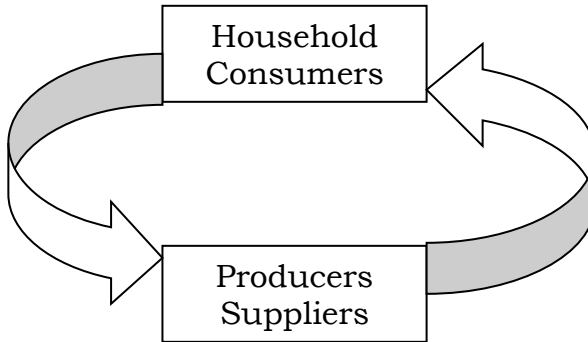
- (5) According to the research paradigms, you find different types of research as,
- a. Systematic or Scientific/ positivist approach.
 - b. Qualitative, ethnographic, ecological or naturalistic approach.

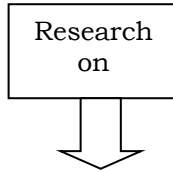
Therefore, it is clear that there is no a hard and fast method/methodology called “the methodology”. Determine a suitable method for your particular study. Then that particular method will be “the methodology” for your particular study for that particular purpose, in that particular occasion.

Real Estate research...!

According to the basic production circular model, you can think of either the producers' aspects or consumers' aspects relating to real estate as depicted below.

General consumer production circular model





Real Estate Producers/suppliers' point of views	Real Estate Consumers' point of views
<ul style="list-style-type: none"> • Financial/investment aspects • Market/marketing/business/investment/products and services, new products/innovations etc • Environmental/material/procedures/ standards etc • Cost and value of products and services • Economic aspect/ policies/ development projects • Legal aspects • Technical aspects • Professional aspects • Management aspects ... 	<ul style="list-style-type: none"> • Pattern of consumption, needs and wants • Satisfaction • Income and expenditure patters • Socio-cultural • Political aspect • Demographic • Different users, households, neighbours, visitors etc • Consumer behaviours • Psychological aspects • Knowledge, belief, values etc

It can be described research as a process of collecting, analysing, and interpreting information to answer questions. However, answering for research problems can be made according to the different perspectives and different angles. For instance, go through the following examples.

(1) Why do people pay lower amount of stamp duty on land transaction? You will find different answers for the question as follows.

- Answer 01 is “In order to minimize the cost”. This answer seems as a customer point of view. It is an economic aspect relating the problem.
- Answer 02 is “Since they don’t know the legal actions against the fraud”. This may be a professional’s point of view. It is a legal aspect relating to the problem.
- Answer 03 is “Due to the weakness of the market system, immaturity, informality”. This seems as an academic’s point of view. It also looks like a policy aspect relating to the problem.

Similarly you can learn the following examples and you will be aware of formulating research theme as well.

- How does the existing information system help to the role of the valuer?
- What is the appropriate plot size for residential properties in Colombo city?

- The appropriateness of plot size and different land uses.

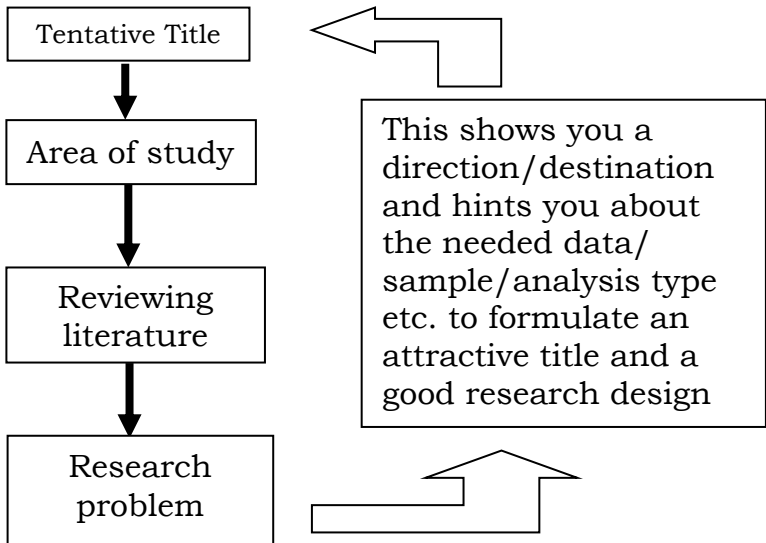
Researcher

Good researcher will have some qualities such as;

- Researcher is (or will be) an expert in a particular area of interest.
- Lifelong learner.
- Self learner.
- Good consultant.
- Able to diagnose problems well.
- Rational thinker.
- Good negotiator.
- Good observer.
- Able to provide objective opinions.
- Philosopher.
- Theory builder.
- Opinion maker.
- Good rapport builder.
- Good investigator.
- Able to read and comprehend.
- Listener.
- Writer.
- Analyser and interpreter.
- Presenter and convincer.

The research process

(1) Identification of a research problem.



(2) Research design:

- Your own way of activities in the research.
- You have to plan everything systematically, rationally/logically such as,
 - Data/ data collection methods.
 - Sample/sampling strategy.
 - Analysis types.
 - Timeframe/cost etc.
 - Limitations/policies/scope etc.

- (3) Preparing data collection tools.
- Observation methods/guidelines.
 - Interview schedules/ list of interviewees/ organizations to be visited etc.
 - Interview guidelines.
 - Questionnaire(s).
 - Data recording tools.

- (4) Selecting a sample(s)/cases.
- Representing the total population.
 - Consider the cost.
 - Within the given or available timeframe.
 - According to the purpose of the research (objectives).

(5) Research proposal.

Arrange what you have done so far as an informative document, which guides you to conduct the research. This tells your supervisor and the funding agency about what and how you will do in your research and what sort of outcomes will likely be there.

Therefore, you have to include followings in your research proposal.

- Title.
- Introduction (an argument along with theoretical briefing).
- Statement of the problem.
- Objectives (General and special).
- Hypothesis (if needed).

- Research design (methodology).
- Limitations/scope.
- Chapters of your research report.
(These features are enough for BSc and MSc level academic research proposals)
- Timeframe.
(PhD and other given task, even for MSc programs if requested)
- Budget.
- Qualifications of resource persons (CVs).
- Any other relevant particulars.
(For funded projects)

(6) Collection of data and information.

(7) Analysis of data.

(8) Writing a report.

(9) Presentation and justification of findings.

(10) Preparing for publication of papers in journals or as a book.

Learning outcome up to now

The following table summarises the learning outcomes that you have gained up to now from the first part of this chapter.

Learning outcomes

Our attempt	Your responsibility	Learning outcomes
We attempt to help you to understand	Knowing answers for (1)-(5)	Short term learning outcome
(1) What is research? (2) How do you do research? (3) Who is researcher? (4) What characteristics does a good researcher have?	You will be researchers and you do research (Research oriented/analytical/ good observer/ maintaining your own data and information bank/ innovator/ critical thinker/ theory builder)	Long-term learning outcomes
(5) What is the purpose of doing a research?	Accordingly you help to upgrade the social well-being through being a true real estate professional	

Designing of a Research

This part of the chapter 09 covers following areas.

- Designing a research proposal.
- Title of your research.
- Developing an “Introduction”.
- Methodology.
- Designing of your research.

Designing a research proposal

You need to have sound research proposal to conduct a research. Research proposal is the outcome of the process of “research design”. If you have a sound proposal, you have finished 1/4 or 2/3 of your research.

Title of your research

This is the “theme/topic” and/or “the shortest possible meaningful way of expression of your research study” by means a “name”. However, you do not necessarily need a title to begin a research. Constructing a title is a part of the research designing process. Title preferably possesses some characteristics such as;

- A very short phrase but not a sentence.
- Clear and straightforward meaning and eye-catching.

- Maximum two to three lines.
- It should imply (highlight/hint) the core of the research problem and the area of the study.
- Avoid two or more research problems (avoid conjunctions such as “and”, “or” etc...).
- Not necessarily be in a form of questions (What, when, why...etc), better avoid from questioning.
- Should not be in a form of exclamation/ sympathy/emotion (!, Oh !, ...).
- Should not include abbreviation/ jargons/ ambiguous terms (WHO, CMC, UN...).
- Should not be two sentences, but able to have one sub title not more than one.

Followings are examples indicated in the first part of this chapter.

1. Study on the changes of land use pattern in ...
2. An empirical examination of socio-economic characteristics of slum dwellers in...

3. Analysis of the impact of new taxes imposed by the 2008 budget on land use in the Western province
4. Analysis of the effectiveness of application of computer technology for planning in Sri Lanka
5. (Why) the rate of increase of land price is higher in Colombo than major Asian cities
6. Factors for the ~~success~~ or failure of privatization of state ~~owned~~ investment properties
7. A successful medication for cancer patients
8. Impact of soil types for building cracks
9. Food behaviour of cancer patients
10. Building cracks and developers responsibility
11. Developing (suitable criteria for) a suitable sampling for land use analysis
12. Pattern of land price of peripheral agricultural land in Colombo

13. Changes of small scale constructions after the Tsunami devastation in Southern Sri Lanka
14. Why do people pay lower amount of stamp duty on land transaction?
15. How does the existing information system help to the role of the valuer?
16. What is the appropriate plot size for residential properties?
17. The appropriateness of plot size and the land use

Go through the following questions and answers carefully.

Question 01: Are these appropriate titles for research and can you do researches on these areas?

Answer: These are not in the form of attractive titles. However, each shows an appropriate area for research.

Question 02 – How do I formulate a good title out of these?

Answer – Simply you can do it by rephrasing the given themes! However, it is not too simple as it says. Before rephrasing or rearticulating, learn the way you extracted the theme. It is none of the way other than scanning of the existing literature. Therefore, you have to adopt the same way to develop a researchable theme into an appropriate title i.e. with the help of reviewing relevant and updated literature. It may be possible if you are smart in language. However, without knowing the existing situation you can not do a research. You will not go ahead...!!!!

Examples 01

Suppose that you have roughly identified a research theme as “Analysis of Housing Market”. This is a relevant researchable area in your discipline. But, it is too vague. So, you have to rearticulate it to be a specific and researchable theme. Go on the following steps and learn the gradual changes made for the initial theme.

a) Analysis of Housing Market

b) Analysis of Housing Market in Colombo

- c) Analysis of Housing Market in Colombo and Suburbs
- d) Analysis of Consumer Behaviour of the Housing Market in Colombo and Suburbs
- e) Analysis of Determinants of Consumer Behaviour of the Housing Market in Colombo and Suburbs
- f) Analysis of Determinants of Consumer Behaviour of Potential Buyers in the Housing Market in Colombo and Suburbs
- g) ~~Analysis of~~ Determinants of Consumer Behaviour of Potential Buyers in the Housing Market in Colombo and Suburbs
- h) ~~Analysis of~~ Determinants of Consumer Behaviour of the Housing Market in Colombo and suburbs: Views of Potential Buyers
- i) ~~Analysis of~~ Determinants of ~~Consumer~~ Consumer Buying Behaviour of the Housing Market: Views of Potential Buyers in Colombo and Suburbs
- j) Determinants of ~~Consumer~~ Consumer Buying Behaviour of the Housing Market: Views of Potential Buyers in Colombo and Suburbs

- k) ~~Analysis of~~ Determinants of Consumer Satisfaction of the Housing Market: Views of Potential Buyers in Colombo and Suburbs
- l) Analysis of ~~Determinants of~~ Consumer's Expected Needs and Wants from ~~of~~ the Housing Market: ~~Views of Potential Buyers~~ Evidence of Colombo and Suburbs

Example 02

Initial title

“Impact of global credit crunch on residential property market in Sri Lanka with special reference to Kaduwela area in Colombo”

Improved titles

“Impact of global economic downturn on residential property market in Sri Lanka: Empirical evidence from Colombo”

“Impact of failure of global financial market on residential property market in Sri Lanka: Empirical evidence from Colombo”

“Failure of global financial market on residential property market in Colombo: Competition of global and local contexts”

Some special lessons....

- Having a small area makes your work easier but smaller area will make you an empty feeling and not encouraging (for beginners).
- Having connections with few other areas and the major area provides you more opportunities to expand your expertise.
- Having a vague, unfamiliar area will stop your journey or mislead or fed up.
- Having many connections with the major area will make you more ambitious, more workload, and ultimately you will have less or no focus.

Developing an “Introduction”

Suppose that you have finalized a title as, *“Determinants of Buying Behaviour of the Housing Market: Views of Potential Buyers in Colombo and Suburbs”*. Accordingly you have to provide an “INTRODUCTION” to your study at the beginning of the proposal. What does the “introduction mean? What is it supposed to do?

Different people may have different understanding and/or different levels of understanding over a title/theme according to their perceptions. Therefore, you have to show very clearly what your perception

over the title/theme with the help of analyzing the background. It is an overview of your study. You describe all the core areas of your research theme. You develop a core ideology/ theme/ logic/ rationale or a central argument for your study by means of the introduction (Please see the BOX - 01). Through this way, you trace a “research problem” more specifically for your study. And at the end of the introduction you can indicate the research problem of your study under a separate heading called “Statement of the Problem” (Please see the BOX - 03).

BOX 01 - Example 01: Beginning of the introduction

**Determinants of Buying Behaviour
of the Housing Market:
Views of Potential Buyers in
Colombo and Suburbs**

Introduction

“The knowledge of consumer buying behaviour of the target market is one of the essentials in marketing of a product. All marketing strategies and tactics are based on explicit and implicit belief about consumer behaviour (Hawkins *et. al.*, 1995, p.7). Basically buyers are two types. One is the “buyer for consumption” and the other is the “business buyer”. These two types of buying behaviours are varied largely due to some factors prevailing internally or externally to the person (buyer) and to the product. Factors associated with the buyer are age, sex, education, social class, culture and so on. Price, quality, appearance, legality, etc; are factors associated with the product. Most of these factors may or may not be outside stimuli to the buyer's purchasing decision. In brief, buyer's purchasing decisions are highly influenced by buyer's cultural, social, personal, and psychological factors (Kotler, 1999).”

.....

.....

Source: Ariyawansa (2009)²

² Ariyawansa R G (2009), “Housing Market: A Review of Purchase Decision of Potential Buyers, Published by the author, Colombo

BOX 02 - Example 02: Beginning of the introduction

Employability of Graduates of Sri Lankan Universities

Introduction

Education is a major criterion of measuring the development of a country. It is also a key determinant of the wealth and prosperity of a nation. One of the main objectives of the education, particularly of higher education, is to prepare students to pursue different careers in a country. University education is the core of the higher education. Universities are supposed to be social institutions which provide facilities for higher intellectual needs of a community as regards both academic knowledge and professional training. Therefore, it has to respond to the social aspirations for higher education and responsive to social changes according to the Economic Review (1983). Newman (1974) as in Senadeera (1997) defines university as an institute, which teaches the entire knowledge and spread the knowledge. Ballantine (1997) describes universities as communities with overall academic programs, centralized physical settings, a form of governance and a range of services.

Source: Ariyawansa (2009)³

³ Ariyawansa R G (2009), "Employability of Graduates of Sri Lankan Universities", Sri Lankan Journal of Human Resource Management, University of Sri Jayewardenepura, Colombo, PP 95-102

The first example shows you that the discussion has been started directly by describing a major concept indicated in the title. The example 02 also shows the way the author begins to develop a central argument or a theme for the study by reviewing core areas under the research title. It is started by expressing the “education”, which is however, not indicated in the title. Remember, it is your (author’s) talent to identify one of the most relevant concepts to begin the discussion even if it is not indicated in words within the title. (But in such a case, you should quickly come to the correct track).

Similarly, in the introduction,

- You have to discuss all the major concepts of your research theme/title.
- For instance, according to the first example, “Consumer buying behaviour”, “Housing market in general”, “Housing market experience of Colombo and suburbs” are major areas of importance.
- Therefore, in your introduction, you have to describe all these concepts according to their level of significance.
- You should identify and discuss the relationship between/among these concepts (major concepts and their variables).

- You have to input sufficient amount of literature (evidence) to support your argument along with citations in an appropriate way.

BOX 03 - Example 01: Specimen of the statement of problem

1. 2 Statement of problems

National and international property demands are inevitable in a large city. Economic, political and all sort of socio-cultural relationships of a country with the rest of the world heavily depends on the sufficiently developed national and international property markets operated in cities. As Sri Lanka is widely employing market mechanism for its wellbeing, property markets have to be highly promoted for national and international land and property needs. Hence, this study questions whether the city of Colombo, as the one and only international city of the country, is prepared to cater the national and international real estate needs.

Source: Ariyawansa (2008)⁴

Once you precisely identified a research problem, you can go ahead with your research by setting aim(s) and objectives through which you can address the research problem. You can have one general objective and few specific objectives. However, this is not a must (Please see BOX – 04).

⁴ Ariyawansa R G (2008), “Property Market in Colombo: Evolution and Success”, Published by the author, Colombo, p.3

BOX 04-Example 01: Aims and objectives of the research

Aims and objectives of the research

Basically, the aim of the research is to bridge the gap of knowledge among those who are engaged in activities in the housing industry such as developers, investors, buyers, seller and scholars etc. through imparting the knowledge of consumer behaviour in the housing market. It also aims to design a conceptual model that depicts the consumer behaviour of the market. Further, the model will be tested and find the most influential factor. To achieve these aims within certain constrains, the decided specific objectives are detailed as follows.

- I. To examine the existing theories & work related to consumer behaviour with a view to identify determinants of the consumer behaviour in the area of the housing market.
11. To rate the relative importance of the determinants of the consumer behaviour in the housing market.
- III. To compare the relative importance of determinants among the particular market segments according to income, aging, occupation, and sex.

Source: Ariyawansa (2009)⁵

Having some research questions on specific objectives commonly or separately, you can easily

⁵ Ariyawansa R G (2009), "Housing Market: A Review of Purchase Decision of Potential Buyers, Published by the author, Colombo

simplify your study further so that you can find solutions for the research problem from a particular point of view of your interest (Please see BOX – 05).

BOX 05-Example 01: Research Questions

Research Questions

It was arranged some research questions as forward directions for the study.

- I. What is the general situation prevailing in the housing market in connection with the ownership, structure, position, and location of a house?
- II. Which factor(s) is/are relatively more important in buying decision of a house?
- III. How is the relative importance varied among different segments in the housing market, according to the demographic factors such as age, income, sex, and occupation?
- IV. Is the segmentation of housing market according to the demographic factors such as age, income, sex, and occupation meaningful?

Source: Ariyawansa (2009)⁶

⁶ Ariyawansa R G (2009), "Housing Market: A Review of Purchase Decision of Potential Buyers, Published by the author, Colombo

Methodology

You need to describe particularly the data on which you depend in finding solutions for the research problem. (Instead of that, it is needed to explain data collection and analysis methods, limitations etc).

Designing your research

Step 01- Through reviewing literature (relevant concepts, theories, research findings, models, procedures, practices, definitions, statistics and so on), you have to trace a researchable problem.

Step 02 – Scale-down the scope of your area of study into a very specific, least complicated, meaningful, and researchable. This is possible by means of formulating general and specific objectives, research questions for each specific objective (if needed), adopting some limitations relating to the variables, case studies, samples for data collections, methods of analysis etc.

Go through carefully the following table and facts in it. You learn the total activities of designing your research as discussed in the second part of the chapter 09.

Research Design

Theme of the research (a vague idea) [YP + LR]	Title (an appropriate, a clear direction, a clearer theme) [YP + LR]	Research problem [YP + LR]	General objective [YP + LR]	Specific objectives (SO) [YP + LR]	Research Questions (RQ) [YP + LR]	Variables by which you look into RQ [YP + LR]	Data on variables (method of data and information collections according to the suitable analysis) [YP + LR]
				1. 2..... 3....	1 (a).... (b).... (c)..... 2. (a) (b).... 3. (a) (b)...	(a) (i)..... (ii)..... (iii).....	(i) Questioning from a sample OR Observation OR Interviewing experts

Please understand the following notes

Note 01: **YP** = Your Perception, **LR** = Literature Review.

Note 02: Font size of “**YP**” and “**LR**” roughly implies the relative degree of emphasis needed on these aspects.

Note 03: Carefully read and try to understand the following ideas

- Specific objectives are some of concepts relating to the research problem.
- Research questions are some indicators of those concepts recognized in designing the study.
- Variables are yardsticks to be used in measuring the variables.
- Data means the working definition for yardsticks of each variable.

Examples - 01

Specific objectives (About particular concepts relating to the research problem)	Research Questions (Using indicators of relevant concepts)	Yardsticks of indicators (relevant variables of indicators)	Data/information (working definitions of variables)
<p>Household's <u>desires/ satisfaction</u></p> <p><i>Objective is,</i> To evaluate household's desires on different features of a house.</p>	<ul style="list-style-type: none"> • Distance to service centres • Quality of structures (What specific features does a buyer expect from a house in a flat?) • Neighbourhood quality • etc. 	<p>About the quality of structures,</p> <ul style="list-style-type: none"> • Designs • Size of rooms • Quality of finishes • Material used • etc. 	<p>About size of rooms,</p> <ul style="list-style-type: none"> • Size of bedrooms • Size of kitchen • Size of bathrooms • Size of sitting rooms • etc. <p>(These are the expected set of data. You can obtain needed data through observation, questionnaire, interviewing experts or secondary sources)</p>

Examples - 02

Specific objectives (About particular concepts relating to the research problem)	Research Questions (Using indicators of relevant concepts)	Yardsticks of indicators (relevant variables of indicators)	Data/information (working definitions of variables)
<p>Households <u>purchasing power</u></p> <p>Objective is, To examine level of households purchasing power in demanding a house</p>	<ul style="list-style-type: none"> • Level of income • Expenditure pattern • Savings • Family supports • etc... 	<p>About the savings</p> <ul style="list-style-type: none"> • Formal savings • EPF • Jewellers • etc... 	<p>About formal savings</p> <ul style="list-style-type: none"> • Saving accounts • Fix deposits • NRFC <p>Or</p> <ul style="list-style-type: none"> • Rs. Less than 100,000 • Rs. 100,000-200,000

Chapter 10

Multiple Perspectives of Real Estates

Chapter Ten

Multiple Perspectives of Real Estate

- Market Perspective
- Investment Perspective
- Legal Perspective
- Valuation Perspective
- Financial Perspectives
- Integrated Real Estate Perspective
- Socially Driven Real Estate Perspective
- Socially Driven Technically Controlled Real Estate Perspectives

Multiple Perspectives of Real Estates

This chapter attempts to discuss overall aspects of real estate on basis of the discussion in previous chapters.

Previous Chapters

In previous chapters, we discussed about following themes.

- Land, real estate and real property.
- Real estate development process.
- General management and real estate.
- Real estate management.
- Strategies for real estate development and management.
- Corporate Real Estate Asset Management.
- Market and economic studies relating to real estate development and management.
- Real estate consultancies.
- Real estate research.

Learning outcomes of the chapter

By reading and learning of this chapter, you will know,

- Different perspectives of real estates.
- Inter-related nature of real estate perspectives.

Multiple Perspectives of Real Estates

Definitions of real estate show some special perspectives of real estates. Go through the following definitions and try to learn those perspectives.

- Real estate provides space for human needs (Real estate is a product: market related).
- Real estate is a result of human efforts of transferring land into useful forms of space. (Production process: market related).
- Real estate is a wealth of individuals, firms, and nations (A valuable product: Value related).
- Real estate is land and buildings, land and permanent attachments to the land, real estate is an investment or a business (Investment and finance related).
- Real estate means a “collections of rights associated with lawful (real) action” (Legislative related).
- Real estate is an asset for portfolios, collateral for loans for individuals and organizations (investment, finance, and mortgage related).

Accordingly, real estate can be viewed from several functional perspectives by connecting all the

characteristics with some major perspectives such as,

- Market perspective.
- Investment perspective.
- Legal perspective.
- Value perspective.
- Mortgage and finance perspective.

Market Perspective

Real estates are economic goods and services. Hence, like other goods and services, real estates are purchased, leased, used, rehabilitated, and sold to maximize the wealth of owners. Real estate market behaviour reflects behaviour of many affiliated markets such as financial market, money market, service markets and so on. Therefore, analysis of market behaviour is a fundamental need for estimating property values, appraising investments, and taking insurance and mortgage decisions etc.

In other words, from real estate planning point of view, efficient real estate is a prerequisite for the efficiency of the entire market system. Availability of adequate properties for different purposes and related service properties etc. are macro level market perspectives of real estate.

Real estate cycles/real estate boom and bust/real estate bobble effect

Real estate market affects on real estate finance and investment and vice versa. Ups and downs of real estate activities are described as real estate cycles. By studying past performances of the market, real estate researchers and experts can identify trends of real estate market behaviour. Cycles are described as long term and short term. These cycles are largely affected by,

- Economic forces in general.
- General business conditions usually prompt the real estate markets and in turns the real estate finance, investment and so on.
- Efficiency of money and capital markets.
- State economic policy at large.
- Population characteristics such as total population, family structures, geographical distribution and migration pattern.
- Social attitudes.
- Property values and prices.

- Tax policies, for instance, in the USA, in 1990, regulations limited thrifts to finance on single family home and allowed only to provide finance to apartment buildings. This resulted to downsize thrifts and alternative institutions along with new financing instruments became powerful.

Therefore, it seems that the market perspective of real estate is very significant for real estate development and management. At the same time, it seems that the market perspective are inter-related with the other perspective such as real estate values, real estate investments and real estate finance etc.

Investment Perspective

Potential buyers wish to pay the lowest price to obtain the highest possible or adequate return on their investment while the sellers wish to obtain the highest possible price to rationalize their objectives by buying or selling the property. Both parties have investment motives.

Possible real estate investments

There are various ways of investment on real estate such as,

- An owner occupied house by individuals or families.

- An investment property by individuals or firms, or state agencies.
- A lease arrangement by individuals, firms or public organizations.
- A share in a limited partnership in properties.
- Any form of ownership of real estate.

Different market activities are generated as the results of real estate investments in short term and long term. Therefore, investment creates markets relating to real estate transactions.

Type of investors and forms of real estate ownerships

According to the nature of investment and investor's risk taking behaviour, there are different types of investments and real estate ownerships. This means the investors can organize in a way that shapes a certain real estate ownerships as mentioned below.

- Sole proprietors of real estate.
- Corporations.
- Limited liability companies: Private limited or public limited.
- Partnership: Private partnership, Private Public Partnerships (PPP).
- Real Estate Investment Trust (REIT).

Managing of real estate by an investor

Real estate market perspective and investment perspective are closely associated as discussed above. Since real estate is a high risk investment, need of proper management is a must. Depending of the size of the investment, investors manage their properties by employing Real Estate Portfolio Managers, Real Estate Asset Managers and Property Managers.

Legal Perspective

It is important to state that lawfulness (legal recognition) is fundamental to the creation and protection of value in real estates.

Real estate owner expects a bundle of rights including “rights to the physical characteristics of the real estate” and “legal right of real estate”. These two rights are inter-related.

Right of physical characteristics

- Surface rights to stay and right of developments on the surface for the owner (depending on the state policy/regulation).
- Subsurface rights to the owner and special materials like mineral/oil etc to the state.

- Air rights to the owner and fly-over rights to the state.

Therefore, right of physical characteristic is varied according to the available legislative background of countries. However, when developing and managing of real estate in a particular context, complete knowledge of right of physical characteristic of land is very important.

Legal right of real estate

- Exclusive possession and control over the interference. Legal owner has the right to control others entry into the property and able to charge for damages by trespassing and using it even as a collateral.
- Right of quiet enjoyment. Owner has the legal right to enjoy the quietness being within the property. Owner has right to take legal action against at the breach of his right.
- Right of disposition. Owner can transfer the ownership to others or destroy the property as he wishes.

These two kinds of real estate related legal rights are the base of property ownerships. Accordingly there are mainly two types of real estate as “freehold real estate” and various types of “non-freehold real

estate” as per the legal perspective of real estate. Further, there are co-ownerships of real estate too.

- Direct co-ownerships such as “joint freehold or joint non-freehold ownerships”, “condominiums”, and “cooperative property” etc.
- Indirect co-ownerships such as “public or private corporation”, “Real Estate Investment Trust (REIT)” and “freehold or non-freehold owners in partnerships” etc.

Legal rights rest with the state

State also has special rights of Tax, Police Power, Eminent Domain, and Escheat over all real estate properties in the country. For instance, followings are some of common taxes relating to real estate in different countries.

- Transfer tax.
- Stamp tax/registration fees.
- Rates.
- Development tax.
- Wealth/income tax.
- Licence fees.
- Environment tax.
- Ground rent.
- Equity share (may be by an act).

Different legal contracts among stakeholders

Legal perspective relating to real estate appears in property management related agreements between different parties such as,

- Real estate owner and portfolio manager.
- Property owner and financiers/banker.
- Property owner and the public sector.
- Portfolio manager and assets manager
- Asset manager and property manager.
- Assets and property managers and tenants.
- Property managers and suppliers.
- Property managers and employees.

Real estate has different relationships with other branches of law such as the Constitution, Company and business Law, Law of Delit, Marriage Law etc.

Valuation Perspective

Real estate is wealth of individuals, firms and nations. Valuation involves the use of systematic procedures to estimate value of real properties. In a valuation, it is observed different aspects of real estate such as,

- Cost and income.
- Risk and return.
- Input and output.
- Efficiency and effectiveness.
- Expenses and satisfaction.
- Finance and marketing of the property etc.

What is the main benefit of the concept of “VALUE” of real estate? Monetary value of real estate interprets the different human relationships with space. Price of ownership, rent for use, and cost of investment and so on are indicators/measures of such relationships.

Market value of a parcel of land provides information for many economic decisions and determinants such as,

- Investment decisions.
- Purchase or selling decisions i.e. market equilibrium decision.
- Production cost of goods and services.
- Government income and thereby government expenditure.
- Operations of capital and money markets.
- Insurance industry.

Finance Perspectives

It is essential to have arrangements of outside finance for real estate development (investment) and purchase (market transactions) since the cost of real estate is substantially high.

Why we need to concern on finance in real estates?

- Most development projects need substantial sum of money and it inevitably causes for borrowing money from outsiders.
- Comparatively the highest proportion of investments of individuals and firms is on real estates.
- Higher risk involves in real estate.
- Complicatedness of operations incurs additional cost in real estates.

Why we need to concern on markets/marketing of real estates?

- Real estate markets are highly affected by markets of other products.
- Each and every property has a number of consumers.

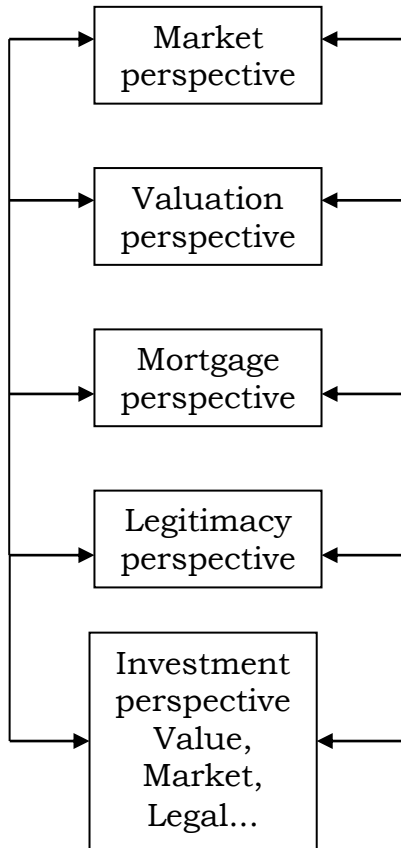
In general:

- Real estate as a factor of production provides space for activities. Degree of efficiency of real estate affects on the prices of all the other goods & services.

- Real estate as a corporate asset represents a major part of a company's balance sheet and the majority of corporate debt is secured against it.
- As an investment, real estate is one of the major types of investment held by individuals and firms; sometimes it is the only way on which pension and insurance benefits of communities depends.

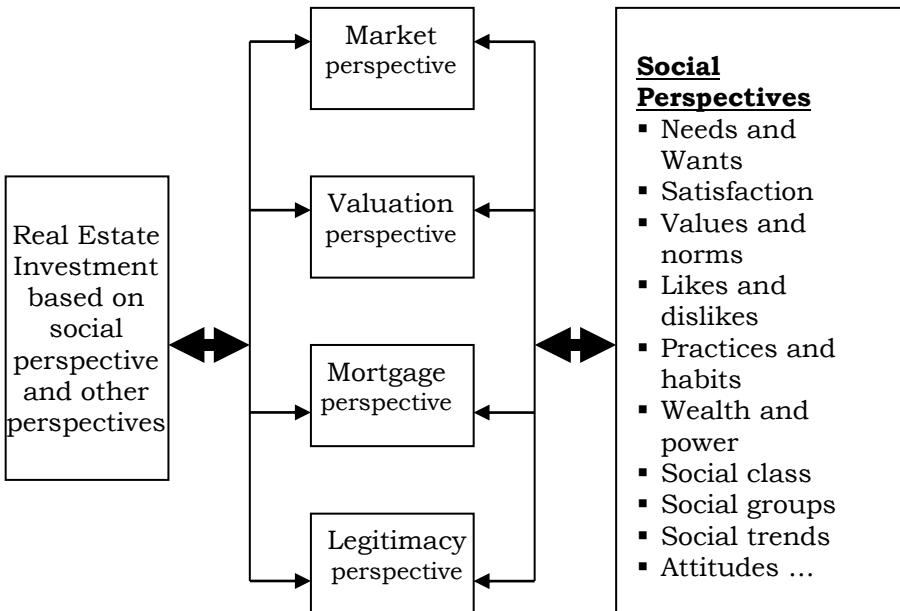
Accordingly, it seems that all the real estate perspectives are integrated and, therefore, it is recognized collectively as an integrated real estate perspective. Following diagram illustrates the relationships among the major perspectives.

Integrated real estate perspective



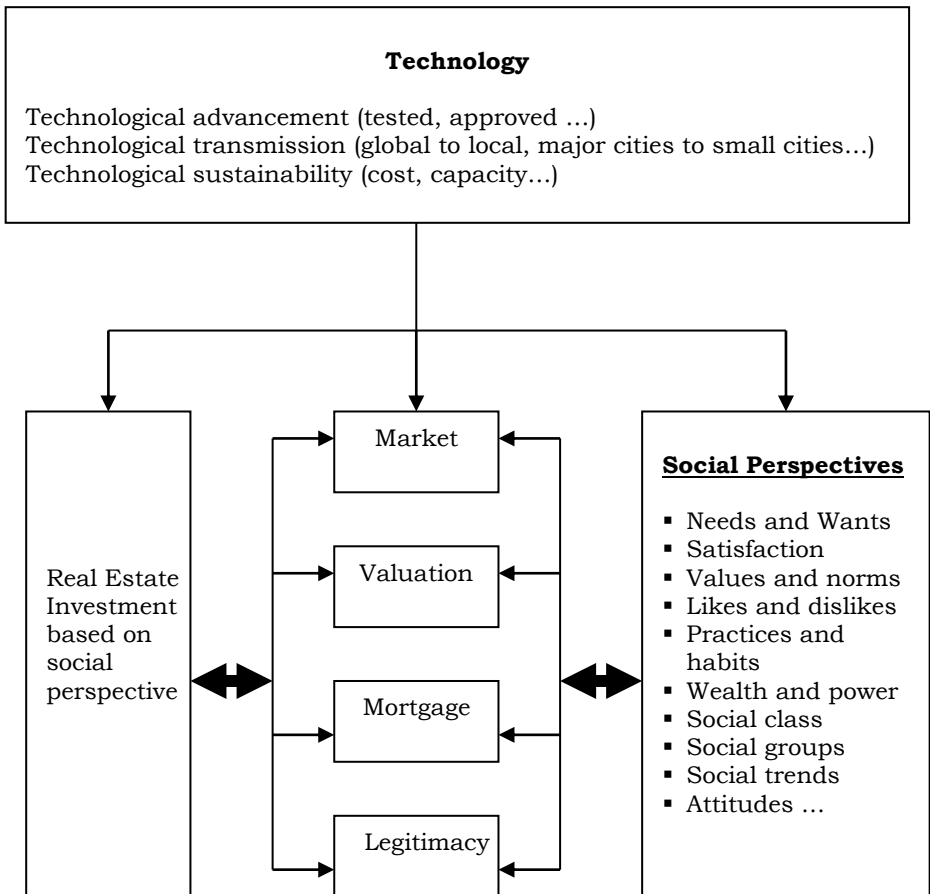
Socio-cultural perspectives are powerful in shaping other perspectives on which real estate investments are ultimately determined.

Socially Driven Integrated Real Estate Perspective



Socially Driven Technically Controlled Integrated Real Estate Perspectives

It is obvious that the scientific and technological enhancements and their applications on real estate further reshape the real estate investment and transactions.



Summing Up the Book

In all chapters of the book, we discussed different themes related with the real estate such as,

- What is real estate and their significance.
- Real estate development process.
- General management and real estate.
- Real estate management.
- Strategies for real estate development and management.
- Corporate Real Estate Asset Management (CREAM).
- Market and economic studies, research, formulation of strategies etc.
- Real estate consultations, advisories, research/consultancy proposals and consultancy reports etc.
- Real estate case studies.
- Research in real estate.
- Different real estate perspectives.

Objectives of this Book

According to the discussions made throughout the chapters of the book, it is crystal clear that Real Estate Development (RED) and Real Estate Management (REM) are **multi-disciplinary** in nature. Therefore, the scope of Real Estate Development and Management is very wide. This book, however, covered only some basic areas and

attempted to teach the **inter-relatedness** of Real Estate Development and Management with many other subjects relating to real estate. In this way, this book mainly attempted to provide the **philosophical foundation** of the discipline of real estate development and management for the readers.

You are requested to read some more areas related to the subject as follows to enhance your knowledge

- Benefit Cost Analysis of real estate investments.
- Cash flow, Net Present Value, Internal Rate of Return etc. with regard to real estate investment analysis.
- Investment appraisal and portfolio management.
- Property and the macro-economy, globalization of properties etc.
- Obsolescence of properties and remedies.
- Different costs and values in real estates.
- Environmental effect on real estate and vice versa.
- Building and facilities & service management.
- Management of Condominiums.
- Ownerships, tenure different interest and legal aspects of real estates.
- Review of real estate industry in an economy i.e. real estate sector/real estate markets etc.

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