

Project development of commercial real estate

Characteristics of the development processes from initiation to realization
 examined on two Tyrolean commercial properties

Christoph Bstieler, BSc
 Advisor: assoz. Prof. Dipl.-Ing. Dr. sc. ETHZ Florian Gschösser
 Unit of Construction Management and Tunnelling
 University of Innsbruck
ibt@uibk.ac.at | www.uibk.ac.at/ibt

ABSTRACT: The project development of commercial real estate differs from the project development of classical real estate. This thesis deals with the specifics of commercial project development and presents the procedures of the individual processes on the basis of two Tyrolean commercial properties.

Complete thesis: www.uibk.ac.at/ibt/lehre/abgeschlossene-masterarbeiten/

KEYWORDS: construction industry, project development, commercial real estate

1 INTRODUCTION

This study delves into the real estate development process according to the five-phase-model laid out by Bone-Winkel. The analysis focuses specifically on the development of commercial real estate in Tyrol and the characteristics of the individual sequences from the initiation to the realization of the development process. In order to get a detailed view of the methodology of the development processes, each act was described according to a thorough literature research on both classic, and commercial real estate. Subsequently, two Tyrolean commercial real estate projects were analyzed to understand how theory and practice compare.

2 BASICS

Project development (PD) can be seen in different temporal dimensions. Project development in the middle sense incorporates all processes from the initiation to the construction of a project [1].

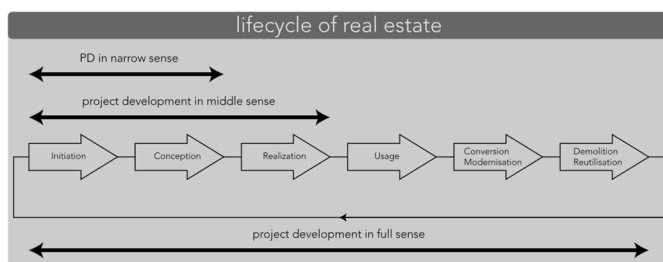


Fig. 2-1: project development over the lifecycle of real estate [2]

2.1 Project development of classical real estate

Project development can be differentiated into phases or processes in a similar way to other flow charts, although this division is of an ideal-typical nature and does not always correspond to reality [3].

Since the processes of project development differ so much in practice, it is not easy to categorize them. The Five-Phase-Model of project development according to Bone-Winkel nevertheless attempts to subdivide the processes and is oriented to decisions, that are necessary for the project. The various processes are divided into five phases [2, 4]:

1. Project initiation

2. Project definition
3. Project planning
4. Project management or -realization
5. Project marketing

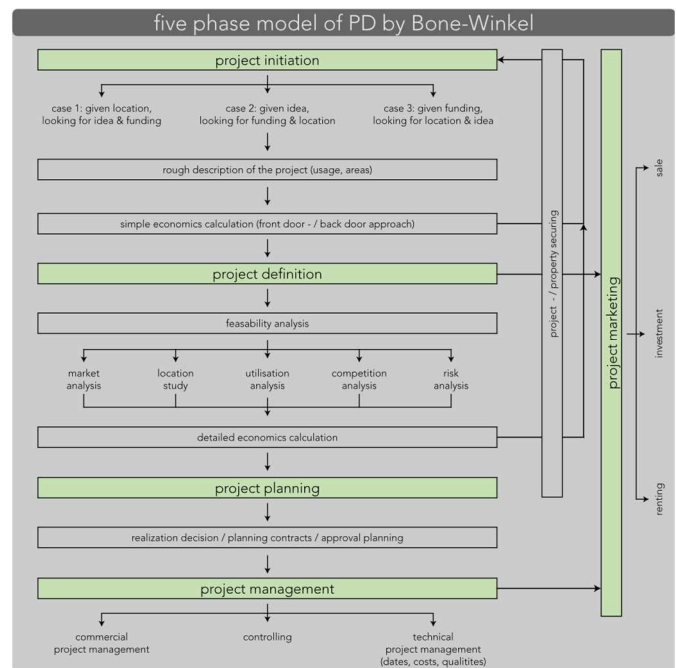


Fig. 2-2: five phase model of PD by Bone-Winkel [4]

2.2 Project development of commercial real estate

The project development of commercial real estate includes production buildings, logistics buildings, transformation real estate and industrial parks [5].

During the initiation phase there are some peculiarities: for example, the process of "fundamentals ascertainment" is carried out in much more detail as an equivalent to the "rough description of the project" [5].

Furthermore, other processes such as "Corporate Social Responsibility", of which sustainability is an important component, or "Corporate Architecture & Design" are included at an early stage [5].

In the course of the project definition, the approach to the location study deviates. When considering classic real estate, hard and soft location factors are analyzed, whereas in commercial project development, the focus is on operational and functional location factors [5].

The project planning confronts the company with the decision of which type of acquisition of rights to the real estate would make the most sense: ownership, renting or leasing [5].

Furthermore, permits are obtained during the planning phase. In the construction of commercial real estate, special permits may come into play, such as the “industrial equipment licensing” or the “environmental impact study” processes [2].

3 ANALYSIS OF TWO EXAMPLE PROPERTIES

3.1 Hollu Supply Chain 4.0 – phase 01

In the course of the first construction phase of this project, a pallet rack warehouse, an outgoing goods department and a company gas station were built.



Fig. 3-1: hollu Supply Chain 4.0

For the process of “fundamentals ascertainment”, the space requirements for the target year 2030 first had to be forecast. For this purpose, the product range, stock levels, sales figures and raw materials required for the year 2030 were calculated with the help of external experts, after which an initial layout for the required number of pallet spaces was drawn up.

The feasibility study was carried out in an abbreviated version. Due to own use, neither market nor competition analysis were carried out, there was no location analysis due to the already existing location and a risk analysis was already concluded for the location.

For this project, in addition to the operating facility permit, two more special permits were required. Since the planned photovoltaic plant exceeded a bottleneck power of 250 kW, it had to be approved according to the Tyrolean Electricity Act. Furthermore, a water law permit had to be obtained for the planned water pond, which was required for the sprinkler system of the pallet rack warehouse.

3.2 Commercial Park Zirler Wiesen

The Zirler Wiesen commercial park is a joint project of the market town of Zirl and several private landowners, of which some wanted to sell their properties on their own. The project area covers approximately 5 hectares. The main focus was on the creation of an attractive commercial park.

In order to improve the development potential of the narrow parcels (used for agriculture), several options were considered during the utilization analysis. By means of a land

consolidation, the plots could be rearranged to be feasible for commercial real estate. A relocation of the 110 kV overhead line running through the commercial park improved the possible building heights in this area. Along the Inn River, a 15m wide protection zone for the Inn floodplain had to be maintained.

Already during the development process, some companies secured land for their own use. For the remaining plots of the market town Zirl there was a lot of interest, which is why fact sheets were prepared for all applicants, so the selection process could proceed more efficiently. Since the properties of the landowners, who wanted to sell their properties on their own, could be acquired only with usage and building right, and no ownership of the land itself, there was little demand.

4 CONCLUSION

Many processes generally occur in the same way for both forms of development. Deviations in methodology emerge, especially during the processes of “fundamentals ascertainment”, “sustainability”, and “location study”. Further, some processes conducted during commercial development don’t have a counterpart in the development of classic real estate. Processes like “industrial equipment licensing” or “corporate architecture & design” are, in their nature, distinct to commercial development.

Some differences are rooted in the fact that relevant German literature describes the situation of Germany. However, general conditions, like laws or business culture, in Austria and especially Tyrol differ from the prevailing situation in Germany. Similarly, the high level of own use development can be cited as another reason for differences to classic development.

5 OUTLOOK

To get better understanding of the peculiarities of commercial project development, a more extensive study with statistical significance is advisable. The processes should be categorized following the structure given by the LM.VM.2014, which would allow a more specific analysis of the methodology used specifically in Tyrol or Austria.

6 REFERENCES

- [1] K.-U. Brauer, Grundlagen der Immobilienwirtschaft: Recht - Steuern - Marketing - Finanzierung - Bestandsmanagement - Projektentwicklung, 10. Aufl. Wiesbaden: Springer Fachmedien Wiesbaden GmbH; GABLER, 2018.
- [2] W. Alda und J. Hirschner, Projektentwicklung in der Immobilienwirtschaft: Grundlagen für die Praxis, 5. Aufl. Springer Vieweg; Springer Fachmedien Wiesbaden, 2014.
- [3] A. Meissl, Strategische Projektentwicklung bei Immobilien: die VSC-Methode, 1. Aufl. Hamburg: Diplomica Verlag GmbH, 2010.
- [4] K.-W. Schulte, Handbuch Immobilien-Projektentwicklung, 2. Aufl. Köln: Müller, 2002.
- [5] F. B. T. Glatte, Entwicklung betrieblicher Immobilien: Beschaffung und Verwertung von Immobilien im Corporate Real Estate Management. Springer Vieweg; Springer Fachmedien Wiesbaden, 2014.