

# A New Developer?

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*Assessment of the business change of real estate developers in urban area development projects*



20 October 2014

Research proposal

TU Delft

Urban Area Development lab

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## Colophon

### P1 Research proposal

**Title:**

A New Developer?

*Assessment of the business change of real estate developers in urban area development projects*

Lab: Urban Area Development (UAD)

Date: January 5, 2015

Presentation date: January 19, 2015

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## *Preface*

## *Abstract*

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# Chapter 1 Research proposal

## 1.1 Relevance

### 1.1.1 Societal relevance

This thesis aims to explore the functioning of real estate developers. By looking at their previous way of working and the changes that have taken place on how they are involved in the development process new insights could be generated. The outcomes could support the progression of the field of urban area development in the Netherlands. Ultimately improved urban area development would lead to better cities and places.

### 1.1.2. Scientific relevance

A changing economic climate has led to municipalities that seem to be less and less capable and willing to invest in large scale urban developments. When governmental parties become less active and unwilling to invest in urban developments they become dependent on the private sector(Heurkens, 2012a). With municipalities traditionally taking on an important role in area development in the Netherlands a shifting emphasis towards private parties will have consequence for the workings the urban development process.

In order to be able to better understand the urban area development process a good understanding of the actors that are involved is needed. Many of the writings on project developers are still useful but parts might have become obsolete under recent developments. Knowledge on the workings of project developers seems to be lacking while the urban development research field could benefit from such knowledge. A better understanding of projects developers and their functioning, especially under the altered conditions, could provide valuable knowledge for the field of Urban Area Development.

This thesis aims to clarify the processes of developers by analyzing their business models and reflecting them against their changing context. This could lead to a better understanding of the functioning of project developers within urban area development.

### 1.1.3. Personal relevance

Initially the choice to start at the faculty of architecture in Delft was because of the interest in creating & designing. As the time passed one of the barriers often encountered was the step towards actual realization. An interest was triggered into what creates desirable products and what needs to happen to realize such products. Logically the choice was made to start the Real Estate & Housing master, as it provides the tools needed to get from that idea to something in reality.

During my time as a student the interest in related fields such as law, economics and marketing broadened, partly due to several side projects, internships, jobs and courses. This thesis will be in a field crossing what I find interesting and for which I wish to achieve a better understanding. Furthermore an improvement of academic skills and practical knowledge of the real estate sector are high on the list.

## 1.2 Problem description

Richard Florida (2010) states the global crisis of recent years mirrors the economic situation of the 1870s, a period that paved the road for unprecedented growth and innovation. *Old institutions will break down and innovation will lead to bigger and better systems.* The impact of such a change would find its way into all aspects of society.

Such a change would certainly not pass by project development and the urban development sector. As conditions are changing so will the parties involved in the sector. There are many signals that project development has not left its innovation at resolutions but that *actual change is taking place*(Hooghiemstra, 2012).

At the same time there are other signals: the building sector is not showing its adaptation to a new reality yet. Research shows the *building industry to be the least innovative* (Panteia, 2013)and the amount of bankruptcy over the past five years in the sector is still twice as high as it was before the crisis(CBS, 2014). Small signs of recovery show however: the total investment in the real estate sector in the first half of 2014 has reached a record since 2008(DTZ, 2014).

The NIROV writes that *the crisis changed the context of urban development.* The process and *its actors will change* and challenges need to be faced. Albert Einstein is quoted to emphasize the need for new ideas: 'we cannot solve our problems with the same level of thinking that created them'(NIROV, 2012).

Several structural changes have caused a new reality for urban development. Old techniques no longer suffice or are inefficient. With the change from supply orientation towards demand orientation there is a new focus on the end-user. Furthermore the increased certainty demanded by banks and investors forces developer to make products that are certain to have end-users. This has created some issues and uncertainties for the position of real estate developers. Traditionally developers held a central role in area development but their position seems to be less powerful than it was. To properly assess the current functioning and the effects of the new context the business models of developers could be analyzed. Much has been written on what developers could do and what would be desirable for more sustainable and qualitative urban areas. Yet clear information on *what has actually changed on the side of developers* seems to be limited. Key components in their function are the actors and the way they interact with them to deliver value.

## 1.3 Problem statement

*Several major changes in the development sector have led to new market circumstances forcing project developers to adapt. Requirements to continue functioning are either/both more efficiency and the finding of new markets or new ways of doing business. Better understanding of what changes have actually taken place in their functioning would be beneficial for both the research field and the actors of urban area development while in reality information seems to be lacking, although this could lead to new business insights for development within urban area development.*

## 1.4 Research question

***What changes in functioning of project developers can be identified with regards to contextual changes in urban area development and what can be expected in the future?***

## 1.5 Research sub questions

### Literature

- 1.What changes in the context of urban development can be identified?
- 2.What changes can be identified for project developers?
- 3.What kind of developers can be identified?
- 4.How and what do business models describe of a business?
- 5.Is business modelling applicable and usable as an analysis tool for the functioning of urban developers?

### Empirical

- 6.What was the business model of developers before the crisis?
- 7.What changes have occurred and what is the current business model?
- 8.What changes are expected to occur in the future?

## 1.6 Definitions

## 1.7 Demarcation

The research of thesis aims to explore the changing

## 1.8 Research goal

The goal of this research is described below. The answering of the research question and the sub questions should lead towards meeting this goal.

*The goal of this research is to gain insight into the functioning of real estate developers under changing market circumstances by analyzing business models.*

A better understanding of real estate developers would mean a better understanding of urban area development as developers often play a central role in urban area developments. By analyzing business models insight can be gained on how developers conduct their business in relation to urban area developments. The results that are aimed for are the following:

- Conclusions on general aspects that have changed in the functioning of project developers
- Specifics on what the changes have actually implied for a specific situation
- A better understanding of what these changes mean for urban area development
- Indications of what will happen in the future
- A model of how the business models of different actors deliver developments
- A model of how the business of a project developer works

In summery the goal is come to a process models of developers that can be compared to generate information on the changes in their practice. This information will then be used to draw conclusions for area development.

## 1.9 Research design

### 1.9.1 Conceptual model

The conceptual model shown in figure 1. explains the theoretical functioning of the research and explains what will be researched. The model shows that several changes in the urban area development context can be identified that influence the functioning of urban area development. This influences the practices of urban area developers, urban development projects and actors that are involved. This ultimately affects their business strategies and their business models. The business models are part of a network and influence each other's workings.



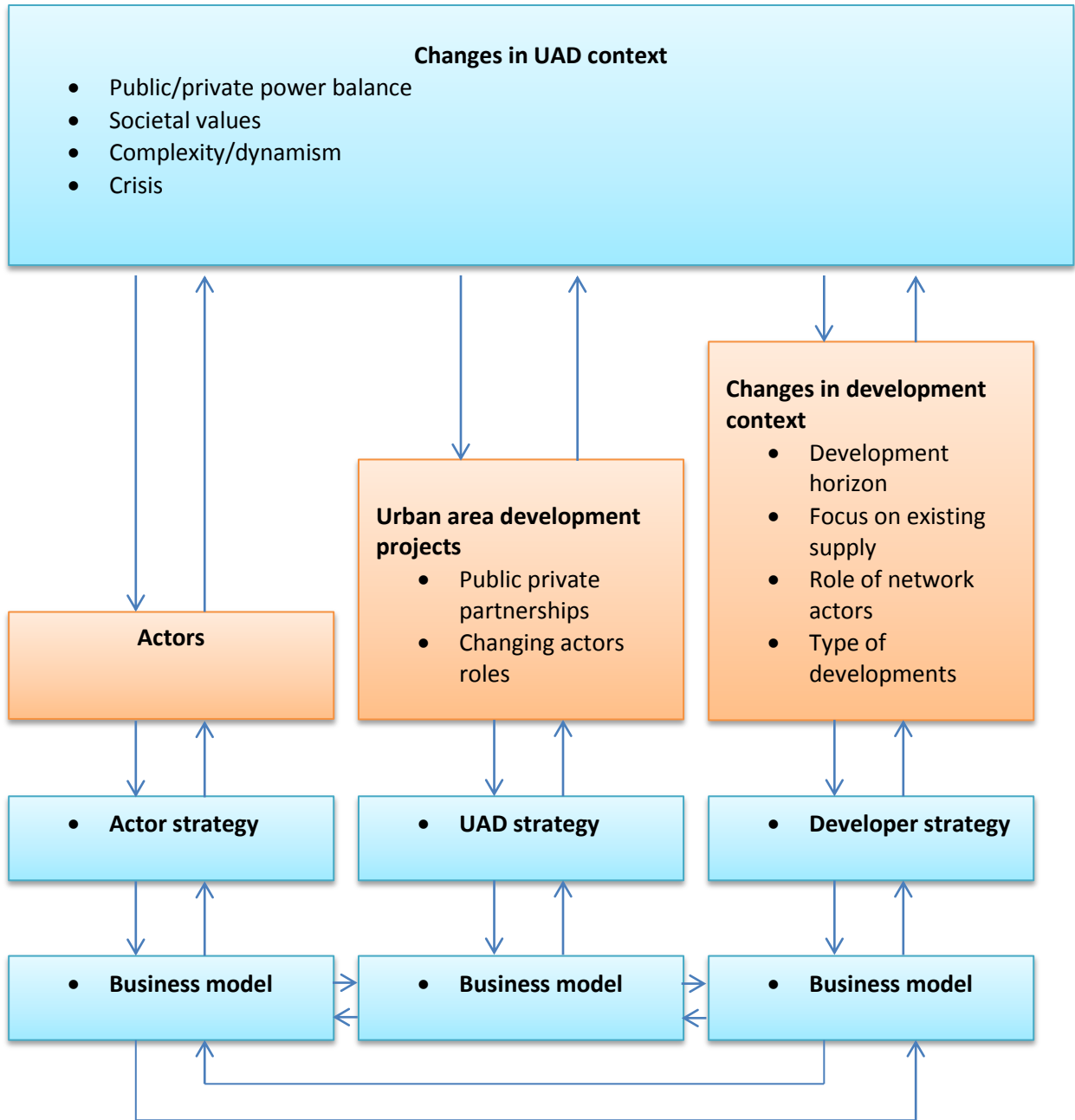


FIGURE 1. CONCEPTUAL MODEL (OWN ILL.)

## 1.9.2 Research methods

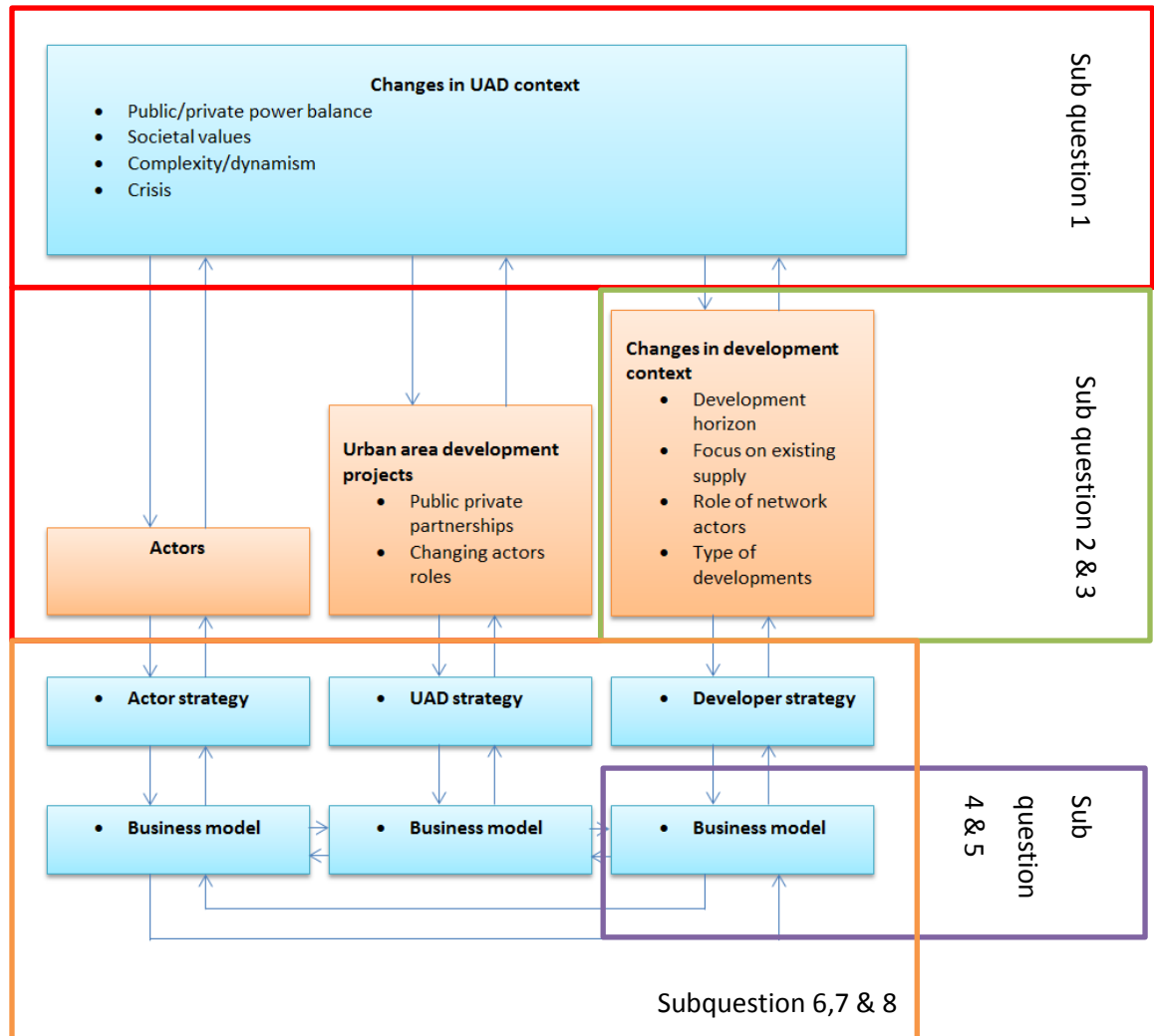


FIGURE 2. SUBQUESTIONS (OWN ILL.)

The figure above shows the various areas that will be researched by specific research questions.

### Literature research

Research question 1 to 5 will be researched through a literature study. In order to gain a good understanding of the practice of urban area development an extensive research on writing in the field of area development will be conducted. The research question on business modeling will be based on

business literature around business functioning and business models and writings on business models in the area development context.

### *Survey*

By formulating questions based on the expected changes as described in the literature research, questions can be formulated that answer the general changes developers have made in their business models.

### *Case study*

By studying a specific case in urban area development information can be acquired on the business functioning of the various actors in the project. A project of before and after the crisis could be selected to be able to draw conclusion on the change of actors.

### *Year report and article analysis*

Based on the analysis of year reports and other writings important moments of change in business functioning of a specific developer can be identified. From this conclusions can be drawn on what changes in business model have occurred.

### *Semi structured interviews and business modelling workshops*

Based on the results from the year report and article analysis a small business modeling workshop using the business model canvas can be held. By first letting the interviewee design the old business model, the current business model and the model that is expected in the near future. The results from this workshop can be compared with the results of the year report and article analysis and the differences and motivations for certain changes can be discussed.

### *Expert meeting*

If time allows for it an expert meeting could be organized discussing the findings of the research. This meeting should be held with researchers and practitioners to gain relevant conclusions on the findings.

## 1.10 Readers guide

# Chapter 2 Urban development context

## 2.1 Historical context of area development in the Netherlands

Area development is a field that has seen major developments over the past years. Economically bad weather and other more development specific issues such as the shift from a supply driven environment towards a demand driven real estate environment have shaken the practice of development. In order to shed a better light on the field of area development under recent changes, a view from a larger timeframe can be useful to create the context from which today's field has formed.

### 2.1.1 Phases of area development in the Netherlands

Friso de Zeeuw (2011) took the developments of the past decade as inspiration for a reflection on the field of area development in the Netherlands in his article in *Rooilijn*. He indicates that a simple demarcation of the past ten years would not do the field of area development justice. As early as the 19<sup>th</sup> century, entrepreneurs were developing affordable housing for laborers in Rotterdam (see de Klerk, 1999). He indicates that a rough phasing can be made into 4 periods: The beginning (up to 1970), Modern times (1971-1990), Accelerated growth (1991-2008) and the final phase of Reconciliation (2008-present). A short description of the phases as he describes them in the article is given below

#### *The beginning (up to 1970)*

Area development is starting to form as a serious field with governmental dominance taking a step back. Large urban operations such as Hoog Catharijne in Utrecht and housing developments such as Poelwijk in Monnickendam are initiated. Municipalities tackled projects in collaboration with Bouwfonds Nederlandse Gemeenten through the initiation of a separate entity in the form of an NV. Several actors worked together over a longer period of time on spatial projects, forming the first area developments. The focus in these days was primarily on quantity.

#### *Modern Times ( 1971-1990)*

With an on oil crisis and economic recession the belief in the created society loses its credibility and under right wing politics the market is given more maneuvering space. With a new economy focusing on knowledge and cities taking up a position as driving force of the economy new key projects such as the

Kop van Zuid in Rotterdam are initiated. Under the 'Vierde Nota' and the 'Vierde Nota Extra' large scale housing projects are allocated at the edges of major cities. Market parties are asked to participate in ground positions as municipalities are wary of the damage the municipal ground agencies had gotten under the recession in the eighties. In this period the first Public Private Partnerships are formed as a new way of working and a shift takes place towards the creation of areas with quality.

### *Accelerated growth ( 1991-2008)*

In this period the field of area development makes a leap forward. The range of involved parties increases and increases as real estate, nature and agriculture and water find mutual benefits. Parties such as Staatsbosbeheer, Natuurmonumenten, Waterschappen and the Dienst Landelijk Gebied enter the field. Hospitals gain financial responsibility of their real estate and provinces take up a role as commissioner. Housing corporations gain a central role within urban redevelopment and aim to achieve not only affordable housing but social-economic growth of its tenants as well. In this period the amount of literature and documentation on the newly found approach is increased drastically and the Praktijkleerstoel Gebiedsontwikkeling at the TU Delft is born.

### *Reconciliation (2008-present)*

Many projects have found considerable delay or even a complete halt in this period. As area development is heavily linked to economic prosperity and highly dependent on the capital market the fall of Lehmann Brothers has initiated a recession for area development. Even in the few places market demand still exists financing proves an issue. Almost 40%, and counting, of the people in the development sector are said told to pack up their belongings. At the same time there is still a qualitative demand for housing and there are still urban regeneration projects waiting for development. Confusion exists on what the future will bring and with blood, sweat and tears new concepts are slowly emerging. The realization is there that the time of automatic growth is over and the contrasts between over and under pressured areas increase.

## 2.2 A changing public private balance

With the growing role market parties have had since the 70s a trend seems to have been initiated of increasing market influence. The role of the public sector is decreasing while societal decisions are increasingly being made by the private and civic sector(Heurkens, 2012b). In order to better understand the balance between the public and private sector it is important to comprehend the apparent paradigm shift.

### 2.2.1 The rise of Anglo Saxon values and governance in the Netherlands

The historically dominant power of the government in the 20<sup>th</sup> century has made place for a different role of the state. Heurkens (2009) describes that a shift has taken place from a Rhineland model towards an Anglo Saxon model. A Rhineland model is characterized by government control of markets, which is traditionally what is seen in most of Western European countries. The Anglo Saxon model is what shows more often in the USA and the UK, in which free markets are dominant and the government takes a much more limited controlling role. Within the context of which urban development is part van Rooy, Luijn, and Dil (2006) recognize that values are changing towards those of the Anglo Saxon model.

Based on van Rooy et al. (2006) Heurkens (2009) describes the change in relationships amongst others with the rise of a changed planning approach focused on the market. From the National Spatial Planning Policy the concept of planning development, also referred to as consensus planning, as opposed to restrictive planning, is introduced. The preference for such a model comes forth from the dissatisfaction of restrictive planning approaches.(Hobma, 2005) A parallel can be drawn here with the increase complexity in society. Franzen , Hobma, de Jonge, and Wigmans (2010) describe the last decades as more and more complex. This change affects the political environment considerably. In her thesis S. C. Straub (2012) uses the work of Drucker (1992) to show what fundamental societal changes lie at the basis of the diminishment of predictability. Drucker describes that globalization, technological advances, cultural pluralism and knowledge capital are the driving forces behind the changing reality. Straub quotes the following statement of Bruil (2011): *'The more dynamic the environment, the more organic the structure will be (no clear lines of responsibility and authority; open/free, quick and informal communication) [and] the more difficult the environment is to comprehend, the higher the degree of*



decision making by decentralization (the more choices and decisions are spread across the entire organization)'.

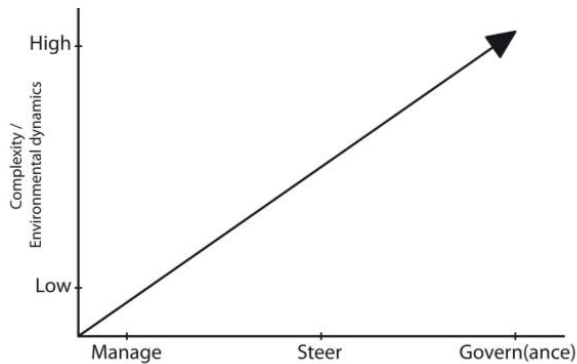


FIGURE 3. GOVERNANCE AND COMPLEXITY (BRUIL, 2011)

Heurkens (2012b) recognizes a change of balance between the market, civic society and the state but places a critical side note as well. Several authors (Adams & Tiesdell, 2010; Alexander, 2001; Boelens, 2010; Lind, 2002) position the government as something that cannot be seen as a loose entity but is something that is inseparable from the market. The government is part of and acts within the market meaning the positioning as an external factor is in this view not applicable. He concludes by stating that a structural empowerment of private parties is taking place. The changes in the balance between the market, civic society and the state over time according to Heurkens can be seen in figure 4.

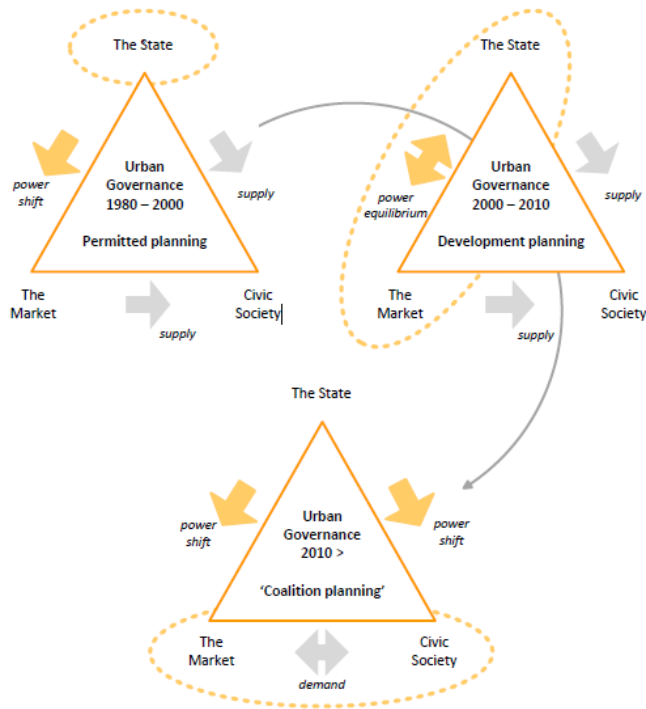


FIGURE 4. DUTCH URBAN GOVERNANCE SHIFTS (HEURKENS, 2012B)

### 2.2.2 Impact on the urban development process

In the frame of a changing society and changing roles urban development is faced with the challenge of reinventing itself to become competitive. With a change from government to governance a network of actors has led to the need for integration of different aspects and goals of those actors and their alignment within urban development (Wigmans, 2011). van Bortel, van Bueren, van Eeten, Elsinga, and Kerpershoek (2007) state that the success of urban development is dependent on the collaboration of its actors. With the increase of complexity, the uncertainty of activities and the unpredictability the emphasis changes from projects towards processes. de Bruijn and ten Heuvelhof (2008) describe that a context of complexity calls for the management of processes within a network rather than project management techniques. According to Franzen et al. (2010) urban development contains aspects of both project management and process management. The shift towards process management however implies that the management of actors is what is most important rather than steering towards a predefined endpoint (de Bruijn & ten Heuvelhof, 2008).

## 2.3 Public Private Partnerships

With the increase of market actor influence the importance of collaboration between market actors and public actors has increased. In order to better understand the way collaboration takes place between public and private partners the developments of public private partnerships are assessed.

### 2.3.1 Changing context of public private collaboration

As municipalities are adapting from the perspective of a supply market and an active role towards facilitating demand driven development their position is changing. The risk of area development is left to market parties and their active role as developing party is slowly bided farewell(van de Hoef & Lansbergen, 2013). This trend towards private led area development affects the collaboration in area development(Heurkens, 2012b).

Heurkens (2012b) identifies several factors that influence public private co-operation. First of the financial crisis has damaged the capacity of public parties to invest. Secondly there is an increase in the mobility of capital emphasizing the role of private parties. Thirdly there is an increase of complexity leading to the need for collaboration with private parties. Finally the shift towards a neo-liberal way of thinking the reliance on market mechanisms is increased. These changes put an emphasis on public private co-operation giving them a more important role in area development. The definition of Public Private Partnerships according to Klijn and Teisman (2003) is the following: *'cooperation between public and private actors with a durable character in which actors develop mutual products and/or services and in which risk, costs, and benefits are shared.'*

### 2.3.2 Roles within Public Private Partnerships

In the early 1980s Public Private Partnerships were introduced to deal with co-operation in urban projects between private and public parties(Heurkens, 2012b). The need for private investment in development projects has led to the typologies of co-operation as we see them today according to the Kenniscentrum PPS (2004): Public realization, PPP building rights, PPP Joint Ventures, PPP Concessions

and Private Realization. Heurkens (2012b) further explains the meaning of these co-operation models in urban development as follows:

- Public sector-dominated (Public Realization)
- Public sector-led (Building Rights)
- Public-private sector-led (Joint Ventures)
- Private sector-led (Concession)
- Private sector-dominated (private realization)

Depending on characteristics of a project such as the desired program, the urban situation and the project duration influence the choices for a certain model. Furthermore the amount of financing available plays a critical role. And finally the allowance for the sharing of risks, benefits and responsibilities is a determining factor(Heurkens, 2012b). Figure 5. shows the roles within the different typologies of collaboration.

| Development stage             | Sub-stage                | Public Realization | Building Rights   | Joint Venture       | Concession        | Private Realization |
|-------------------------------|--------------------------|--------------------|-------------------|---------------------|-------------------|---------------------|
| <b>Initiative</b>             | -                        | Public             | Public or private | Public or private   | Public            | Public or private   |
| <b>Plan &amp; feasibility</b> | Vision and program       | Public             | Public & private  | Public & private    | Public & private  | Private             |
|                               | Design plan              | Public             | Public & private  | Public & private    | Private           | Private             |
| <b>Realization</b>            | Land development         | Public             | Public            | Public & private    | Private           | Private             |
|                               | Real estate development  | Public or private  | Private           | Together or private | Private           | Private             |
|                               | Construction             | Private            | Private           | Private             | Private           | Private             |
| <b>Operation</b>              | Maintenance public space | Public             | Public or private | Public or private   | Public or private | Public or private   |
| <b>Land use policy</b>        |                          | <b>Active</b>      |                   | <>                  |                   | <b>Passive</b>      |

FIGURE 5. PUBLIC & PRIVATE ROLES WITHIN PPP MODELS FROM HEURKENS BASED ON (KENNISCENTRUM PPS, 2004)

### 2.3.3 Difficulties for Joint ventures

The Joint Venture typology was a successful model of area development in the years before the crisis(Franzen & de Zeeuw, 2009). This type of collaboration required the investment of considerable

amounts of capital from both private and public parties which makes it incompatible with the current economic situation. Several other issues can be identified in relation to joint venture models(Heurkens, 2012b). In the light of urban competition principles the forming of a joint venture based on similar interests is not always in line with clear competition amongst private parties. The problems that occur within the contracts are a point of discussion as well. Often the exact roles are not defined or it is not possible to define them leading to problems with transparency. The fact a joint venture is owned by both private and public parties creates a difficult situation for public parties with a 'double hat problem'. Finally due to legislation urban development projects are to be tendered as a whole with clearly defined expectations and responsibilities while in practice this often does not occur. The expectancy might point more towards private parties in leading role of urban development projects so these problems can be evaded.

#### 2.3.4 Value capturing

When private parties take over a large part of the development process the situation might exist where public investment leads to the benefit of private parties without a direct way of retrieving or sharing the investment for the public party. In such a case 'value capturing' could come into play. A translation of van der Krabben and Needham (2008) of the definition from the RVW (2004) is as follows: *'a group of instruments that enable the increased value of land and property as a result of public investments in transport infrastructure to be captured directly or indirectly, so that it can be used for financing the activities that are responsible for the increased values.'* In research regarding the role of government and its relation to private parties Huisman (2006) researched the process in which such external effects are used the process of value capturing: The use of instruments that make it possible to fund projects using means coming from other functions that profit directly or indirectly from the project. In this process 3 factors are essential: The presence of profit, accountability and proportionality. Meaning that the value that will be created will be funded proportionally to the additional profit that is generated caused by a certain project. This process might be seen more often in the future with regard to the increasing private role in area development.

## 2.4 Economic crisis

The crisis of 2008 originating from the financial sector has initiated a recessions that affected most of the economic activity around the world. The property market has in no small way been influenced by the economic climate that emerged. In order to understand the urban context under the economic crisis some of the major effects are discussed.

### 2.4.2 Affected property markets

#### *Office market*

As can be seen in figure 6. the amount of space left unused in the office market is considerable. In a report from the EIB Zuidema and van Elp (2010) describe what has happened with the office stock. From a position just before 2000 when there was a shortage of office space, a building boom emerged in the early years of 2000. With a small economic downturn in 2002 and 2003 and a large amount of new office stock entering the market the supply overshoots. Although the workforce grows again after 2003 the office demand does not, with the introduction of efficient space usage methods. When the economic crisis hits unprecedented amounts of vacant space hit the office markets.

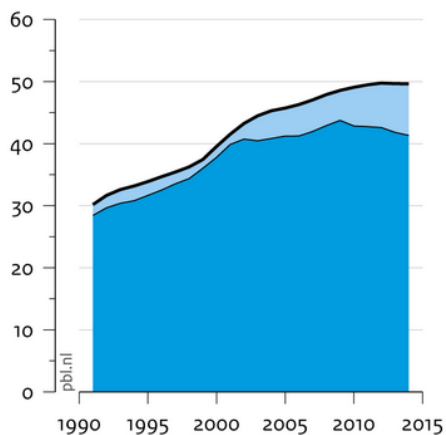


FIGURE 6. USED(DARK BLUE) AND VACANT(LIGHT BLUE) OFFICE SPACE IN MILLION M<sup>2</sup>(PBL, 2015)

### *Retail market*

The retail supply has been growing at a steady rate of almost 2% per year since 2000. This seems to have flattened out in recent years and the supply is slowly adopting to the conditions of crisis and the increasing vacant space (Locatus, 2014). Complexity also seems to have had its effect on retail as well. With technological developments such as online retail and the larger emphasis on for example leisure facilities is steering towards new retail concepts. A trend can be identified of increasing large scale retail areas and decreasing smaller scale retail facilities (NEPROM, 2012). The integration of leisure and retail and the emphasis on the 'experience' are likely to be the focus of new developments or existing centers being redeveloped to gain competitiveness (Bosselaar, 2010).

### *Housing market*

The crisis has caused a considerable reduction in the amount of housing that is delivered annually. In 2009 the annual production was still 80.000 while in 2013 the number had dropped to an historically low amount of 35.000. In 2014 the market seems to be climbing out of this low with a production of a little over 40.000. The expectancy after this period is that an amount of 60.000 dwelling will be realized per year. What is particularly notable about the housing market is that the amount of households has seen a steady climb and that the shortage of housing is expected to grow. In Amsterdam for example the shortage is 4% at the moment but is estimated to grow to 8% in 2020. House pricing has undergone a considerable correction in recent years. From a peak in 2008 the average house price has dropped to a new level 20% lower in 2012 (Capital Value, 2014). With financing being a considerable issue the amount of houses being build is low but with a demand that has continued to rise there are likely to be opportunities for development in the future.

## **2.4.3 Affected actors**

### *Developers*

With a decrease of sales, banks that have stopped pre-funding and depreciation of owned land project development has been dealt an incredible blow. With re-valuing of land positions and a decrease in investment capacity, production has almost come to a stop (van Joolingen, Kersten, & Franzen, 2009).

Putman (2010) argues the changes of recent years will change the role of project developers. The hit and run approach of the past are likely to stay in the past and a new emphasis on the collaboration with other actors will be key to continued business.

### *Government*

Municipal ground companies have regularly made their appearance in the news on the incredible amount of devaluing of their land. Deloitte (2013) estimates the financial effects of the crisis on municipal ground companies to be already 4-6 billion euros with an expected further increase of 0,7 – 2,7 billion euros. This has put municipalities in the position where they are no longer investing in area development (van Joolingen et al., 2009). Municipalities seem to be either choosing a more facilitating role or are taking a step back towards the traditional active land policy role (Franzen & de Zeeuw, 2009).

### *Financers*

The financing sources for area development can roughly be split into banks and investors. Traditionally banks are major funders of real estate development. With increasing reserve requirements the amount of loans have decreased considerably, negatively impacting their area development investment capabilities (van Joolingen et al., 2009). Franzen and de Zeeuw (2009) argue that banks will permanently require more equity capital for investments. For investors the adjustment of required yields based on risk analysis has led to a decrease of investments. Their long term orientation makes them very suitable for real estate investment. Investors now focus on smaller projects and focus on phasing. Pension funds are not allowed to invest in real estate projects because of ALM-assessments while their role used to be considerable. There are some signs of interest in real estate investment however (Gebiedsontwikkeling, 2011).

#### **2.4.4. Structural issues**

Although the effects of the economic crisis have had a considerable impact on area development there are indications that there is more going on in the real estate market. Besides cyclical aspects there seems to be a more structural imbalance (van Joolingen et al., 2009). The office market deals with a considerable quantitative oversupply, the retail market is faced with qualitatively changing demand while the housing market is dealing with a shortage and a financing issues. The focus of real estate will



shift towards redevelopment and reuse with the goal of rebalancing the real estate market. The traditional development methodologies are unfit for such a transformation(Heurkens, 2012b).

## 2.5 Changing emphasis

### 2.5.1 A changed approach of area development

#### *Typologies of the urban development practice*

Peek (2012) describes how the working methods of area development changed from a pre-crisis approach (Area development 1.0) towards the current approach (Area development 2.0). He shows a new approach as well (Area development 3.0) but emphasizes this is not to be mistaken for a blueprint of the future. Furthermore he explains that these models can be seen in different forms and are dependent on the context of the development. The characteristics of the models are summarized in the table below (figure 7.).

| Collaboration in Area Development |                    |  |   |   |
|-----------------------------------|--------------------|--|---|---|
| Approach                          | Focus              | Role                                   | Added value   | Private partners                                      |
| <b>1.0</b>                        | Development        | Developer: active                      | Advantages because of scale                         | Real estate developers                                |
| <b>2.0</b>                        | Current use        | Manager: facilitating                  | Vertical chain integration                          | Current real estate owners and users                  |
| <b>3.0</b>                        | Future use & flows | Investors: initiating and co-investing | Horizontal chain integration: Real estate and flows | Future real estate owners, users and parties of flows |

FIGURE 7. COLLABORATION IN AREA DEVELOPMENT (PEEK, 2012)

#### *Area development 1.0*

The pre-crisis ideal typology of large scale projects, driven by even bigger ambitions and a supply driven market, has proven its inability to withstand the economic crisis (Peek, 2012). The demand for flexibility in plans is not compatible with the 'old' way of working, using large scale pre-defined plans over longer period. Blue print, top down approaches are making way for newer ways of development incorporating more general end goals and strategic phasing (Gebiedsontwikkeling, 2011). With the increase of complexity and unpredictability such as described by for example van Bortel et al. (2007) it is not surprising this approach of area development has proven unfit in most cases.

### *Area development 2.0*

A Dutch merchant saying goes *'De kost gaat voor de baat uit'* (Peek, 2012), which translates as costs come before benefits, gives a hint at the deadlock in area development. Under complexity and the loss of trust in future benefits large investments are not easily justified (Peek, 2012). The emphasis has shifted towards the benefits that can be gained from the area at the moment. The need for more flexibility and the slower pace of development has led to an organic form of area development that makes incremental changes that increase or maintain the value of an area (Gebiedsontwikkeling, 2011). Although such an approach provides a way of bridging the crisis, it is not suitable to provide for the sometimes needed larger scale goals. Chances for larger scale area developments and substantial public-private parties are likely to arise again in the future (Peek, 2012).`

### *Area development 3.0*

Under the typology of area development 3.0 the exploitation of the area now and the potential future exploitation are taken into account. This would stimulate a focus on the full lifecycle and the future values of areas. Such a way of working would mean a replacement of the pre-crisis approach focused on quick singular profits. The long term focus would bring infrastructure and sustainable investments into the scope of development. For example smart grids and efficient use of resources could be connected to building exploitations (Peek, 2012).

### *The role of private parties*

Hagedijk and Franzen (2012) argue that the private sector seems to be waiting for public investments while they should focus on making better use of their own investment potential and take on a more leading role. With a long term focus of a balanced urban exploitation replacing a balanced land development projects can become feasible (de Graaf, 2011). Praktijkleerstoel Gebiedsontwikkeling (2011) and Heurkens (2012b) argue that private parties should take up a central role as master developer.

### 2.5.2 Demand driven development

With rising vacancy and a decrease in transactions the real estate market is faced with some considerable issues. Whether it is the office market with an oversupply, the retail market with a shifting strategic focus or the housing market lacking investments, there are problems. In order to get credit developers are faced with a demand to minimize risk with for example a higher equity demand and by creating lower risk developments (ULI, 2011). One of the potential solutions of dealing with the challenge of making speculative development into a something with less risk is securing uptake. This is where demand driven development shows itself as a potential new way of working. Prahalad and Ramaswamy (2004) describe that under the conventional value creation process the company and the consumer take very distinct roles. A product that contains value is created and via the market the product then went to the consumer. With a shift towards co-creation the value is no longer created by a company but the experience and the process together with a consumer are at the basis of the value. With each unique person and company the result would be different and a company can no longer create value without the engagement of individuals. Such an approach would create real estate that is theoretically perfectly fitted to the end-user. The risk involved in a project that is created together with a consumer and with almost certainty of use after creation would be much lower and could provide new solution marking the change from a previously supply driven market.

### 2.5.3 Focus on the existing supply

The maximum addition of to the real estate supply per year is only about 1% of the total supply. With the halting of new production and a diminishing demand the challenge is focused at the existing supply (Peek, 2012). Within this existing supply the collaboration between for example (semi-) public housing parties and private developers and investors is under investigation. Kazemi, Gruis, and de Zeeuw (2009) conclude that although the added value of collaboration in urban restructuring is hard to prove the advantages seem to be there. Risk sharing, organizational aspects and marketing are named as advantages. Such collaboration could provide projects for the private sector within the focus of the existing stock.

## 2.6 Conclusions

Although historically public parties were dominant in area development in the Netherlands change has taken place. With a change towards Neo-liberal policies the market has gained an important position.

The change towards an Anglo-Saxon paradigm, in combination with increased complexity and more dynamic markets, has shaken the development practice. The emphasis on the collaboration between market parties and public parties and the changes in society have led to a focus that is more on process management rather than pure project management.

The crisis has shown its impact on the real estate market in the Netherlands. It is however questionable if the crisis is the only cause of recession. Underneath the impact of the current economic climate there seems to be a layer of structural change.(Putman, 2010) Many parties have been struggling with oversupply and many projects under development have been cancelled. The question can be asked whether or not the changes caused by the 2008 crisis are of a permanent nature or that the sector will return to its former ways of working when signs of improvement show. The general consensus from both practice and theory seems to be permanent changes will be imminent.(Deloitte, 2010; Heurkens, 2012a; Hooghiemstra, 2012; NIROV, 2012; Putman, 2010; van Joolingen et al., 2009)

A new balance will have to be found in the market. Demand orientation and long term value creation, aimed at flexibility, reduction of risk and reduction of complexity is expected to become the new reality for urban development.(van Joolingen et al., 2009) This implies a change in development and financing strategies and the need for new alliances.

Heurkens (2012a) describes in the problem statement of his dissertation based on several practitioners(Klundert, 2008; Rooy, 2009) and scholars(Daamen, 2010; Krabben, 2011; Zeeuw, 2007) that there is a growing sense of ineffectiveness and inefficiency in the field of urban development.



# Chapter 3 Area & project development

**Pre crisis functioning**

**Pre crisis developer**

**Typologies**

**Impact of the crisis**

**New position developer**

# Chapter 4 Business modeling



## 4.1 Business models

### 4.1.1 Business models

#### *Business model typologies*

Businessmodel literature has grown since its early emergence (Bellman, Clark, Malcolm, Craft, & Ricciardi, 1957) but has not seen extensive growth until the dotcom boom (Palo, 2014). The role of business models within firms is often debated (Osterwalder, Pigneur, & Clark, 2010) and some different meanings seem to show up in both literature and practice. What is often seen in literature is that business models are described by the definition of different elements of a business model which according to Doganova and Eyquem-Renault (2009) is the essentialist view of a business model, providing simplified descriptions of companies. In order to gain more insight into how these simplifications occur it is useful to look at the typologies of business models definitions.

Morris, Schindehutte, and Allen (2005) conducted research on the definitions used for business models which resulted into 3 typologies. The first typology is an economic approach to business models emphasizing the generation of profits with cost structures and revenues as variables. The second typology is an operational business model emphasizing the architecture of a company on how it creates value through a business infrastructure. The third typology describes a strategic approach of business models emphasizing the positioning of a company in a market and with certain opportunities.

#### *The use of business models*

The use of modelling a business according to Baden-Fuller and Morgan (2010) is the ability to classify businesses, their scientific modelling potential and the use as a formula for managers and scholars. The business model is more than a mere formula and contains a strong narrative conceptual meaning. This story telling aspect according to Margretta (2002) is essential as it explains how the business within a certain world works and what it does. Doganova and Eyquem-Renault (2009) explain the synergy of the narrative and the calculative aspects of models: *“the narrative draws a world and justifies the selection of entities to be taken into account; the calculation detaches and associates these entities to create new ones, which are then stabilized and transformed into the characters of the story told”*.

#### *Definitions of business models*

A few of the more often seen definitions are the ones from Teece (2010), Baden-Fuller and Morgan (2010) and Osterwalder, Pigneur, and Tucci (2005):

*“A business model describes the design or architecture of the value creation, delivery and capture mechanisms employed. The essence of a business model is that it crystallizes customer needs and ability to pay, defines the manner by which the business enterprise responds to and delivers value to customers, entices customers to pay for value, and converts those payments to profit through the proper design and operation of the various elements of the value chain.”* (Teece, 2010)

*“a set of generic level descriptors of how a firm organizes itself to create and distribute value in a profitable manner.”* (Baden-Fuller & Morgan, 2010)

*“a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm.”* (Osterwalder et al., 2005)

The book by Osterwalder et al. (2010) on business modelling, Business Model Generation, alongside with their Business Model Canvass has grown to be often used source for workshops, business analysis and many other purposes. In this book the business model is defined as follows: *“A business model describes the rationale of how an organization creates, delivers and captures value.”*(Osterwalder et al., 2010). This definition can be seen as covering economic and organizational aspects, the strategic aspects seem to be lacking in this and most of the other seen definitions. A business model can be seen as model that explains how a business creates a certain value, how this is delivered to customers and how added value is captured in the process.

## 4.1.2 The strategic position of business models

### *Business models, strategies & tactics*

In order to properly understand the differences between business models and strategies the following differentiation can be made between business models, strategies and tactics (Casadesus-Masanell, 2010):

- Business model: refers to the operational process and show how the firm creates value for its stakeholders
- Strategy: refers to the choices made with the business model and how it will compete on the market
- Tactics: the choices a firm can make within a business model

According to Casadesus-Masanell (2010) the parts that the business model consists of within a strategic context are the concrete choices on the one hand and the consequences of the choices on the other. Every company makes certain choices that have certain consequences and thus has a business model. Tactics are the residual choices that are left open after choosing a business model. They have a crucial role in the value creation and capturing of a firm. In order to explain this concept the example of the newspaper Metro is used. As an ad-sponsored newspaper it is free for its readers. Within each city Metro uses different advertising rates, different layouts with different amounts of advertisements and different contents for each issued number. These tactical choices are limited by the business model which dictates that the newspaper is paid for by advertisements and is free for the reader. Finally strategy can be seen as a plan of action to achieve a particular goal. The strategy itself is considered as the creation of a certain position that is the goal, in this sense the strategy is what dictates which business model to use to get to that position. The balance between Strategy, business models and tactics can be seen in figure 8.

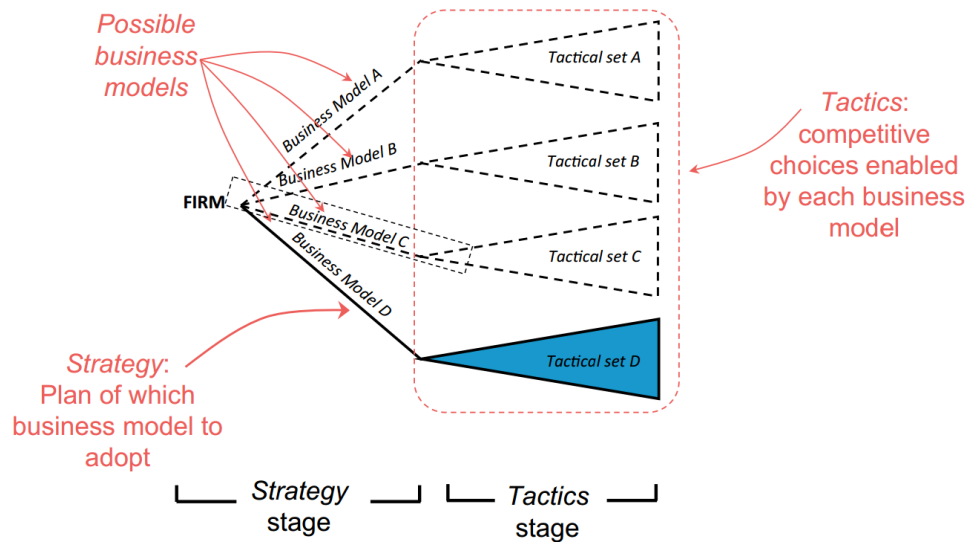


FIGURE 8. STRATEGY, BUSINESS MODELS AND TACTICS(CASADESUS-MASANELL, 2010)

#### 4.1.3 Business models & networks

The business model is part of certain business network, mutually influencing each other(Palo, 2014). Yet many business models focus on the internal aspects of the business, making the business model centered on an individual actor(Amit & Zott, 2001; Chesbrough & Schwartz, 2007). Some business models indicate an external environment and a few describe the role of a company in a network. Most of the business modeling sources discuss the firm at a single point in time neglecting a mutual influence between the business network and the business model(Palo, 2014). The literature fails to describe the power of business models to influence the network (Mason & Spring, 2011). With the application of a network perspective the inclusion of other actors can be better described. For example the collaboration with other actors can be better described from such a network view, working together on R&D could for example lead to the opening of new markets(Palo, 2014). An extreme example of a network perspective would a business model can describe the whole “*network of companies aiming to create customer and network value*” (Kijl, Bouwman, Haaker, & Faber, 2005). The business models of different companies in the same network are linked giving the business model a network aspect.

#### 4.1.4 Business models innovation & alignment

##### *Innovation*

Asides from capturing values from new products a business model itself can also be the subject of innovation(Teece, 2010). The importance of business model innovation is recognized as an essential part of company functioning(Amit & Zott, 2011). By for example innovating the business model by changing processes and assets or by collaborating with other firms to create new values, improvements can be made. In general companies are much better at innovating products then they are at innovating their business models(Chesbrough, 2010). The reason for this is that the existing business will potentially undergo hindrance damaging the existing business(Amit & Zott, 2001). Management employees are faced with on the one hand continuing daily business in an efficient way while business model innovation requires them to allocate resources in exploring opportunities as well. With clear vision and leadership and the allocation of enough resources experimentation with business models can conquer barriers in the firm leading to discovery-driven models(McGrath, 2010).

##### *Alignment*

As explained by Margretta (2002) the business model can take to the role of explaining the businesses functioning, which gives the business model a useful role as organizational alignment tool. By communicating to employees what the value is that is to be delivered and how it is to be delivered a better understanding can be created. With the creation of the Business Model Canvas Osterwalder and Pigneur (2010) created a tool for designing and communicating the business model. The implementation of a new business model or a change in the existing one can be thwarted if there is a lack of communication resulting in resistance from managers or employees(Santos, Spector, & Van der Heyden, 2009).

#### 4.1.5 The essence of a business model

Business models are an analytical tool that can be used to describe the static specific business of a company. At the same time the functioning of a business model is within a network where it is interlinked with other business models. A business model has the function of on the one hand showing the technicalities of what is done and on the other hand explaining how this works in reality. Palo (2014) summarizes the essence of the business model by explaining that a business model is *“an analytical*

device” to understand businesses, that can be perceived as “a structure and a narrative” with both “temporal and networked” characteristics as can be seen in figure 9.

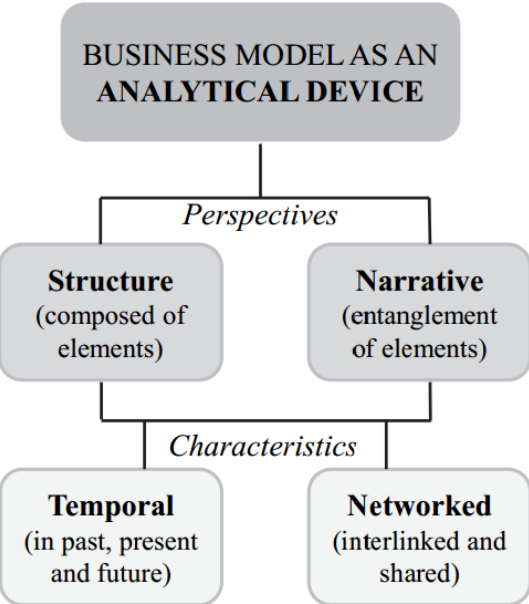


FIGURE 9. THE ESSENCE OF BUSINESS MODELS(PALO, 2014)

## 4.2 BUSINESS MODEL CANVAS

### 4.2.1 The Business Models Canvas

With the Business Model Canvas(see figure 10.) by Osterwalder and Pigneur (2010) being created as a tool for designing and communicating the business model, it serves as an excellent tool for analysis and comprehension of the functioning of a business.

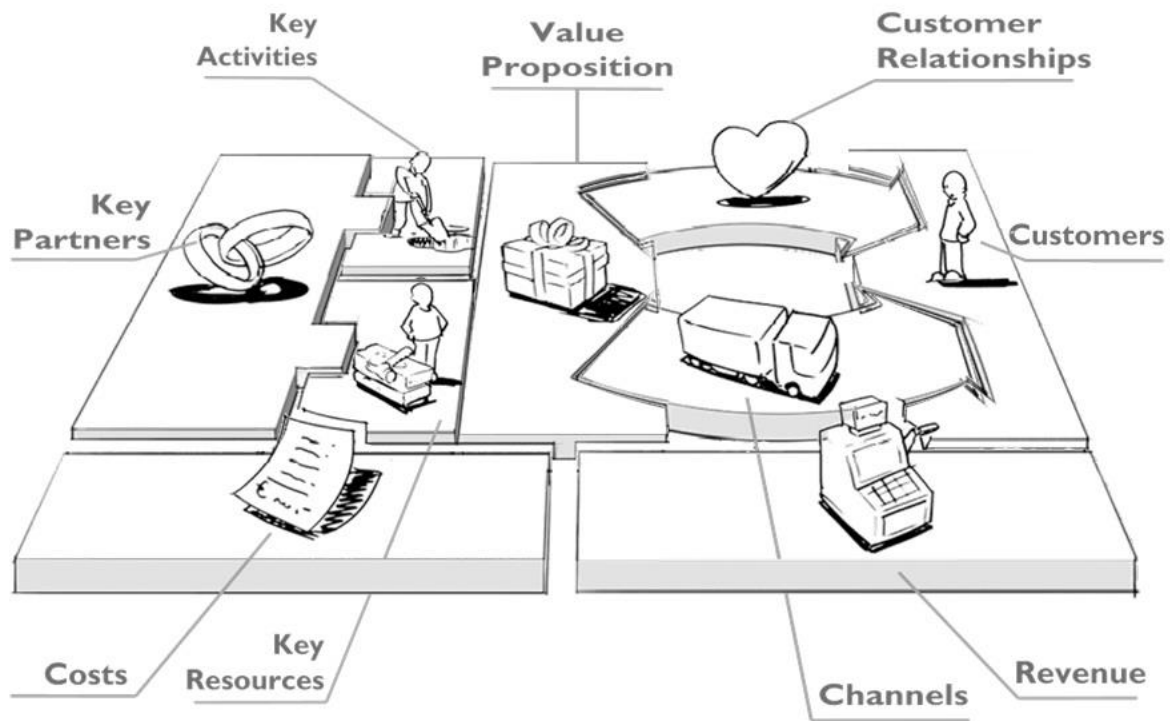


FIGURE 10. THE BUSINESS MODEL CANVAS(OSTERWALDER & PIGNEUR, 2010)

The goal of a business model is explained as a “conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm” by Osterwalder et al. (2005). The creation of the canvas has led to a tool that can be applied to any kind of business model according to Osterwalder and Pigneur (2010) and clarify the meaning of the businesses functioning. The model is based on 9 different building blocks that are interrelated. A template that is used to work with, and create, models can be seen in figure 11.

# The Business Model Canvas

Designed for:

Designed by:

Date:

Iteration:

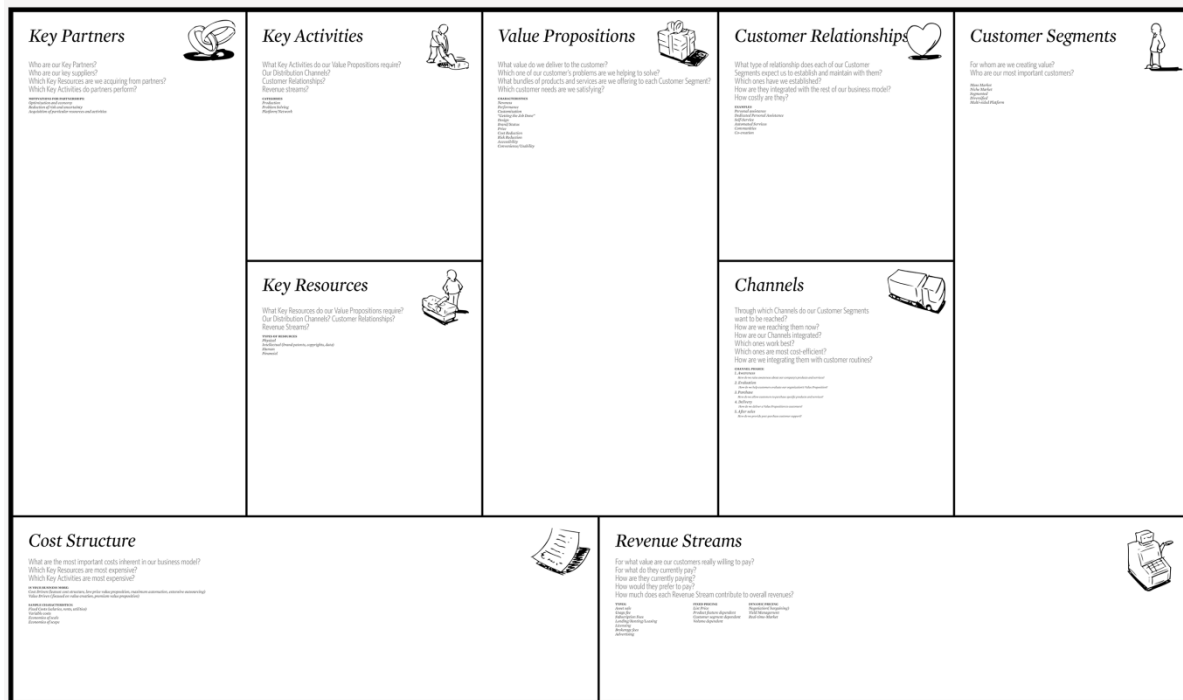


FIGURE 11. A BUSINESS MODEL CANVAS TEMPLATE (OSTERWALDER & PIGNEUR, 2010)

## 4.2.2 The building blocks of the Business Model Canvas

The 9 building blocks of the business model canvas can be subdivided into 4 subcategories. The value proposition, which is the value that is to delivered. The architecture of the delivery of value(customer relationships, channels and customer segments) and of the creation of value(key activities, key resources and key partners) which can be considered as the 'organizational' aspect of the model. The financial streams(cost structure, revenue stream) which can be seen as the 'economic' part of the model. Together these aspects give a clear indication of the functioning of a business according to Osterwalder and Pigneur (2010). Below the 9 blocks as explained in Business Model Generation by Osterwalder and Pigneur (2010) are found.

### Customer segments

At the heart of any business model is the (profitable) customer. A business model must choose from either a large or a small customer segment and deliberately chooses to ignore certain segments.



### *Typologies of customer segments:*

- Mass market, no distinction of customer segments as can for example be found in consumer electronics
- Niche market, specifically focused a very small customer segment as seen in car part manufacturing
- Segmented market, small variations in customer segments as can be found in banks with customers having different net worths
- Diversified, serving unrelated customer segments with the same model as can be seen in IT companies exploiting online storage for both consumers and for example retailers.
- Multi sided platforms, serving interdependent customer segments as can be seen with creditcards needing both banks and consumers

### *Value proposition*

The value proposition is why customers choose a company over another. It embodies the benefits of products and services offered to customers. A product can be new, have a better performance, allow for customizability, can take away issues, can have outstanding design, can have a certain status, can be available at a better price, offer cost reduction, offer risk reduction, have better accessibility or more convenience creating value.

### *Channels*

Communication, distribution and sales channels form the interface with customers. The channels play an important role in customer experience. Finding the right mix of owned or partner channels and the many ways in which this is possible provides a challenge but is crucial in bringing the proposition to the market. In the end the choice should provide a great consumer experience maximizing revenues. A distinction can be made between five phases: Awareness, evaluation, purchase, delivery and aftersales.

### *Customer relationships*

Customer relationships should clarify the desired relation with customer segments. Acquisition, retention and boosting sales are generally the motivation. Types of relations can include personal assistance, self-service, automated service, communities or co-creation.

### *Revenue streams*

With the amount a customer segment is willing to pay for a delivered value proposition a business can generate revenues. A distinction can be made between transactional revenues from one-time payments and recurring revenues from ongoing payments. Ways of generating revenue stream are for example: Asset sales, usage fees, subscription fees, renting fees, licensing fees, brokerage fees and advertising fees. Pricing mechanisms can either be fixed or dynamic.

### *Key resources*

Resources allow firms to create the value

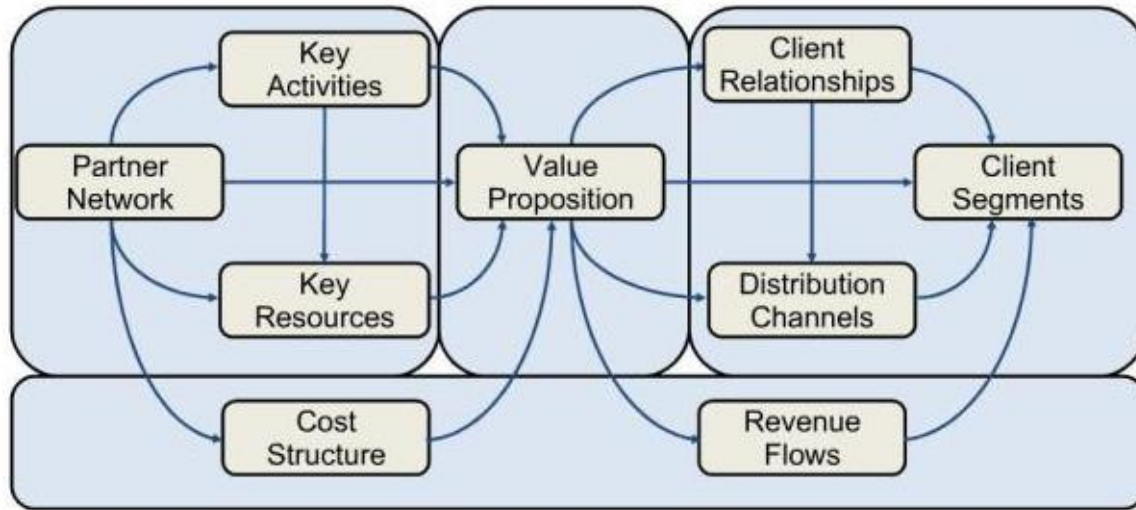
## **4.3 Examples of implementation**



## 2.1.4 Business models

*Visualizing the business of developers*

A commonly used tool to explain and design business models is using the business model canvas (Osterwalder & Pigneur, 2010).



On the left hand side are all the partners related to the realization of a certain value proposition, which has certain costs. While the right side explains how the proposition is delivered towards the end-user, generating a revenue flow. The use of such a business model analysis tool allows for insight into the several factors influencing the value propositions.

To some extent analyses have already been made on the functioning of developers such as the image previously used by Putman(2010). A more elaborate model on the functioning of the real estate market was used in a report by PBL:

# Chapter 5 Graduation planning

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