



Added value in residential real estate development & marketing – case study

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DEGREE THESIS	
Arcada	
Degree Programme:	International Business
Identification number:	8525
Author:	Jaakko Salo
Title:	Added value in residential real estate development & marketing – case study
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Commissioned by:	-
<p>Abstract:</p> <p>Residential real estate development is a business of few with huge upscale with proper actions and possibility to lose everything with wrong steps. Large companies are less interested in small or medium-sized real estate investments, offering small investors a chance to succeed. However, for small investors, the risks are high if the small investor does not know what they are doing or an error occurs in the evaluation of the project. This thesis examines how a company created added value for different project participants in a residential real estate development project in Vantaa from January 2020 to November 2020. Each party involved in the project will be introduced, and their backgrounds will be explained. The thesis does not deal with the added value produced for the community, the government, the school system, the City of Vantaa, or any unmentioned instance. The theory explains what added value, value creation, and value proposition are. The work consists of a qualitative research method in the form of interviews. Qualitative research methods are used to collect quantitative research, i.e., non-numerical data. The interviews were conducted semi-structured to facilitate the setting of follow-up questions and to support the natural continuation of the discussion. Each party involved in the project felt that they had gained added value, which could include, for example, but not limited to, monetary value and added value that improved the quality of life</p>	
Keywords:	Added value, real estate investing, value creation,
Number of pages:	28
Language:	English
Date of acceptance:	

OPINNÄYTE	
Arcada	
Koulutusohjelma:	International Business
Tunnistenumero:	8525
Tekijä:	Jaakko Salo
Työn nimi:	Added value in residential real estate development & marketing – case study
Työn ohjaaja (Arcada):	Joacim Broth
Toimeksiantaja:	-
<p>Tiivistelmä:</p> <p>Kiinteistösijoittaminen on muutaman operoijan kenttä, jossa oikeilla toimilla voi tehdä suuria voittoja tai menettää kaiken. Suuria yrityksiä kiinnostaa vähemmän pienet tai keskisuuret kiinteistösijoituskohteet tarjoten pienille sijoittajille tilaisuuden menestyä. Pienillä sijoittajilla riskit ovat kuitenkin suuret, jos piensijoittaja ei tiedä mitä tekee tai projektin arvioinnissa tapahtuu virhe. Tämä opinnäytetyö tutkii ja osoittaa, kuinka yritys loi lisäarvoa eri projektiosallisille asuinkiinteistökehitysprojektissa Vantaalla tammikuusta 2020 marraskuuhun 2020. Tutkimuksessa todetaan minkälaista lisäarvoa pystytään luomaan projektiin osallistuneille alkusijoituskumppaneille, kanssasijoittajille, urakoitsijoille, kodinostajille, asuntosijoittajille, vuokralaisille sekä kiinteistövälittäjälle. Jokainen projektiin osallistunut taho esitellään ja heidän taustoistaan kerrotaan. Opinnäytetyö ei käsittele tuotettua lisäarvoa yhteisölle, hallitukselle, koulujärjestelmälle, Vantaan kaupungille tai millekään mainitsemattomalle instanssille. Teoria käsittelee mitä lisäarvo, arvon tuottaminen ja arvoehdotus on. Työ koostuu kvalitatiivisesta tutkimusmenetelmästä haastattelujen muodossa. Laadullisia tutkimusmenetelmiä käytetään kvantitatiivisen tutkimuksen, eli ei-numeerisen tiedon keräämiseen. Haastattelut suoritettiin puolistrukturoituina helpottamaan jatkokysymysten asettelua ja tukemaan keskustelun luonnollista jatkumoa. Jokainen projektiin osallistunut taho koki saaneensa lisäarvoa joihin voidaan lukea esimerkiksi rahallinen, sekä elämänlaatua parantava lisäarvo. Jatkotutkimuksissa voisi tutkia mitä lisäarvoa vastaavanlainen projekti tuottaa tästä tutkimuksesta poissuljetuille tahoille.</p>	
Avainsanat:	
Sivumäärä:	28
Kieli:	Englanti
Hyväksymispäivämäärä:	

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1 RESEARCH TOPIC

1.1 Introduction

Residential real estate development is a business of few with huge upside if the company can penetrate the market with a solid business plan, financials, and valuable connections. Eventually, no money comes in if the company cannot market and sell the apartments to the end-users, homeowners. There are many opportunities when reaching the customer from a marketing perspective, but should the company choose a straightforward approach with Oikotie.fi or Etuovi.com. Should the company market the apartments through these channels or hire a well-spoken realtor to do the marketing and selling. A more specialized method is building a business like sijoitusasunnot.com. The company creates a connection with small investors by providing a good yield, ease of investing, a quick buying experience, and always selling scarcity over volume. Maybe the company has already collected an extensive network of small investors waiting for the next project.

In most cases, the easiest way to find something to buy is from foundations, labor unions, or other organizations with residential real estate in their portfolio. Usually, the property entering the market is peaking its maturity regarding the building's shape. Its value and ownership length have culminated in too expensive renovations in the building technology and inside the apartments. These unions, foundations, or other large companies typically have these residential real estates rented out for the union members or the people in the foundation's scope (VAV 2020). Of course, some companies rent apartments for regular consumers as well. Finding residential properties to buy, financing, developing, and finally, marketing is an excruciating process that could take years to do. The money invested could be lost entirely without knowing what to buy, without a solid business plan, the right marketing strategy, and correct market knowledge of what consumers are buying (Tyystjärvi 2020). Contacting these different sellers and building up relationships is necessary to get a chance to bid in the organization's selling process (VAV 2020).

There is more money in the real estate market than ever waiting to be invested (Erkkilä 2019) (Herrala 2020). Still, most large companies do not want to focus on value-based small-sized projects. Large companies' reluctance to buy is the main reason why small companies can make fantastic profits by buying whole residential buildings in the range of a total of 1-30 million euros from the organizations and selling the apartments one by one (Punainenristi 2019), (Herrala 2014).

In this thesis, the author will go through a case study showing how the company added value to different project participants in a residential real estate development project in Vantaa from January 2020 through November 2020.

1.2 Problem statement

In the real estate development process, multiple entities are affected, and the added value for these groups is uncertain. This thesis explains whether it is possible to generate added value at every level of real estate development from the moment of purchase. Understanding the added value for different groups helps develop the process of real estate development from the perspective of project participants achieving overall satisfaction.

1.3 Aim of the case study

In this case study, the author aims to explain how the project Vantaa added value to all the participants of the real estate project.

1.4 Research question

Added value can be perceived in many ways. What kind of added value is perceived throughout the project Vantaa by different project participants? What kind of similarities or differences are found between the participating groups? Whether the value behaves tangible or intangible.

1.5 Limitations

All the information is based on the interviews, emails, conversations, buying, selling, negotiating, and marketing of the author managing the project with his associate. The writer will not go through what added value from the project was for the local community, government, school system, city of Vantaa, or any other instance not mentioned. The added value for the previously mentioned instances could be an interesting study in the future. The thesis will not try to answer any other questions than stated.

2 THEORETICAL FRAMEWORK

2.1 Added value

Added value can be a tangible or intangible advantage from consuming a service or buying a product. Tangible added value can be calculated, and intangible value is perceived. According to Band, 1991; Gale, 1994; Naumann, 1995), a service provider has widely considered added value as a "strategy for achieving competitive advantage in an increasingly hostile commercial environment, and advice has been provided on the organizational processes involved in creating customer value.", (see de Chernatory, Harris, and Dall'Olmo Riley (1998). de Chernatory et al. conclude that added value is interpreted differently by different people in their research; this means the added value depends on the people perceiving the benefit. In short, the added value is an improvement or addition to a product or a service that makes it worth more. de Chernatory et al. (1998) also continues that to deliver superior products, the product must achieve over-satisfaction. Chernatory, Harris, and Dall'Olmo Riley (1998) continue that added value can only be provided by understanding the customers' business processes and value/cost drivers. An interesting strategic definition for added value comes from Brandenburger, A.M. and Stuart, H.W.: "the value created by all the players in the vertical chain minus the value created by all the players except the one in question" (see de Chernatory, Harris, and Dall'Olmo Riley 1998). This description views value from the viewpoint of all the participants. The author of the thesis investigates the added value for different partners and participants of the project and its impact on their business and daily life.

2.1.1 Value creation

According to Vargo, L, Maglio, P and Akaka, M, (2008) "The creation of value is the core purpose and central process of economic exchange." Voima, P et al. (2010) continue about creating value "When conceptualizing value creation and asking what value is and where how by whom and when value is created the complexity of the value concept becomes evident." In this project, the value creation description is how additional value could be created for different participants and what they considered valuable, whether it is, but not limited to, more money, time, new customers, or work-facilitating factors. The

value generation may be similar between participants of the same type, but the value obtained can still be seen differently depending on the recipient and what the recipient thinks is valuable. According to Grönroos 2008; cf. Nordin and Kowalkowski 2011; Vargo et al. 2008 "On a more general level, value creation entails a process that increases the customer's well-being, such that the user becomes better off in some respect." (see Grönroos, P., Voima, P. 2012)

Wasieleski, D., Weber, J., (2017) give a general idea of creating value for companies. "A firm operates by creating value for its primary stakeholders: customers, employees, and owners. Value for secondary stakeholders involves additional definitions. Each value creation is a contractual exchange in a market economy. That is, a voluntary exchange creates value added for each party."

2.1.2 Value proposition

The value proposition is the set of benefits that the company promises to provide that satisfy customer needs and is more than just the core offering. A company value proposition can promise the experience clients can expect from the company's market offering. (Kotler & Lane Keller, 2016). A company can have core positioning, for example, safe apartments. Still, the company promises more, for instance, quality and responsibility, but the value proposition can promise lower market prices with instant upside. A great value proposition should be exciting enough to get the prospect to become a customer. (Kotler & Lane Keller, 2016), (Twin, 2020).

The intangible value proposition is made physical by an offering, which can be a combination of products, services, information, and experience says, Kotler & Lane Keller (2016). A value proposition statement is a strong, exciting, and reliable representation of the customer's experience from a supplier's measurably value-creating offering, where Value = Benefits minus Cost. (Barnes, Blake & Binder, 2009)

2.2 PARTICIPANTS OF THE PROJECT

In this case study, there were seven participants. These seven are the buyer (Project company and the shareholders (Jaakko Salo, others unnamed)), co-investors (unnamed), contractors (unnamed), homeowners (unnamed), small investors (unnamed), tenants (unnamed), and realtor (unnamed). The common factor for all the participants was the "project Vantaa," a name the buyers came up with. The seller of the project needs to be introduced to understand the project background,

2.2.1 Project Company

Project Company is a project company just for this project, formed by the "project Vantaa" initial investors. The leading investors are Company A and Company B. Other smaller investors will stay unnamed in this case study.

2.2.2 Company A

Company A is an investment company formed in 2002 to source and buy residential real estate entities from institutional rental housing operators and other large rental housing operators and develop them for sale as individual apartments.

2.2.3 Company B

Company B formed Company B in 2017 to invest capital coming from its other subsidiaries. At first Company B had another subsidiary that started buying apartments in 2012. It was appropriate to form a new company for this operation five years later, and the parent company began Company B. The company operates as an investment company that only works in the real estate business. At first, the company started accumulating its portfolio by buying and then renting apartments. In the summer of 2018, the company diversified to residential real estate development and worked mainly in deep cooperation with Company A. The author and two of the authors' associates own the company.

2.2.4 Other shareholders in the investing company (co-investors)

All other shareholders in the investing company will stay unnamed. The Investors had an opportunity to invest in the operating Project Company B, with a hybrid model where the investor gave a junior loan for Company A and a capital loan for Project Company B. Together, Co-investors owned a small but not insignificant part of the "project Vantaa."

2.2.5 Contractors

In "project Vantaa" the company used two contractors for the renovations. For this thesis, the contractors are named Contractor A and Contractor B. Two contractors were used to speed up the work, and the investment company could compare the quality of the work. The system of two contractors also created a healthy spirit of competition between the two.

2.2.6 Homeowners

In this project, the homeowner is the natural end-user, who buys the residential shares from the investment company, gets control of the apartment, becomes a housing company member, and moves into the apartment.

2.2.7 Small investors

A small investor is often an amateur investor seeking to find profitable apartment investment opportunities and get additional revenue from passive income, which does not require constant monitoring.

2.2.8 Tenants

A tenant is a person who is renting an apartment from the owner of the apartment. When the project company bought the housing companies, the leasing rate was 100%

2.2.9 Realtor

In this project, the realtor was chosen by tendering, asking for recommendations, and comparing the realtors' price estimate with initial investor estimates. The chosen realtor is the entrepreneur and the owner of this branch.

3 METHOD

3.1 Choice of method

The work consists of a qualitative research method in the form of interviews. Qualitative research methods are used instead of quantitative research, i.e., collecting non-numerical data.

A qualitative interview is a suitable way to understand the interviewees' perceptions of issues related to the topic, understand the interviewee's perceptions more broadly, and provide detailed answers. The chosen method is suitable in this study as the work focuses on understanding the individual positive added values for the various participants in Project Vantaa.

3.2 Interviews

Interviews are the most common qualitative research method, probably because of their flexibility. Still, the researcher needs to be careful with the question and how they are asked. (Bryman & Bell, 2007).

A Semi-structured interview allows the questioner to have a series of questions in a general form, and the order of the questions can change. The semi-structured interview enables the conversation to go in the direction the interviewee's answer leads it. A qualitative interview also provides a possibility for follow-up questions if significant facts arise during the interviews. (Bryman & Bell, 2007)

There are multiple interview types, but mainly two are considered in qualitative research; structured and unstructured. This work will consist of a semi-structured interview. A semi-structured interview means that the researcher is primarily asking questions based on an interview guide with specific themes but has the opportunity to let the interview be adaptable depending on the respondent's answer. The researcher can also add additional questions that arise during the interview and do not have to ask the questions in the same order for the interview participants (Bryman & Bell, 2007).

3.3 Procedure and data collection

The thesis interviews are semi-structured and are based on an interview guide made specifically for these interviews (see appendix). The interview guide's theme is based on the thesis's purpose to study each participant's added value experiences of this project.

Because of the Covid-19 restrictions and safety precautions, all the interviews were done using Google Teams platform. Using Google Teams still allowed fluent conversations and also an interpretation of expressions and gestures. The author took necessary notes on all the discussions.

3.4 Qualitative content analysis

For analysis of the raw data collected through the semi-structured interviews, the author chose qualitative content analysis. When the author analyzed the topic's information, it was summarized and categorized, reflecting the themes of added value in the interview guide.

3.5 Data interpretation

The author will interpret the interviews' with the added value theories, and the findings are described in the future results chapter.

4 RESULTS - THE ADDED VALUE FOR THE PARTICIPANTS

The interviews were completed in a few weeks after the project was almost 100% done. The only exception were the tenants moving out. Part of the interviews was also supplemented later. The interviews were conducted discussing, allowing a better understanding of the potential added value. In addition to this, each interviewee represented a different participant in the project. The direction of the questions was clarified during the interviews. This section will go through all the chosen participants in the project and perceived added value.

4.1 Initial investment companies

Project Vantaa had two initial investment companies that formed a joint partnership, searched and attracted co-investors, and did the project. The investment companies were Company A and Company B.

4.1.1 Company A

Company A owned 55% of the Project Vantaa company and was the largest owner of the project. Company A had just attached a new CEO to the company with a background in financials and without previous project experience in the real estate field. Project Vantaa was his first real estate development project.

Company A received added value from the project from new ways of working in real estate development projects and financing the project in more diverse ways (more about the financing model in 4.3.) The invention of the hybrid financing system significantly increased the return on equity, as the tied-up capital was minimal, and it also enabled other simultaneous projects

None of the initial investment companies Company B and Company A had before worked with another real estate development company. Both companies received added value from the cooperation and synergies that the companies experienced from working

together. A new operating model for price assessment and business management was developed during the project.

4.1.2 Company B

Company B owned 33% of the shares of the Project Vantaa company and were the second-largest owner of the project.

One of the central added values from this project was an expanded network of contacts that would not be possible without this project. The most important added value was the new construction methods, construction management, and project management methods.

4.2 Other shareholders in the investing company (co-investors)

4.3 Contractors

In the project, we used two different contractors, Contractor A and Contractor B. There was a possibility of using more than two contractors, but the number of apartments to be renovated simultaneously was unsure. Using only two contractors gave the project more flexibility and manageability.

4.3.1 Contractor A

Contractor A was a company owned by a Finn and has been operating since 2008. Contractor A's success in the project meant the added value expanded operations beyond 1-3 men company to employ multiple new workers and start many projects simultaneously. Earlier, this was impossible because of the lack of funding, new project flow, and old systems and methods. Contractor A also received added value from improved working practices and processes for systematic tendering of goods.

4.3.2 Contractor B

Contractor B is a company owned by an Estonian and has been operating since 2013. Contractor B Received the added value from new contacts the participants of the project were able to provide. The high quality of the company's work guaranteed new jobs, for example, the administration of a housing association, which was not previously possible due to a lack of contacts and proof of work. Contractor B also received added value from improved working methods and processes to systematically tend goods and create work systems.

4.4 Homeowners

Homeowners bought Approximately 60% of the apartments from the projects. There were one-bedroom to three bedrooms two-story apartments in the project for the homeowners to choose from. The homeowners were young couples buying for the first apartment to families looking for something bigger. The array of homeowners means that each buyer's added value was different because of the apartment's perceived value. All the apartments were renovated to the same standard, but some apartments had larger yards than others. There were also one-story solutions and two-story options. What connected all the buyers was added value from fully renovated apartments that they could still buy under the fair market value. Added value through price point was the main reason why the buyers chose apartments from this project. Reasonable price means that the customers got instant appreciation for the apartment's worth. The project owners were able to raise a positive atmosphere between all the homeowners and the project itself. It would not be possible for the homeowner to buy a similar apartment and renovate it at the price they purchased from the project. To conclude, the added value for the homeowners from the project was fully renovated apartments with substantially lower prices than anything else on the market, instant price appreciation, builders warranty, and maintenance-free housing company for at least five years.

4.5 Small investors

Small investors bought seven of the apartments as investments for their portfolios. Some of the small investors were beginners, and some were more mature in real estate investing. Perceived added value for the small investors was

- All the apartments had excellent reliable tenants.
- The rent price level was lower than the market price, but the net yield was over 5%, which meant raising the rent would be easy, and the yield would go higher.
- No need for maintenance.
- Immediate increase in value.
- The process was simplified for the buyers: Buy the apartment, inform the account number, and the project company would do the rest: inform the tenant, move the contract, get the rent to the correct account and let the Maanmittauslaitos (National land survey of Finland) know about the purchase. Enjoy the benefits of owning real estate.

4.6 Tenants

In the project, we had 61 apartments, and all of them had tenants. Some tenants could stay in apartments, but most tenants had to be laid off due to renovations.

The Finnish law states the tenant has the right to live in the apartment for six months after the lease's termination if the tenant has lived in the apartment for over 12 months. If the tenant had lived in the apartment less than a year, the notice period is three months. The long termination period delayed the project's start, and the project management had to develop a solution.

4.6.1 Staying tenants

The housing company was built in 1990 and had gone through only outside maintenance renovations. The tenants had an opportunity to paint the inside walls and install laminate at their own expense, but other renovations were not allowed. In 2016 the previous owner of the housing company renovated all bathrooms and left everything else undone. After

buying the housing company, the project management used Raksystems, a property condition inspector, to look into the apartments' and buildings' conditions. Raksystems found out that some of the renovated bathrooms and original toilets had moisture inside the walls, and the project company had to start an unplanned renovation series. If the bathroom had moisture in it, the lease's termination would begin, but the current tenant could continue living in the apartment if there were only moisture in the toilet. All the toilets with moisture were repaired. The renovation period negatively affected some tenants' lives for one month, but the added value after the renovations was immense. The added value for staying tenants was after the upgrades when the tenants had new toilets. Most tenants said air quality had improved drastically, which increased quality of life, totaling happiness, and improved tenant turnover stability. All the tenants enjoyed these benefits without rent raise.

4.6.2 Terminated tenants

The plan was to sell some apartments to small investors and some in the open market for homeowners. The flats need to be renovated entirely to sell the apartments for homeowners with a calculated maximum price (still lower than the market price). To start the renovations, the apartments needed to be empty. Raksystems found moisture inside the bathrooms of some flats, and the termination of the lease began. Because all rental agreements had started more than 12 months ago, the notice time was six months, and the project could not stop for that long period. The project management devised a compensation plan for the tenants to speed up the process. At this point, the reader needs to understand that all of the housing company tenants live with minimum wage or with subsidies. Only two of the tenants that had moisture in the bathroom did not take the compensation plan at some point. Most tenants moved out within two months of the six-month notice period. The terminated tenants' added value was a sizeable financial compensation corresponding to several months' salary or subsidiary, which they would not usually get from the lease termination. Because of their financial situation, the payment was unheard of. The project management also helped the terminated tenants to find a new apartment.

Figure 1. Example of a compensation table.

4.7 Realtor

In the initial analysis, the project management had set a price for all of the apartments. The project management also consulted a couple of realtors after the initial research had been done. The chosen realtor was the most convincing of them all, and he had multiple recommendations. After the first apartment was renovated, the realtor and the project management reanalyzed the product's market and quality and decided to raise the apartments' prices. The price raise was approximately 10,4% per apartment. When the sales started, the realtor sold all the flats in less than four weeks. The price was bargained on average at 1,4% of the selling price from all the apartments sold. Currently, the average sales time in Vantaa is 73 days (Kiinteistömaailma 2021). The realtor's added value was fast selling time that left time for other projects, the relationship between income and time usage, and many new customers buying and eventually selling their own houses or apartments, leading to more income. The project also boosted his awareness in the area, and he started receiving new, previously unreachable customers. The realtor also added value for the project owners by professional price analysis and area knowledge, resulting in even higher profits.

5 SUMMARY

When grouping the interviewees as they have been grouped in this thesis, the interviewees had very different backgrounds and assumptions of the outcomes from the project. On some parts, the scope of understanding the big pictures was very narrow; for example, the tenants had a minimal understanding of the whole project and were only interested in their living possibilities.

Questions 1, 1a, and 1b mostly merged in the discussions. All the participants were asked these four questions, which opened further conversations.

1. How has the project Vantaa affected your life?
 - a. Has there been a positive impact?
 - b. Has there been a negative impact?
2. What do you think has been the added value for you/your company from this project?

5.1 How has the project Vantaa affected your life? - Positive and negative.,

The first questions got a variety of answers, which is explainable by the vastly different backgrounds of the participants. The professionals, e.g., investors, had a little immediate impact because the ownership in the project did not bring any new changes to life, mainly to their own business. It was also discussed that it affected their life with an income that improves their quality of life in the long run, but it could have been any other project with similar results. On the other end of the spectrum are the tenants. The short-term effect was uncertainty about tenants' housing and the actions of the new owner in the housing association. Long-term effects are residents interested in the condition of the housing association (homeowners). Homeowners enjoyed increased happiness because of the change in their accommodation for the better.

5.2 What do you think has been the added value for you/your company from this project?

The most exciting finding in added value for the different participants in the project was for the contractors who understood systematic tendering for goods and improved working methods and work systems that were unavailable or had not been learned earlier. These methods had the most tangible added value from all the participants in the project. Terminated tenants had a possibility of cash compensation which would by no means have been possible under normal circumstances, and this added some unique added value for one of the participants in the project. Other parts of added value were ease of investment, reporting of the project, and fast execution. The added value for the homeowners from the project was fully renovated apartments with substantially lower

prices, immediate increase in value, warranty, and maintenance-free housing company for at least five years.

Interestingly all the participants in the project were happy. Usually, when conducting projects with this scale and independent parts, there is a possibility of unhappiness because all entities are difficult to control.

5.3 Discussing theory

Previously researched value theories and added value theories are realized on many levels in this thesis. Band, (1991); Gale, (1994); Naumann, (1995) stated that Added value can be a tangible or intangible advantage from consuming a service or buying a product. Tangible added value can be calculated, and intangible value is perceived. In this project, the most perceived value was intangible, but some tangible added value, such as improved housing conditions and financial incentives, existed.

de Chernatory et al. bring out that added value is interpreted differently by different people and also added value is an improvement or addition to a product or service that makes it worth more. In this case study de Chernatory et al theories about perceiving value and additions to product and services have materialized on a large scale.

According to Vargo, L, Maglio, P and Akaka, M, (2008), "The creation of value is the core purpose and central process of economic exchange." This statement is true, but it can be argued that the observed value may be non-existent to another person. It is still an economic exchange, but the recipient's end result is up to the recipient.

A great value proposition should be exciting enough to get the prospect to become a customer. (Kotler & Lane Keller, 2016), (Twin, 2020). In project Vantaa, some customers (participants) had a choice to join the process, for example, the investors. Some participants were forced to participate, for example, the tenants. All of the customer groups were still treated as customers on their standard—promising and delivering outstanding service for everybody from a millionaire investor to a welfare tenant.

6 LIST OF REFERENCES

List all sources cited in the text of the research proposal according to the Harvard system.

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7 PRELIMINARY TABLE OF CONTENTS

APPENDIX

There were no strict guidelines for the questionnaire. The idea was to have the subject talk about the effects of Project Vantaa in their life, positive or negative. Usually, the conversation started with customary greetings and presentations, after which I asked how the project has affected your life? Based on these answers, it was easy to start a conversation in more detail about the positive and negative effects of the project on the lives of people and companies and ask more specific questions about the possible added value. The interviews had the same tone in the same target groups, but none of the interviews were similar.