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Property investor behaviour: Qualitative analysis of a very large transaction

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Abstract

We study property investment decision-making from a behavioural perspective on the very micro level. We do this by analysing an extraordinary large transaction that took place in the Swedish property market 2008. In an open-bid transaction the properties of the corporation Vasakronan AB was sold for SEK 41.1 billion (equal to some €4.3 bn).

By applying a qualitative empirical approach, we are able to investigate the processes of data-collection, property and market analysis, securing of financing and investment decision-making that take place within property companies as they produce a bid for the portfolio offered. Our investigation is an explorative case study, but the scale and complexity of the transaction secure it contains most critical moments in a general property investment decision-making process. By so doing, we approach the investment property market in a way that is so far under-researched.

Managers in both the purchasing company and the company with the second highest bid were interviewed one person at a time. The interviewees were encouraged to speak freely most of the time, but we also supplied an interview guide with a number of themes as well as certain specific questions. The interviews are transcribed. The results, along with citations, are reported under headings that correspond to the main sub-processes of the investment decision-making.

Detailed information about this remarkable transaction itself is revealed, but general insights are also gained about certain important market institutions rarely revealed by official records and reports from the players and authorities in the property market. Findings of the study are put in perspective by relating to normative property investment textbooks as well as earlier empirical surveys of investment behaviour in the property market.

Key words: income property, investment decision-making, qualitative approach.

1 Introduction and aim

There is a great body of research on optimal investment decision-making, in general as well as with respect to income property. Standard property investment text-books (e.g. Geltner *et al*., 2007) provide a multitude of analytical tools founded primarily in financial economics. We further have vast indirect information on certain aspects of property investment decisions derived through quantitative analyses of property transactions (Sirmans and Worzala, 2003). However, there is still limited documentation about actual decision-making processes on the micro level within the investing companies, as well as limited analyses of how these processes are managed to become successful. The field is highly under-researched.

At the same time, there are indications that large transactions are becoming increasingly more common in business. One sign of this is the growing interest of scholarly studies in mergers and acquisitions, M&A, (Cartwright and Schoenberg, 2006). Large property transactions are often complicated and they separate actual investment behaviour in the specific case from an idealised picture of investment strategy within the company. Moreover, they put the managerial capacity under pressure, and decision-makers are more likely to systematically analyse and try to learn from large and complicated investments than from small standard investments.

In July 2008, when the international financial market was severely hurt by the American sub-prime mortgage crisis, a remarkably large property transaction took place in Sweden. It has been referred to as the largest single transaction ever in the Swedish property market and rough estimates indicates that it might have been the largest transaction in Europe, or possibly the world, of that year. The transaction prices was SEK 41.1 billion (equal to €4.3 bn), corresponding to some two per cent of the total market value of all urban income property in Sweden at the time. The company sold was owned by the Swedish government and the transaction was part of government privatisation policy.

There are several aspects of this transaction worth examining. Some of these aspects have been analysed in a performance audit report by the Swedish National Audit Office (Riksrevisionen, 2010), which in particular focused on the governments' administrative work throughout the process. However, we have chosen to view this transaction as being primarily just a property transaction. Our interest is to focus on the pre-merger activities, and to analyse how property investors actually behave with respect to the three main areas in which the problems that property investors must solve largely falls; to organise the internal work throughout the process, to decide upon the value of the property, and to provide sufficient financing of the transaction.

This explorative case study primarily aims at contributing to the understanding of how large property investors manage the investment decision-making process, including how they analyse the properties for sale (economically, physically and judicially), how they handle the information, of varying quality, that becomes available under a short and intense bidding process, how they value the properties and how they arrive at a bid-price, how they secure necessary financing to close the deal under uncertainty over the final transaction price, how they handle potential competition from other bidders, and how they secure business secrets throughout the process. However, additional findings may appear, including among other things the role of property appraisals in the investment process, the property appraisal industry's response to the outcome of the transaction, and the transparency of the market

under study for international investors. Rather than supplying conclusive findings, this study generates input to further developing the theory of property investment decision-making.

The remainder of the paper is organised as follows. First we briefly review other studies of property investment behaviour. Next, we present our methodological approach. Then follows the two main sections of the paper where the empirical findings are reported and analysed. The paper closes with a concluding discussion. The interview guide is in the Appendix.

2 A review of related studies

The best modern text-books on advanced property investment (e.g. Geltner *et al*., 2007) generally supply an armoury of quantitative analysis techniques founded in financial economic theory, complemented with analyses more specific to properties such as traditional appraisal techniques and urban location analysis. These are absolutely necessary tools for being an efficient player or intermediary in the commercial property market. However, surprisingly little is found in the text-books on how the decision-making process is or should be managed throughout large and complicated transactions.

Property studies are generally grounded in assumptions of main-stream economics: rational decision-makers are acting on a perfect market where information is fully available. The concept of a market further assumes many buyers and sellers, homogenous products and actors having stable preferences. The role of the price for creating the necessary equilibrium is grounded in these views. Also the practice of property valuation is based on these foundations. However, alternative approaches in studies of property valuation are gaining ground. Whilst mainstream studies see the markets as taken for granted and the crucial question is how to mirror or model them, the alternative suggest it is time to see how markets are made (Smith *et al*., 2006). This implies a turn to the practices of property actors. Such a turn has several important implications, with bearing both on the characteristic of property, and on ontology and epistemology in the philosophy of science.

Arguments against applying the main-stream economic view on property can firstly be found in the specifics of property markets. There are few buyers and sellers, information is hard to identify, products are not homogeneous and there are generally high transaction costs. Moreover, main-stream economics see markets as something existing, "out there", independent of actors (Mooya, 2009). According to this view, the market price is separated from the valuations of the market price. From this follows that it is possible to measure how valuations carried out differ from the actual price. In this vein the accuracy of valuations can be determined. This is the widely accepted principle for normative theories of valuations and the mathematical tools used in the realm. This can be contrasted with views claiming that markets are performed, or shaped, by the actors – of which appraisers and investors are examples on the property market. When the conventional view of a market presupposes "laws" beyond the reach of humans, alternative perspectives account for how actions, beliefs and behaviour of actors are and constitute the market.

To overcome some of the paucity in the knowledge of actual property investor behaviour some attempts have been made to establish a complementary, behaviourally oriented, research paradigm within the property field. Diaz III (1999) and Diaz III and Hansz (2007) review this evolving research approach with specific attention to studies of property appraisals. Wofford *et al*. (2010) further discuss the issues raised by Diaz III and Hansz (2007) and suggest that

the research paradigm be based on management of risks related to limited human cognitive abilities. Also French and French (1997) as well as de Bruin and Flint-Hartle (2003) critically discuss the potential shortcomings of the standard finance-based models for analysing investment behaviour. All these papers in some respects build further on the research traditions established by the founders of modern property research, such as Ratcliff (1972). However, in the present finance-dominated paradigm they are quite solitary and provide limited systematic guidance for empirical research.

Searches for empirical studies of property investment behaviour outside the established paradigm result in few hits. Manning and Roulac (2001) systematically classify all corporate property research 1989-2001 into different methodological categories. The overview confirms that there are very few qualitative approaches to property investment decision-making. Another extensive literature overview, on international property investment, is carried out by Sirmans and Worzala (2003). The paper covered falls entirely within the established finance paradigm, and the authors point out routes of yet unexplored fields that future research should address.

A number of surveys are carried out among quite small groups of property investors to investigate certain investment strategies and investment behaviour. Some of these surveys, though partly aiming at disclosing investment behaviours that diverge from the normative text-book lecture, are still largely quantitative in nature. They provide descriptive statistics and other quantitative measures of the empirical data collected through questionnaires or structured interviews. The empirical observations are obtained as the respective respondent's general opinion or judgement of what most commonly tends to be the investment behaviour within a specific company. There are several obvious advantages with this data collection technique. Experts efficiently summarize and weigh the experience and impression from several transaction processes. However, there are also disadvantages worth stressing. For example, behaviour and strategies that have proven to be less successful or are of lower theoretical status may be given less attention in the reports. Addressing specific transactions or events would enable the documentation of a more precise reaction to a certain situation.

One survey, Adair *et al*. (1994), investigate attitudes to investment diversification and risk with respect to property type, location, market knowledge and transparency. They find indications of a mismatch between perception of investment attractiveness and actual investment behaviour. Furthermore, investment analyses are highly quantitative and empirical and thus investments are directed to sub-markets where information is available and market conditions well known. Falkenbach (2009) analysed market selection criteria in international investment. Even though diversification is an important rational for international investment, the investment decision-making does not seem to be very strictly directed by correlation measures. Certain investment criteria were found to be threshold conditions, indicating bounded rationality behaviour. Worzala and Newell (1997) identify some differences between European and Southeast Asian property investors concerning investment strategies and rationales for international investment.

Donner (2010) finds a clear lack of sophistication in the application of advanced financial risk management tools. He concludes that the property industry is less sophisticated then other industries, where professionalization came earlier and where the investment goods are less heterogeneous and complex. Gallimore and Gray (2002) find that decision-makers regard investor sentiment as an important form of information. It is found to be used alongside, rather than instead of, market fundamentals. MacCowan and Orr (2008) study the reasons for

deciding to dispose of a property. Restructuring of the portfolio and underperformance of the property sold were the most common rationales. The investigation identifies indications that decisions are partly based on irrational judgement.

Newell and Seabrook (2006) carry out a survey study related to hotel investments. However, they systematically analyse the questionnaires by applying an analytical hierarchy process (AHP) to the data. Financial factors with respect to the investment process were given the highest rate of the respondents, followed by factors encountering locational aspects, economic aspects concerning the hotel business, diversification aspects, and business relational aspects. Sah *et al*. (2010) and Sah (2011) apply a controlled experiment to directly observe how various items of information are used in the property decision-making process. Two groups of participants, experienced property managers and novices, were given a number of information items by the use of which they were supposed to make an investment decision. By measuring the time spent on each item, and the order in which the items were accessed, a measure of the respective item's importance to the decision could be estimated. The over-all conclusion is that experience matters; managers behave somewhat differently compared to novices.

Diaz III and Hansz (2007) identify the behavioural paradigm's dominant data generating techniques (unfortunately without paying attention to in-depth interview techniques and other case-study oriented techniques). A few numbers of purely qualitative studies applied to commercial property investment behaviour were found. Gallimore *et al*. (2000) carry out semi-structured interviews with 13 property investment directors of rather small property companies in the UK market. They report a property investment decision-making that does not follow the standard quantitative approach. Investors are largely applying a satisfying, rather than optimising search for investment opportunities as well as market information. McDonald *et al*. (2005) study how due diligence analyses and corporate strategic planning may be used to secure successful M&A. They carry out six semi-structure interviews with Australian managers and analysts within companies from quite different market fields. They find that all companies considered a clear alignment between the M&A strategy and the corporate strategy essential to success. However, criteria used and weights assigned varied across companies which highlights the problem of applying a uniform assessment model for evaluating success. Jackson and Watkins (2011) apply an ambitious qualitative analysis of how planning policy impacts the investment decision-making process with respect to retail property. They build on the model suggested by Roberts and Henneberry (2007), and carry out 18 semi-structured interviews among investment managers and analysts. Results are clearly pointing towards a well-developed perception among investors about local planning authorities and activities and it is often explicitly taken into account in the investment decisions.

The most consequent and thorough qualitative analysis of commercial property investment decision-making we have found is that of McAllister *et al*. (2008). They perform a number of semi-structured in-depth interviews with 19 institutional property investors in the UK and three property agents. The companies studied are similar to the ones we study and the managers interviewed have similar positions as have the ones we interview. The two major differences are that McAllister *et al*. (2008) particularly focus on a specific issue, i.e., the potential principal-agent problem with respect to the role of agents in institutional property acquisitions, and that the interviews concern the market behaviour in general, rather than the outcome in specific transactions.

Also Roberts and Henneberry (2007) aims at exploring the decision making process in the property market beyond traditional analysis. They take point of departure in the finding that returns of property investments are higher and risks lower in areas outside core cities in UK, whilst UK investors still prefer to invest in these cities. At first sight this constitutes an example of irrational behaviour. The authors found firstly that the common normative model in decision-making is not used: the method actually practiced is much simpler, and is based on heuristics or short cuts to an extent that is not mirrored in conventional models. This points, in a following step, to how behavioural and social elements have to be considered in studies on property investment. In a later contribution, Henneberry and Roberts (2008) further look into the reasons for the seemingly irrational behaviour. It is here attributed to "calculative practices", or more precisely a benchmarking system: IPD benchmark. This system has created a situation where the benchmark does not take the passive role of measuring and understanding the market, as intended. According to the authors it instead contributes to shaping the market. They describe how areas covered by this benchmarking system had a privileged situation, often for the sake of minimizing risk. In the view of the authors this illustrates how the economy is built on practices that are changing over time. Each of these practices – here the benchmarking – embody not only pure economic logic, but also social, political and cultural aspects. Following this reasoning, the economy cannot be "rational" in the sense assumed in neo-classical economics, and the change of practices also makes the economy different as Hennerberry and Roberts (2008) phrases it.

Considering the increasing importance of appraisals in the evolving new practices of accountancy, and the fact the appraisal industry has been subject to some quite substantial criticism, it is highly interesting to reflect over the potential influences, or lack of influences, between investor behaviour on the micro level and the application in practice of appraisal techniques. Previous research into property appraisal accuracy has questioned appraiser ability to make satisfactory valuations compared with subsequent realized sales prices (Matysiak and Wang, 1995; Graham *et al*., 2009). Diaz III and Hansz (1997) report that appraisers do not always examine all available information. Instead, they tend to adjust their own previous valuations or those of other appraisers. In line with this, Gallimore (1996) claims that appraisers are anchoring on past information, and Geltner (1993) argues that appraisers rely on past information to a higher degree when facing increased market uncertainty. Thus, a rising market may lead to undervaluation and a falling market to overvaluation (Webb, 1994; Matysiak and Wang, 1995). Furthermore, Mankiw and Reis (2002) report that erroneous choices made by appraisers when collecting information and processing data are critical. It is suggested that appraisers are using standardized assumptions rather than paying attention to a building's individual attributes, and that the data used may be poorly constructed initially (Ball and Tsolacos, 2002).

These studies point towards the importance of paying extra attention to what impact the transaction studied here might have had on appraisal practice as well as to how important appraisals might have been for the decision-makers interviewed. Under market conditions characterised by great uncertainty, few sales and scarce information, one would expect investors and appraisers to be eager to get hold of whatever information they could get from one another.

3 Method

3.1 Methodological approach

Although large property transactions are not that many, these types of acquisitions are increasingly frequent. A variety of actors are involved in the processes preceding the transactions and the financial aspect is for obvious reasons crucial in these types of large transactions. The core questions in property transactions remain: the valuation and assessment aspect of the buildings are still at the heart of the process. To investigate how large property investors manage the investment decision-making process, we have chosen to apply a qualitative methodological approach. Although this approach is rare, we do not see any realistic alternative to carrying out an explorative case study and qualitative analyses to get hold of information concerning the issues of interest.

A reason for the lack of qualitative property studies may be the one of access. Few actors involved are normally interested in talking about the events. This reluctance can be attributed to lack of time, but also motivated by secrecy, more or less motivated. Lack of trust might be another motive: the actors may be unsure how the researchers will handle the information received and what will be the outcome of the research.

Some might claim that a qualitative approach can merely be seen as "anecdotal evidence", but there is firm ground to make a claim for narrative approaches (Bruner, 1986; Jönsson and Macintosh, 1997; Czarniawska-Joerges, 1997). Narratives offer illustrative glimpses from organisational life that can be a point of departure for understanding a specific phenomenon. Jönsson and Macintosh (1997:370) summarise their standpoint in the battle-cry: "*Walk their walk, talk their talk and write their story*". This thinking has influenced our approach, which can be described as a "window study" (cf. Czarniawska-Joerges, 1997), or a limited case study motivated by urgency of questions coupled with problems of access.

3.2 The process of data collection and data analyses

To gain insights of the transaction under study, interviews were carried out in the autumn 2011. The interviewees were persons highly involved in the events, taking place 2007 and 2008. It was only possible to get a limited number of interviews, but on the other hand, all three interviewed persons have a first-hand acquaintance with the events, and in reality also what took place before the actual bidding process was initiated. The interviewees represent the two main competing constellations bidding for the property, and they all had positions from where they could follow the pre-acquisition process from front-row seat.

One of the companies involved in the final bidding, "AP-fastigheter"[1], is jointly owned by the First, Second, Third and Fourth Swedish National Pension Funds. The role of AP-fastigheter is to own and manage the real property part of the national pension assets. In line with the company's strategy their properties are located in the biggest cities in Sweden or "the growth regions" according to their web-site. We were able to interview two persons from this company winning the bid. One of them was the team-leader for the whole project working

[1] After acquiring Vasakronan in the transaction discussed in this paper, AP-fastigheter changed its name to Vasakronan, its current trade-mark. It now controls property valued at more than SEK 82 billion and is the major actor on the Swedish property market.

with the transaction. Besides his overall duties of surveillance and responsibility, he also had a special focus on the financial aspects of the preparatory work. The other person at "AP-fastigheter" was responsible for a sub-team working with the valuation aspects of the transaction. Both these actors have a long experience from the property industry, and were also parts of the management team overseeing the whole process. They were two of the few actors in contact with the company board constituting the ultimate decision makers as those financing the bid besides the banks. The two persons interviewed at AP-fastigheter were hence in positions where they from the inside could both manage and follow the work at operational level, and take part of discussions on decision level.

The third interviewed person is the founder of and CEO at Areim, a smaller private Swedish property company representing the consortium that lost in the final part of the bidding process. Areim is a real property fund manager and advisory firm founded in 2003. The original idea was to be the Nordic property operating partner for the Blackstone Group, based in the US. It now also offers advisory services to other companies and has launched a property fund with a committed capital base of SEK 2.1 billion. The CEO has a background at AP-fastigheter and was familiar with the property in the transaction from previous positions in the industry. His role was to initiate contacts with international investors when this transaction was opening up. The task can be seen as two-fold. One part of his duties was to manage the project team of his Swedish company working on valuation of the buildings, assessing legal aspects and looking into many other aspects of the transaction. The other part concerned forming a coalition of companies with the necessary financial strength to bid for the offer. During the process, as will be shown, this required a network of contacts with international investors of various kinds, of which Blackstone had a special position, and also Goldman Sachs was involved. Over the process some of the original partners were replaced, and his work was one where scouting for investors and coordinating their contributions and other efforts became a crucial task.

The interviews were carried out at each person's office, one person at the time, with two or three of the researchers/authors present. Each person spoke openly and devoted in nearly two hours. The idea was to have an open attitude to the respondents and allow them to speak as freely and openly as possible. We had the ambition to hold back our own intervention, and let them form their own narrative (cf. Mishler, 1986). We emphasised to the respondents that our aim was not to mirror an exact picture of the "real process" (cf. Rorty, 1979), but to take note of their personal impressions and experiences. We very specifically pointed out that we have no intention to publish any information that the interviewees would not approve of and that we would never try to make a point out of potential slips of the tongue or unintentional revelations of business secrets or embarrassing mistakes. This may sound as an uncritical research approach but we are convinced that this promoted a relaxed and frank discussion. In the end, none of the interviewees had any objection to anything that we wanted to report in the paper.

Unstructured or semi-structured interviews show great advantages to survey questionnaires, which is what most reviewed studies have applied. In-depth interviews may encourage the respondents to be more specific and true to actual past behaviour in their storytelling. Furthermore, when asked to describe a specific case, rather than to concoct a general overview that comprises numerous cases, the interviewee is likely to aiming at providing as accurate picture as possible of that case.

An interview guide was outlined before the interviews, where the main areas of interest were encircled along with some particular explicit questions. The interview guide was based on available public documents covered the transaction, from web-sites, media, and in particular, from the performance audit report of the Swedish National Audit Office (Riksrevisionen, 2010), as well as the literature reviewed in this paper and our general knowledge of standard text-book techniques and practical experience of property market analysis.

With this data collection approach we gave room to the respondents and their experiences, but also had opportunities to ask follow-up questions of various kinds. The situation was hence one of both interview and discussion, aiming for some of the forming ideals in qualitative studies (Kvale and Brinkmann, 2009). The interviews were recorded and transcribed.

The analytical part was undertaken in two parts. Immediately after the interviews, we collected our impressions from the interview and noted down main ideas of understanding the result. The next part took place when we had read the transcripts, and gained a distance in time to the interviews. In this part of the process, each of the researchers individually carried out preliminary analyses before we jointly formed the final analyses. The second round of analyses gave different and partly contrasting patterns compared to the initial ones, which suggest that this two-stage approach significantly contributed to our analytical work.

3.3 Trustworthiness of the study

It is a general implication for qualitative studies drawing on loosely structured interviews that they follow another logic when it comes to scientific assessment compared to quantitative statistical approaches. We prefer to talk in terms of trustworthiness, rather than criteria such as reliability or validity. There is no doubt our respondents have insight into and experiences from the events taking place. They have also been offered an opportunity to share their experiences and impressions in an open way, as we have had few requirements for their participation. The problems are rather whether they share all they know and to what extent they paint a more positive picture than “the actual” or “the true” picture. Our position in this respect is that we saw it as a privilege to take part of their accounts of the transaction, and that there can be problems both in terms of memory (as two or three years had passed since the main events) and as regards the aim to give a more positive picture of one’s own efforts. The mere rationale for these types of narratives is still to find the individual impressions or perceptions of what has taken place, rather than the essential “truth”. As the interviewed shared their views, we place confidence in those without judging it according to a yardstick of “true or false”.

It may potentially be a problem that the interviews took place three years after the event that was subject to analysis. However, there are also benefits gained from the time lag. The interviewees have had timer to analyse and contemplate over the event and put in perspective of other transactions. Furthermore, and perhaps more importantly, the respondents are less likely to see incentives, relative to the current property market, for improving the image of their past behaviour.

A common alternative to traditional quantitative research is one drawing on accounts and narratives. This alternative narrative approach is characterised by a focus on interaction: between humans, between humans and organisations and between humans and society. The accounts are understood in a historical and societal context, and the way in which actors

("natives") speak and listen is also explored. Bruner (1986), with his distinction between a paradigmatic and a narrative mode of cognition, offers a useful source of inspiration. Bruner (1986) claims that we tend to share our experiences and construct our realities either in a rational and deductive manner (paradigmatically) or through actor-generated accounts (in narrative mode). With respect to research in psychology he further claims that the cognitive revolution of the 1950's has been "technicalised". Whilst the original aim was to establish meaning as a fundamental ingredient in human action research, it has now taken another road: more quantitative and technical. Meaning was replaced by information and the construction of meaning was turned into the processing of information. For Bruner (1986) this deviation from the original ideals of cognitive psychology has obvious shortcomings. Vagueness cannot be coped with, is the first one. Computation requires precise rules and proper planning. Another is that scientific work in this tradition excludes context, if what is to be computed has to be under strict control. This reasoning is also applicable to our study as we argue that a narrative approach can benefit studies in property investment. We do not only need exact computations but can also learn a lot from encircling other insights. Learning from interviews conducted the way we have done also points to contextual factors as fundamental for the process.

4 Empirical part

4.1 Contextual factors and the characteristics of the transaction

The starting point for this bidding process and transaction was the shift of power in Sweden in 2006. A new alliance-government, with four right-wing parties came to power. The sale of state-owned enterprises was part of their campaign-promises, and one of the companies explicitly mentioned was Vasakronan, the real estate company with a book-value of €4.9 bn (SEK 46.6 billion, December 2007). The official decision to sell was announced in 2007, when it was also made clear that the property was to be sold in one company and as a whole. Soon afterwards, in 2008, a global financial crisis implied very special circumstances for the sale. Risk-aversion multiplied in financial markets, interest-rates shot up and as a consequence the real estate values fell. These conditions on the financial markets led to few bidders as the number of potential buyers of such quantities of real estate became limited. *"If the transaction had taken place prior to the financial crisis struck the price might have been something else and then we would probably not have ended up as buyers. Now, there were not so many that could make such a large deal." (Anders Ahlberg, Senior Investment Manager, AP Fastigheter)*

A debate emerged after the sale, where actors claimed it was a mere quasi-transaction as two government-affiliated entities were involved in the final transaction: the government as seller and a company owned by several pension funds with public ownership as buyer. All potential buyers interviewed in our study dismiss this allegation and point to the same arguments: the process they undertook themselves, the secrecy in the bidding process, the way information was disseminated, how the study-travels were organised and the formal procedures along the way. Everything they experienced supports this was - perceived from the inside – a genuine competitive bidding process.

4.2 Different approaches to Strategy and Organizing

AP-fastigheter resourceful and an early mover

AP-fastigheter, the larger and more coherent company involved, made the initial preparations soon after the election 2006, when the new government was installed. *"AP Fastigheter had casted eyes at Vasakronan for a long time – we had similar strategies, [in terms of]...where we were and what we owned. It was part of our strategy to see if it would be possible to make some kind of such structural deal. We should be prepared if the situation would become such that we could buy Vasakronan".* They got interested as the properties and their location fitted their overall acquisition strategies as well as their existing real estate management organisation. AP fastigheter could incorporate the property, without extending their organisation geographically: *"...and Vasakronan...were present in the very same localities as were we, except for Malmö and Lund where we had nothing...[and] had a similar portfolio..." (Anders Ahlberg, Senior Investment Manager, AP Fastigheter)*

Their owners, the Swedish pension funds, also wanted more real estate in their property portfolio, along with bonds, shares and other assets. AP fastigheter had since a long time a good knowledge of the property, and already before the bidding started had screened most of the property by their own candid inspections and researching public documents. *"We had read their annual reports, and in fact already in 2007 we went around and looked at all their properties." (Anders Ahlberg, Senior Investment Manager, AP Fastigheter)*

The buildings were known among real estate actors as well maintained and the scale of the transaction and the contextual conditions also excluded many potential actors. With their early preparations AP-fastigheter became "first-mover" and attained the "first-mover advantages". It is also clear from the interviews that the profit-requirements at AP-fastigheter was relatively low and the board was prepared long in advance and determined to take the necessary decisions. *"We prepared ourselves long before the transaction became official, so that was probably a success condition. We could therefore concentrate on valuation issues, legal issues and complete the financing issues." (Christer Nierlich, CFO, AP Fastigheter)*

The actual material/physical status of the buildings was deemed essential in the process and together with the relatively low required rate of return this made the company eager to acquire these properties. One problem was however identified early in the process: their position as an already very dominant actor on the real estate market in Sweden. If they added this property to their asset-holding, it could challenge competition-authorities. A letter to the Swedish Competition Authority[2] was drafted in an early stage of their process, to prepare also for this possible obstacle.

From an organizational point of view, a project organisation was rigged as the government announced its actual selling process in 2007. Comprehensive preparations were made at AP-fastigheter, even if the actual conditions for the sale remained unclear for a long time: were the buildings to be sold in smaller chunks, would the company be subject to an IPO or was the whole company with all assets up for sale? Now it was clear that the last alternative was the case. A small group managed the work, described as planned with high level of carefulness. Consultancies were hired to assist when it came to valuation of the properties, finance, engineering, law and media. Another characteristics of the project group was the determination and commitment

[2] "The Swedish Competition Authority is working to safeguard and increase competition and supervise public procurement in Sweden." (http://www.kkv.se/default____218.aspx)

"We were to miss certain things…but…we would not miss any major bombs…and that level of ambition was anchored all the way up and all the way down…so there was no fear in the project organisation…all taking part in the work knew…that the reason I take part in this is …that I am the most skilled to do this, I am the most knowledgeable and I dare use that knowledge to take a stand and have a standpoint drawing on that." (Anders Ahlberg, Senior Investment Manager, AP Fastigheter)

An important part was to keep everything secret within the group, to make sure only a handful had the full overview. They were also aware of the risks of speculating too much on possible competitors. The policy they had was to create a mental picture where any other actors bidding were irrelevant. However, it was more or less assumed than an international consortium was the main competitor, something that proved to be correct.

Areim, agile and small forming coalitions

The competitor, Areim AB, started its preparations in 2007 – later than AP-fastigheter. Both companies shared the main reasons for an acquisition: a well maintained property in line with their overall strategy. The fact that many potential bidders were hindered by the emerging financial crises was also in this company an important motivator as well as the mere scale of the transaction. Also in Areim was there a prior knowledge of the buildings involved in the transaction – they were well known among many real estate actors in Sweden. The required yield was higher in Areim, compared to AP-fastigheter.

As Areim is a small actor, networking was necessary for their process. An international coalition was installed at an early stage in the work. This consortium consisted of Blackstone, Goldman Sachs and Areim itself, in this company a small player but with local knowledge. It started when Areim convinced Blackstone this could be an interesting deal, and also managed to attract Goldman to get involved as this company was among those showing interest early. *"We thought the sale looked interesting and begun considering building a consortium. It was a big sale and no foreign actor would want such a great exposure to a market as small as the Swedish in one single business transaction." (Leif Andersson, CEO, Areim)*

As a consortium they hired consultancies to assist in different fields such as financing, law and media. Specialists from Blackwell took also active part in much of the fieldwork along with Goldman Sachs staff. The formation showed dedication, but also a massive self-confidence. "*I believe joining very different organisations both with global expertise; the worlds leading investment bank and the leading risk-capitalist in the world, and a local actor, that is much stronger that to be one sole actor. It is much more advantageous"…"They work with property all over the world...they are airdropped in a local market...in two weeks they know the streets of this town better than you do yourself...apply their analysis tools, yes absolutely, same models, same everything, but adjusted to local conditions." (Leif Andersson, CEO, Areim)*

The project group formed was determined to keep the information inside the group, and also to divert the attention from how possible competitors could act. It became clear early, however, that AP-fastigheter was one of the competitors. The reasoning Areim had was that the great exposure to the Swedish market an acquisition by AP would infer should cause problems. AP-fastigheter would run a huge risk with this domestic possession in their

portfolio, and also with regard to the competition authority. This can be seen as a game strategy from Areim point of view at that stage.

The main difference between the two final bidders was their different views on the character of the transaction. Areim regarded it as a pure financial act, where the buildings as such were of minor importance. They display no emotional aspirations to be in possession of these buildings, as AP-fastigheter do. "*Here it is … you can think whatever you like but here there were nothing but cynical capitalists… risk, return. Full stop. How much money can we make…no other questions…there is nothing else…only business." (Leif Andersson, CEO, Areim).* In line with this, and Areims problems with achieving a total financial solution, they also prepared for a back-to-back transaction/sale, where some of the buildings would be sold immediately after Areims purchase.

The interview demonstrate how in this type of transactions, only big players can be involved: either big in themselves or with a proven capacity to cooperate with large companies. The partners must not only be resourceful, but also have the capacity to organise – at short notice and under tough circumstances – a project group capable of screening the documents and buildings made available in the process. Another necessary capacity is to have a net of consultants to cooperate with. *"I use to say about processes of this kind...and even much smaller ones...that the entirety is fascinating but the details are terrifying, because...it is a smashingly large transaction...but there is a tremendous amount of footwork." (Anders Ahlberg, Senior Investment Manager, AP Fastigheter)*

These capabilities are demonstrated in two ways here, where one mainly in-house coherent company is set against an international network where local knowledge is combined with experience from similar exercises in other countries. The approaches are also different as the pure investment-thinking among the international actors is contrasted with a more compounded view in the Swedish company where also the interest in the specific buildings is demonstrated.

4.3 Valuations

AP-fastigheter valued the building on their own, but also hired consultants for supplementary valuations. The consultants had a role of confirming the in-house valuations; the company did not depend solely on external help in this respect. The interviewed at AP-fastigheter hold the opinion that contacts with the consultant representing the seller (JP Morgan) worked well, and AP-fastigheter took all along notice of the sales and purchases done by Vasakronan whilst the company was on sale. In all these parts of the process, AP-fastigheter claimed an advantage due to their early preparations. The work with determining a price-latitude was for example facilitated by pre-studies conducted at object-level, one building at a time. In this work both inspection on site were essential as well as study of official documents. When the bidding process started, also official contacts with representatives of Vasakronan were organised. The very laborious work involved collecting data through special "data-rooms", with virtual information gatherings and Q&A-sessions, as well as hearings, expert-sessions (in special subject areas such as technical aspects, tax-issues, law and so on) and bus trips.

At AP-fastigheter, two types of calculations emerge, one essentially mathematical or calculative, and the other more holistic. The first took point of departure in each object and its assessed value (a form of valuation taking in consideration a market value, but not how this

value depends on if this object only constitutes the whole transaction or if it is part of a larger sale). This implies a rule that one object plus another object is mathematically valued as these two objects added. The policy when valuing was not very restrictive, having in mind the relatively low requirement for yield and the low cost of financing incurred by AP-fastigheter. The second approach for valuing the property is more holistic in character, as it takes into account portfolio-effects created by a larger holding of property. In practical turn, this implies in a period of boom the cost is higher than the separate objects added together, whilst it is lower in a recession. *"One thing is to have an opinion about the market value...and another thing is to have an opinion about what we were willing to pay...it is a question of parallel analyses." (Anders Ahlberg, Senior Investment Manager, AP Fastigheter).* This type of portfolio-reasoning made the valuation both easier and more difficult. The difficulties lie in the mere fact that the information is much more comprehensive. It became easier as mistakes could level out and big portfolios create a risk-spread by its own. Large transactions, from this point of view, are safer than small ones. *"It is a matter of finding out as much as possible and creating as much certainty as possible within the time available. Particularly, it is a matter of being certain about the major issues that are really important. It is all about the law of large numbers." (Anders Ahlberg, Senior Investment Manager, AP Fastigheter)*

Areim, on their side, had to show big flexibility. This was not only because they started first when the bidding process was initiated by the government in 2007. They also experienced problems in their contacts with both the government, and with JP Morgan, the consultant working on behalf of the state. One example was that information needed was hard to attain. For a while, the Areim-consortium was taken out of the bidding-process. They were allowed to continue first after a meeting with government representatives. Representatives of Areim were also surprised that the object up for sale changed its assets during the process as their buying and selling continued. In the bidding process, Areim made use of public available information, even though the information gained during the process through data-rooms, site visits with inspections of the property and contacts with Vasakronan officials and so on were seen as more fruitful.

Characteristic for Areim was how they valued one object at the time, and added them without taking into account "portfolio aspects". One object valued with another object valued have together the mathematical value of two objects. Apart from abstaining from discussions on portfolios, also assessments of deductions or premiums were non-existing. This policy for valuations can be explained by their strict reasoning as making an assessment of an investment: they saw a possible acquisition in light of their yield requirements and their high cost of financing. Areim stood out also in another respect as they depended only on their own valuations and refrained from making use of public accounting data or valuations made by others. They describe themselves as self-sufficient in this respect. *"We never have and never will rely on an external appraisal. We do not have that confidence in the appraisers. Properties are generally valued too high." (Leif Andersson, CEO, Areim)*

Interviews show how both companies have to be able to both assess the property up for sale and at the same time value the market and the prospects in the future. For this they both require a basic capacity ("How to calculate"), analytical skills ("what does this imply"), and comfort ("we manage to finance this, also in case of a smaller mistake in our calculations"). Unsurprisingly, it proved to be much more difficult to forecast market conditions in general, than to value each and every object in the transaction. We further noticed how the work with valuations differed slightly between the two main competitors. Areim made their calculations drawing on each single object only, adding them together. AP-fastigheter took another

approach, taking into consideration that many objects were involved the consequences of this in terms of portfolio-effects. It is worth noticing how they differ in their judgement of the behaviour of the buyer and its consultant. Whilst AP-fastigheter have no critical comments, Areim think JP Morgan as the seller representative was not skilled enough, and Areim also questions the continuing buying and selling taking place at Vasakronan during the bidding process. Areim also required special contacts with the government to continue in the process.

4.4 Financing

AP-fastigheter had the financing solved long in advance: part of it equity and credit was provided by a group of four banks, with the Swedish Handelsbanken as coordinator. *"We chose one bank as our main bank and then our strategy was to try to involve as few banks as possible. Now we ended up with a total of four banks." (Christer Nierlich, CFO, AP Fastigheter).* They had an advantage, as their borrowing costs were lower drawing on their position as a secure semi-governmental actor. The risk associated with credit to this company was seen as small, also in times of a financial crisis.

Areim took another road. They also made use of equity and credits from a number of banks with another Swedish bank as the leading actor (SEB). Their third component was a special back-to-back setup. Their interest rates were higher than those offered to AP, from a risk point of view. *"It was basically the same money, but we were not considered at all an equally safe borrower as a semi-governmental actor." (Leif Andersson, CEO, Areim).* To compensate, Areim made use of quick footwork and flexible solutions, an approach made even more challenging as one of four banks made an exit from its credit commitments at the very end and was replaced with a foreign bank. This also happened to AP-fastigheter, and it was basically the same banks promising credit to both bidders. Different circumstances forced Areim to work harder and more creative to close their deal. Their available equity was not at the same level at AP-fastigheter, and as mentioned their credit was more expensive. This fostered the "back to back"-solution where Areim secured the reselling of parts of the property to other investors, something requiring complex legal and financial solutions. *"We would have been rewarded with a gold medal in financing for our efforts with this deal – but never got the opportunity to make use of it". (Leif Andersson, CEO, Areim).* If they had won the bidding, the same second they acquired this part of the portfolio it would have been resold to these business partners.

4.5 Bids and ex post evaluations

The different costs for borrowing and yield-requirements were fundamental for explaining the different bids offered by the two competitors. *"The analyses ought to be approximately equal as it is the same thing that is being analysed. Maybe they make slightly different assumptions about the cost of renovating different premises, what rent one can charge, and so on, when the leases are renewed. But put together it is the required rate of return that determines, that is the most important parameter. More expensive financing and higher required rate of return; that is quite hard on the figures." (Leif Andersson, CEO, Areim)*

AP-fastigheter followed on the one hand the conventional way of assessing the value of property: looking at one piece of property at a time. Parallel with this, the law of big numbers (with respect to revenues, costs, engineering, environment and sustainability and the portfolio

of projects included in the transaction) was looked at, implying portfolios and deductions to gain security for the transaction. This company also made an assessment of what type of bid a competitor would place – hence a type of game strategy.

The interviews with AP-fastigheter disclose two processes. One of them involves the valuation of the properties as such, and another aiming at reaching a decision for what bid to place. This bid was drawing on the value of property, but also took into consideration future market prospects and consequences of the on-going financial crisis.

Areim was in another position, with higher financial costs and higher yield requirements. It was also more restricted analytically, as it solely was built on valuations on every single piece of property. The amount of property and the total value made no difference in this respect. To Areim, this was one of many possible investment opportunities.

The reasons for the higher bid from AP-fastigheter can be summarized in a number of arguments. Firstly; the property fitted better into AP-fastigheter existing real estate portfolio, than as part of an investment strategy for Areim. The buildings in a physical or material sense played a much more essential role to AP-fastigheter, than in the more abstract calculations made by Areim. In the eyes of Vasakronan the buildings were not only nice and well maintained with interesting locations. They were also attractive to be in possession of adding prestige and providing goodwill to the company. *"If one should imagine that the present company did not exist and then be commissioned [to create it]...at any cost...you are allowed to select whatever properties you want except ours... Then I don't think you would manage. It's not possible to put together such a portfolio. That's what was most fantastic. And then it was the opportunity that appeared...so that it became possible to carry through our strategy." (Anders Ahlberg, Senior Investment Manager, AP Fastigheter)*

Vasakronan were also capable of a more practical and cost efficient management of the real estate property than Areim – or which many administrative and organisational merger aspects would have caused more concern. A more down to earth aspect is how Vasakronan were in a better position thanks to lower financial costs and lower yield requirements.

Brought together, this implied that AP-fastigheter were more inclined to acquire the property, and for this reason placed a bid that with a high degree of certainty would make them the winners. This is confirmed by the difference between the two bids: SEK 41.1 bn, as compared with a 3 billion lower bid from Areim with an additional bid requiring the seller to finance part of the package.

It is interesting to note that after the transaction was completed, it attracted little attention in terms of evaluating the outcome and its effect. This is especially clear to Areim. *"We never cry over deals that we never made. Sometimes we cry over deals we made." (Leif Andersson, CEO, Areim).* Had they won the bidding, they would have been much more careful in their evaluation of the outcome. Vasakronan had a smaller internal evaluation. Both companies are however surprised the transaction did not attract external interest. None of the two companies have been approached by others interested to hear about the process. This very large transaction, one of the few during the financial crisis in 2008, did not gain much attention on the market. *"It's strange that nobody has called us. We participated in the largest deal in the Nordic countries. No appraisers have called us. Very strange. ...We appear on stage and talk to a hundred appraisers in Sweden. You think anyone calls after that? Nope! ...And on the stage again saying the same thing, and then you could say that three years ago we appeared*

on this bloody stage and said 'why don't you call?'. But do you think anyone calls after that?" (Leif Andersson, CEO, Areim)

5 Analysis

5.1 Intro: Some shared – some different

There is an abundance of impressions from a transaction of this size: political ambitions with the sale, preparations made by actors, their overarching strategies all along to the closure and its implications. What can be seen in a first step is how some features are shared between the two companies involved in the final process, and how some are profoundly different.

The two actors are both resourceful, even if the way they organise their work and collect their resources is different. Their work is facilitated by previous knowledge on the property up for sale – it made it obvious that it was interesting to get involved. They also followed some established routines when it comes to screening and evaluating the properties. This includes pre-evaluation with the help of available public documents, hard work with the data-room opened up for them by the seller and contacts with banks as a necessary part of the financing work. All this follows the path from traditional textbooks, such as Geltner *et al*. (2007). It also appears that the project-organisation is similar in many respects: a close group of hard working experts with strict secrecy and an explicit focus on their own work and allegedly no speculations of possible competitors. Another striking common feature is how the high morale and good self-confidence is expressed in the interviews. Worth noticing is also how little interest post-evaluations had in their minds. When the deal was won or lost it was merely an issue on moving further, either to new possible transactions or to merge the acquired company into the existing. When it comes to these shared experiences, there are no major deviations from the mainstream theories. But whilst these characteristics are shared there are also differences that stand out.

5.2 The textbook and the practise of valuing

As explained, initially in the groundwork with valuing the property for sale, the two followed along the same route. Public documents were screened, on site-visits conducted and other conventional methods applied for collecting basic data. It was in the following parts of the process AP-fastigheter and Areim worked differently. The interviewed at AP-fastigheter describe a process where the buildings, projects and other assets were not simply added together, but where a portfolio-effect is in place. This approach is at least two-fold. It firstly relates to present economic climate where recession means the compounded effect leads to a lower value than the calculated and a good economic outlook would have implied a higher value. The other effect is connected to a principle only discussed by AP-fastigheter: *"the law of large numbers"*. It refers to the situation where a large transaction as this with many different assets involved implies a spread of risk is built into the transaction. These two views on portfolios in light of macro economy and risk gave AP-fastigheter a marginal for discussing the coming bid. It detached the bid from the calculations which so became independent from the result of all necessary basic data collected previously in the process. The value of possessing these buildings, the ambition of the owners to expand real estate in the pension holdings and other more non-calculative aspects could hereby be adhered to. This is in line with authors such as Dias III and Hansz (2007) pointing to behavioural aspects

within the real estate field as well as how institutional conditions impact on transactions in property investments (Sirmans and Worzala, 2003). It further sheds light on findings by Roberts and Henneberry (2006) that actual methods used are often simpler than those advocated by textbooks and how social and behavioural elements have to be considered for understanding the practice.

Areim describe instead a more strict work where the social and institutional aspects are less visible. The method is described as following the conventional procedures from assessing every single asset-object, adding them together and all along via extensive spread sheets reaching a final value. They claim their bid was not affected by anything else than these compounded values plus the cost for financing and the required rate of return. The rest was up to the computer and its software to calculate. They regard this as an investment opportunity, where no other aspects are allowed to infer.

It is a noticeable finding how these differences between the bidders show problems of giving a uniform version of an investment process. Different actors take different standpoints and apply fundamentally different philosophies. These differences can be traced to the characters of the actors, institutional factors and social and behavioural aspects. In short it points to the contextual aspects of the investment and how these aspects are assessed differently depending on actors involved. The claims expressed by Sirmans and Worzala (2003), Roberts and Henneberry (2006) and Dias III and Hansz (2007) are thus confirmed also in the sense that other aspects than pure mechanical and calculative are worth addressing for certain actors in certain situations. Our results indicate however the claims are not always important.

Under conditions characterised by uncertainty due to the complexity of the transaction, one would expect investors to be eager to get hold of robust data from experienced appraisers. However, AP-fastigheter hired external appraisers for supplementary valuations only, and Areim made all valuations on their own. In the latter case, this can be a result of a great deal of self-confidence, but it can also be seen as a mistrust of external appraisers. In fact, the CEO of Areim explicitly argued that they have little confidence in external appraisers which they believe generally overestimate values. This is in line with previous research on property appraisal accuracy, where appraisers' ability to make satisfactory valuations have been criticised (Matysiak and Wang, 1995; Graham et al., 2009). For instance, it is argued that the appraisers tend to rely on previous valuations, and are using standardized assumptions rather than paying attention to a property's individual attributes (Diaz III and Hansz, 1997; Ball and Tsolacos, 2002).

5.3 Financing – problem or not a problem

When it comes to resources, both actors were capable of commencing this large transaction, organising and financing the necessary project-team and not the least finance a bid. Apart from these similarities, there are major differences when if comes to financing. To AP-fastigheter the financing part inferred no major challenges, even if it required a lot of work. They had a massive backing of public pension funds, support from the board of these funds to continue their work, and in the eyes of the banks involved AP-fastigheter was a solvent customer with the state as a sort of ultimate safeguard for the credit. The bank quitting the credit-consortium in the last phase did not create any huge problem as other banks were interested. It is worth noticing that this was in a period of serious crises in the financial sector 2008, but this fact did not profoundly affect the possibilities for AP-fastigheter. The credit-

facilities did not affect the level of the bid as AP-fastigheter had more credit available – in simplistic language their situation was characterised by "*money is not a problem*". Their cost for borrowing was also lower than Areim, for whom the possibility for credit was a more decisive factor.

The three partners in the Areim-consortium had as such jointly the financial muscles for a transaction like this. The approach when it comes to financing was instead more strategic: how much was each partner prepared to risk on the Swedish market of which they all were not that knowledgeable? From that point of view they decided how much equity to invest and the level of external credit necessary. The same banks were involved with Areim as with AP-fastigheter, but the costs were higher for the less credit-worthy Areim. This formed a situation where external credit in a conventional form proved too expensive, or even impossible in light of the credit-crises. Other means for credit became necessary, of which the "back-to-back" was one with a complicated legal set-up where the ownership of some of the involved assets instantly after the sale were to be transferred to new buyers (hereby also acting as credit-institutions). Another attempt for Areim was to have two bids, one offering a solution where the seller provided credit for the sale. These measures indicate the problems Areim had, but also the creative and unconventional ways in which they approached the issues. The combination of real estate and finance is seen as a prominent feature in many theoretical contributions described earlier - but the actual practices and how they differ are less highlighted. It illustrates how the economy is not only built on practices that are changing over time as Hennerberry and Roberts (2008) phrases it but also varies between actors.

5.4 Project team yes! But how to organize?

This large transactions required massive efforts over a short period of time. The most intensive work lasted for some three months (Riksrevisionen, 2010, p.19). Both bidders had specially assigned, tight, closed and hardworking project teams to carry out the tasks. The approaches differed however in some critical aspects; the way the teams were composed and how consultants were used.

AP-fastigheter was already before the sale of Vasakronan the major player in Swedish real estate. They had in-house all necessary components when it came to financing, valuation and other basic tasks, why they organised the project with their own staff. Consultants were used in some fields not in their own sphere, such as media, law and taxes. Another way they made use of external help was to safeguard their own valuations of property – did their own assessments differ in any decisive way from the ones conducted by external consultants? The project team could also rely on massive preparations, as the work had commenced long before the process was officially announced. This created a self-confidence that also must be included in this part – they strongly believed in their capacity.

Areim also possessed high self-esteem, but from a different point of view. Their project team was composed of members from all three companies involved in their consortium; Areim, Blackwell and Goldman Sachs. The first requirement for holding it together was mutual trust, and as they had worked together on previous projects it was in place. In the project team there was also experience from previous similar exercises, as large real estate transactions were part of their work. This formed the basis for a self-confidence excluding help from consultants in the core work of the preparations. No external valuation was carried out as international teams with experience from other markets carried out examinations and judgements. The problems

with credit implied many alternative solutions, which meant flexibility became a major component. The Areim consortium was thus characterized by international composition, credit-problems in light of the financial crises and the short time span the consortium had available with the lack of preparations. In light of this it might be illustrative that their competitor AP-fastigheter declared they were impressed with the work conducted. This comment illustrates both the differences in conditions between the two companies, and the under dog role played by Areim.

The role of project teams and organising the work is seldom described in the literature on real estate investment. Whilst general remarks on Social and Cultural aspects are noted in the literature these issues appear as fundamental in our narrative. Trust is crucial both when it comes to organise the project teams and keep the work morale high – it is hard work involved with long office hours. Trust has however also another role here, as it is a precondition for the conglomerate Areim managed to form. Without previous common experiences of cooperating, their work would not have been possible.

It is a common claim in the investment literature (cf. Mooya, 2009) that real estate is a special form of investment objects: not homogenous and requiring a lot of information to be assessed. The diverging approaches chosen by our companies both confirm and question this claim. To AP-fastigheter it was a special form of investment, requiring special forms of valuations and also requiring a portfolio-approach. In the eyes of Areim this was hardly the case. They regarded this collection of properties as any other investment opportunity, where much information was required but where the view was one detached from any sentiments: this was mere buildings as objects for investing. This once more illustrates how the views were different in many fundamental aspects between the two actors involved.

5.5 Everything is special

Placing the two bids, the way they were produced and the organisations behind them side by side give an illustration of both similarities and differences. In this comparison, one crucial factor must be highlighted: the situation in 2008 when these events took place. It was an unfortunate time to sell property, but the political process did not take any such considerations. The crises struck with special force the private-equity actors and investments banks that would have been highly interested had the transaction taken place one year earlier. All interviewed agree that maybe ten additional competitors would have been involved. The conditions framing the sell of Vasakronan could however also serve to identify the characteristics of the two main competitors who had the resources – or managed to mobilise them – and be involved in the bidding process. In our study, the financial crises help us to uncover two prototypes for real estate investment.

The distinguishing differences have been shown in respect of how the valuation was carried out and the philosophies behind the methods selected, the differences in forming the project teams and the conditions for financing the bid. The characteristics of the two investor strategies are summarised in *Table 1*.

Table 1 Characteristics of the two property investment strategies analysed.

Element studied	AP-fastigheter	Areim-consortium
Corporation characteristics	National, semi-governmental with public pension funds as capital source. One actor.	International. Private investment actors. Consortium including three actors.
Owners mandate	Instruction to acquire more property. Long term profitability. Lower rate of return requirements.	Acquire profitable investment objects, matching the fixed rate-of-return criteria.
Type of organising	In-house stable organising with back-up of external consultants. Self confidence from national transactions.	International net-working with non-resident expert-teams. Self-confidence from previous international projects.
Investment interest	Pro-active behaviour. Early and thorough preparations, good planning and great knowledge of the property portfolio.	Reactive behaviour. Captured the moment when the opportunity appeared, fast footwork and some knowledge of the property portfolio.
Use of consultants	For "second-check" and marginal tasks: tax, media, law.	Restrictive use, only marginal use non-core aspects.
Accountable to	Swedish pension holders.	International private equity investors.
Way of assessing the deal	Calculative, with bearing on portfolio aspects and the importance of owning these properties.	Calculative only.
Financing	Secured by owners resources and low cost from external credit sources.	Complicated and creative solutions, with high credit costs.
Final bid	Partly a game strategy. The bid was based on valuation of the properties as such, but also on future market prospects, the portfolio, deductions and premiums.	One decisive bid. Discussions on portfolios, deductions or premiums were non-existing.

6 Conclusions

One may of course argue that the findings of this paper are somewhat scant. The analysis addresses only one property transaction, and furthermore the number of interviews is very small. However, we prefer to stress other aspects of the study. We like to emphasise that the transaction studied is quite unique and exceptionally large. Thus it might in itself represent some hundred transactions in terms of total value transacted. Furthermore it put all participants under unusually hard pressure with respect to the number and magnitude of the problems that had to be solved within a limited time period. Thus we believe that the results from this, admittedly limited, case study have many general property market insights to offer.

One important result is to be found in the set of characteristics that the two actors on the buyer side of the transaction represent. Both potential buyers were highly professional, serious and committed. They both invested a large amount of efforts and money into the process of evaluating the prospect and preparing for carrying through the transaction. Still, they worked

quite differently in many respects, adapting partly different strategies and investment principles. It is true that one investor eventually came out as the buyer/winner, but it is probably more important as a general conclusion that both these investment strategies would hold all the way up to a final serious bid that *might* have been the wining bid that closed the deal. This insight points towards the importance of giving recognition to a magnitude of alternative investment strategies, both when teaching property investment and finance at universities and when performing further studies of property investment behaviour.

Though it is perhaps well-known that the investment preparations are complicated and time-consuming we still believe that this is a somewhat neglected field in the property investment literature. There are a number of steps in the property investment process that are all complicated enough in their own right, including data collection and data management, property inspection and valuation, investment analysis, financial management, management of the decision-making process, but also management of the internal work without leaking information and secrets. Text-books on property investment may give the impression that the process is limited to economic analyses with respect to these steps, but managing them efficiently throughout the process is a crucial challenge. Furthermore, academic papers based on surveys of investor preferences or behaviour may give an impression that the various relevant issues within property investment may be reported in a check-list in order of importance, whereas the picture that emerges here is that such an approach is probably somewhat naïve. We rather learn that all steps of the process demands full devotion.

The transaction and the respective preparations of the parties involved appear to have been carried out highly professionally and, perhaps more importantly, according to true free-market conditions and ambitions. One might have had some suspicion that given it is such a small country, and thus such a small property industry and property market, it would not have been possible to carry out a transaction of this magnitude in one piece. There were also some prior indications in business journals that the transaction might have been a non-market deal between two government, or semi-governmental, institutions. However, we find no support for these speculations. We thus feel strengthened in our belief that our findings concerning investment behaviour in other respects are of general value. We also believe that all indications that this was a correct transaction according to true market conditions is of some general value to international investors that constantly evaluates the institutions of foreign markets.

Appraisers and independent analysts appear to have been surprisingly passive vis-à-vis the potential source of information that the after-math of this transaction must have been. It is tempting to relate this apparent lack of interest for data from the prime source of market information to the substantial literature on property appraisal bias. However, it is quite possible that the findings reveal a somewhat different appraisal bias problem than the ones usually analysed, including retrospective-based prognoses, smoothing, anchoring, systematic overestimation, etc. Here we have a surprisingly obvious case of common unconcern for how the investors carry out their analyses and at what levels their model coefficients are set, when we should expect them to calibrate their appraisal models with input regarding market rent level expectations, long-run vacancy assumptions, sub-market yield rates, etc., etc. This should be taken as a serious criticism of the appraisal industry.

In line with other researchers (e.g. Diaz III and Hansz, 2007; McAllister *et al*., 2008), we suggest that there are numerous routes open for further research on property investment decision-making with a qualitative approach. In particular, we believe it is of great importance

to further understand the implicit investment analysis models of the investors to be able to relate them to the models used by independent analysts and appraisers as well as the ones used by financial institutions providing the mortgages and finally the ones used by government institutions responsible for the surveillance of financial markets.

We believe that qualitative approaches based on in-depth interviews could be a fruitful alternative to sending out questionnaires to larger samples of respondents. Large sample sizes may provide a false trustworthiness to a study that may suffers from asking rather unimportant questions and limiting the fixed set of reply alternatives to vague and irrelevant aspects.

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Appendix: Interview guide

Before going in to the main section of the interview, we briefly presented our role as researchers, the aim of the study and the aim of the interview. We pointed out that we wanted to learn as much as possible from, and about, the transaction, hopefully from an unbiased angle, and that we did not have specific hypotheses that were to be tested. More specifically, we certified that our ambition was not to scrutinize the process or certain actions in order to reveal possible mistakes or failures. We explained the interview procedure, i.e. we preferred the interviewee to speak freely and to report personal impressions and experiences.

As support for ourselves we hade the following interview guide at hand. One of us checked during the interview that most aspects listed were touched upon. Now and then we posed questions from the list to supplement the interviewee's free narrative (only the headings of the interview guide had been sent to the interviewees in advance).

Introductory questions/explanations

What is your formal position in the company?
Brief background
What was the formal position/role throughout the transaction?

(A) What happens in the property industry when something as big as this initiates?

What processes start when big transactions are about to take place? This time? Generally?
What kind of players is engaged?
What players, more specifically?
Who played major roles this time?
Why them, and not others?
Apart from financial issues, what general issues are decisive for large transactions?
This time? Generally? How is the transaction affected?
Personal reflections on "decisive issues"?
General problems or possibilities? In what way?

(B) The government acting as player in the market?

Are employees in government-owned property companies/organisations considered professional market participants? By themselves? By others?
How are contacts between employees within seller and buyer organisations arranged?
Only formally?
How were informal (if any) contacts outside the transaction handled?
Where do people meet? What, and how much, do they say?
Can you give specific examples related to this transaction?
Are there ethical issues that are difficult to handle for some?
Are there ethical codes?
How do professionals in the industry consider the government's management of the process?
Is the government a competent actor?

Questions have been raised whether this was a true market transaction. Based on your general experience and insights, what is your conclusion in this respect?
Are there specific indications of market, or non-market?
Were welfare economic aspects affecting any step/condition?
Were political/ideological issues affecting any step/condition?
The National Audit Office criticised the government for allowing individual property transactions (to/from the portfolio) during the process, and the bad timing of the major transaction. Any reactions to the critique?

(C) How is property investment analysis managed, in practice, when the transaction is large?

Are appraisals carried out the same way as for the annual reports?
What are the differences if any? Why?
Or are appraisals more like thorough due diligence reports?
What are the consequences? Who does the work?
What experiences can you rely on in this respect?
Was the potential difference between the sum of individual market value estimates and the estimated value of the total portfolio an issue?
Is this a common issue?
Did the enormous size of this particular transaction affect the view on this issue?
Was the potential risk of violating free competition an issue in your preparations?
What were your plans considering "rotten apples"?
Are there common procedures for handling them?
Is it possible to hide them in a portfolio?
How are constructions in progress valued? Accumulated investment at book value?
Were there specific problems with respect to ongoing construction?
How are development rights values?
Real option calculations? Simpler techniques?
Were there specific problems with respect to development rights?
The National Audit Office says that initially there was weak foundation for appraising the offer? Do you agree?
Did you make thorough post audits based on the actual price paid? Were internal appraisal models and benchmark values adjusted?
Were independent appraisers/analysts/agents trying to get information of the deal in order to adjust their appraisal models and benchmark values?
Was there any external interest afterwards (or during the process) of how you argued/reasoned concerning the appraisals? From foreign actors?
Did you (during the process) ponder over the possibility that this transaction, being so large, would have implications on the whole Swedish property market?
Are there any systematic reviews/evaluations of the process within your company or within the industry? Is there a need for that?

(D) Accountancy aspects?

How different were the appraised values compared to the book values of the last annual report?
Do you have any opinion on whether "real values" were reported in the annual report?

Is it meaningful – with respect to the availability of real market information – to estimate market value for a (standing investment) portfolio more frequently than once a year?
Was market value estimates in the last annual report, or last quarterly report, affecting the process in any way?
The final transaction price was lower than the "real value". Was the "real value" questioned in the industry?

(E) The transaction in relation to the financial crisis?

The National Audit Office criticizes the government for bad timing (with respect to the financial crisis). Was this lack of timing subject to specific consideration during the process?
What effects were there of the timing?
Did the financial crisis have a different effect on the possibilities for foreign investors, compared to domestic? Their possibilities to raise financing?
How important do you think that financial aspects are? Would other private equity actors have been interested had the financial market situation been different?
Was it stupid to sell at that point?

(F) Attitudes towards the "best practice" principles?

The National Audit Office report includes a section on "best practice" in the industry. Do you see weaknesses in the paper with respect to application in property transactions?

Summing up/final personal reflexions?

How has participating in this transaction affected you personally, as a professional and otherwise?
What have you learnt about

- The industry
- Political intervention
- Valuation
- How transactions are carried through
- How other actors reason and act
- Internationalization of the industry and market

Have you ever thought: Here is something I would have done differently, had I known what I know now?
Anything else you want to add?