

Roadmap to Successful Real Estate Start-up

Applicable business strategies and success factors for real estate start-ups

Leevi Jan Folke Lindfors

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Supervisor: Mikko Pynnönen
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Aalto University
School of Business
Bachelor's Program in International Business
Mikkeli Campus

Author: Leevi Jan Folke Lindfors
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Supervisor: Mikko Pynnönen

Objectives

The main objectives of this study were to identify how to establish a successful real estate start-up, the related success factors, and applicable business strategies. The objective of these insights was to create a roadmap for a successful real estate start-up, where the most important aspects were highlighted.

Summary

Four distinct business strategies for real estate start-ups were identified. Apartment flipping, apartment construction, apartment renting and developing real estate information systems. The apartment flipping was researched more in-depth through a case study approach by conducting two interviews. In addition, key concepts around start-ups were applied to real estate start-ups and further discussed the applicability of the concepts, such as scalability, growth, and success factors. The two conceptual frameworks, figures 1 and 2, established summarize the key aspects identified in this study.

Conclusions

In conclusion, the established principles about start-ups, in general, seem to be applicable for real estate start-ups. However, the details of how to build a real estate start-up do differ based on the chosen business strategy. The most significant success factors identified for real estate start-ups are organizational learning, social capital, financial capital, and strong ideation skills. The process of establishing a successful real estate start-up can be divided to three steps. Firstly, choosing a business strategy and narrowing it down into an easily scalable action plan to identify a potential business opportunity. Secondly, identifying the most significant scalability and growth factors to understand in which factors the business growth of the real estate is dependent on. Thirdly, considering success factors to realize what kind of resources the start-up founders already have and what kind of resources they still need to acquire.

Key words: Real Estate, Start-up, Entrepreneurship, Business Strategy, Business Growth, Scalability, Success

Language: English
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1. INTRODUCTION

1.1 Background

Start-ups have been generally viewed as high-risk ventures seeking high returns. The most typical start-ups are focused on developing information systems, which as technically implemented social systems tend to be scalable with a large potential userbase and growth. Beyond the standard, start-ups in the real estate industry are less discussed and identified, leaving room for further research. The real estate industry facilitates the well-being of people by providing infrastructure for living and business purposes. By having sufficient real estate, society can continue to operate efficiently.

Bryant (2020) estimates that the failure rate of the start-ups is around 90% in general. Due to the high failure rate, start-ups may be seen as unattractive from the perspective of risk-averse entrepreneurs (Artinger & Powell, 2015; Hayes, 2021). Entrepreneurs can discover opportunities that offer high growth potential and relatively limited risks when successfully managed by exploring different business industries. For instance, real estate entrepreneurs may find opportunity gaps meeting the scaling requirements for setting up a start-up. Such gaps leave room for significant growth, enabling business opportunity discovery. These gaps are known as business opportunities (Hansen et al., 2011).

Designing a roadmap for real estate start-ups gives detailed insight into possible aspects before starting such a start-up. The roadmap could be viewed as a part of business plan. In turn, the researchers have differing views about the benefit of the business plan (Sarasvathy, 2001; Delmar & Scott, 2003; Andersson, 2011). According to Delmar & Scott (2003) the business plan is seen to have most benefit for new businesses, rather than for already established businesses. Building a solid foundation for the business by selecting the right strategy, right people and right geographical location for the business operations will support the start-up's success (Baum & Locke, 2004; Casadesus-Masanell & Ricart, 2010; Sekliuckiene et al., 2018). Therefore,

having a roadmap can be highly beneficial for the early-stage real estate start-up as the management is more aware of the possibilities that the real estate industry offers.

1.2 Research Problem

The research problem is about how to establish a successful real estate start-up, and what options there are regarding the business growth of a real estate start-up. Further, success factors will be identified along with the appropriate business strategies for the real estate start-ups.

Regarding the start-ups, there is a significant amount of information available in general. However, regarding the real estate start-ups specifically, the amount available academic sources touching on real estate industry from the perspective of start-ups is low, and hence it is expected that multiple gaps may be found. The sources elaborating on the real estate start-ups that exist currently mainly focus on the topic from the perspective of information technology (Ullah et al., 2018; Saiz & Salazar, 2020). The questions relating to the research problem that remain unanswered will be elaborated at the end of the thesis as suggestions for further research.

1.3 Research Questions

The research conducted will aim to answer the following questions:

- How to establish a successful real estate start-up?
- What are the success factors of real estate start-ups?
- What kind of business strategies apply to real estate start-ups?

Roadmap to successful real estate start-up will be constructed based on the answers to the research questions. Further, the aim is to conceptualise the roadmap by creating a conceptual framework to facilitate the learning process for the reader.

1.4 Research Objectives

The objective of the research is to highlight the important aspects of the establishment of a real estate start-up so that research would assist individuals, and businesses, especially start-ups, to make the right business decisions from their perspective. The key aspects identified through research will be illustrated by constructing a conceptual framework, which increases the research's skim value and explains the insights found using visual tools to avoid misunderstandings between the reader and the study.

1.5 Structure of the Thesis

The objective of the thesis structure is to illustrate the general current journal articles views regarding the topic first, after which the research conducted by the researcher will be presented. Therefore, the insights found through methodology can be understood and reflected by the reader more easily as background knowledge of the topic is already possessed after the literature review section. The structure of the thesis will be as follows:

- Literature review: secondary research will be done based on online journal articles.
- Methodology: the researcher will conduct their research by interviewing representatives of a Finnish early-stage company operating in a real estate sector.
- Findings: The information gathered from the interviewees will be interpreted, analysed, and applied to the thesis.

- Discussion and analysis: the interview analysis will be made, and the business strategy of the HP Housing Oy will be applied to the thesis.
- Conclusion: final thoughts and future research suggestions will be identified based on the secondary research and the own research conducted.

2. LITERATURE REVIEW

2.1 Introduction to Literature Review

This literature review is about the success of real estate start-ups, explicitly focusing on the success factors and business strategies that can be linked and applied to the real estate start-ups. The two most significant definitions to understand the thesis itself and its angle are start-ups, and real estate, which will be defined in the following paragraphs. If contradicting definitions are found, the one defined in this thesis should be used to interpret the research conducted in this thesis.

According to Grant (2021), start-up is a high-risk company in the early stage of developing a product or service to provide value to society. Further, it is identified that start-ups tend to be funded by the founders themselves and the venture capitalists seeking extreme profits for the capital invested (*ibid.*). In this thesis, start-ups are defined as early-stage companies, which generally are considered to have high risks and high growth potential. Further, the time frame from the foundation of such a company and the end of the early stage remains unspecified.

Real estate is defined as a property permanently attached to the land. For example, land and the house constructed on top of that specific land are considered real estate. There are five types of real estate identified: residential, commercial, industrial, land, and special purpose (Chen, 2021). In this thesis, the research will focus mainly on the two types of real estate identified, residential real estate and commercial real estate. The residential real estate will be focused the most. Residential real estate refers to the properties used for residential purposes, as commercial real estate is related to the properties used exclusively for business purposes. (Chen, 2021)

The following literature review focuses on journal articles relating to real estate and start-ups. Topics such as scalability, business growth, and business strategies will be discussed in detail based on the researched articles. The objective of the literature review is to give a holistic understanding of the current stage of the literature regarding

real estate start-ups. In the literature research, only a few of the journal articles found during the research process were explicitly focused on real estate start-ups. Hence, the references will be mainly related to real estate or start-ups.

There is a lack of research published regarding the real estate start-ups specifically, which leaves room for researchers to find multiple gaps from the current literature. Further, the gaps identified may contribute to the suggestions for future research.

The time frame of journal articles is from 1989 to 2021, while most of the references used are published in 2010 or later. The literature used is mainly peer-reviewed journal articles or fact-checked references from the reliable party.

2.2 Scalability and Business Growth

Scalability promotes business growth in the long run while considering business operations and action plans that aim to grow the business even further (Carucci, 2016; Lund & Nielsen, 2018). Without a scalable business plan, or business model, the company may face a sudden drop in business growth, and hence it can prevent start-ups from becoming large corporations. The scalability factor should be considered thoroughly, especially among early start-ups, as they intend to find a suitable business model for them.

In the MIT Management Review article written by Nielsen & Lund (2017), five scalability patterns are identified applied to the business models. Adding new distribution channels, exploring ways to work around traditional capacity constraints, shifting capital requirements to partners, leveraging the work of business partners, and implementing platform models are the patterns identified in the journal article (ibid.). Although these patterns are well communicated and explained, the applicability should be reviewed based on the business industry the company is operating in. In addition, the size of the company and current business model affect which of these patterns are currently relevant for business growth. Especially such early start-ups with limited

resources should consider growth hacking possibilities and the scalability patterns to choose the most suitable way to scale up the business operations (Feiz. et al., 2021).

2.2.1 Scalable Real Estate Start-Ups

Scalability for real estate companies is essential to consider, especially among start-ups. Scalability has to be taken into consideration to grow at a rapid phase which is the goal for the start-ups otherwise, the intended start-up may change to being a business with moderate growth rather than an actual start-up with high growth potential.

There are just a few articles regarding the literature touching on real estate start-ups scalability. The most intriguing and relevant article for the real estate start-up scalability is the article written by Ullah et al. (2018) about applying disruptive technologies around the real estate industry. Mainly, the disruptive technologies discussed are information systems built to analyse the real estate market or distribute real estate related information (ibid.). For example, a platform where the seller and buyer of the home can arrange the sale securely inside the information system developed, and hence the need for a real estate agent and their fees will be removed. According to Nielsen & Lund (2017), such information system development would be categorised as adding new distribution channels or implementing platform models among the scalability patterns identified.

According to the O'Reilly & Binns (2019), a start-up has to grow fast enough to maximise the market opportunity identified. It is further identified that scaling is less problematic in entrepreneurial companies than large companies with a large organisational structure as it tends to require organisational changes, which rely on successful management practices. Although the article written by O'Reilly & Binns (2019) is well structured, it lacks specification whether the need to grow fast enough to maximise the market opportunity identified applicable to every start-up industry in general, and to what extent. Aiming to start the business operations as quickly as possible, the goal in mind to maximise the market opportunity might harm the business

growth if insufficient funds are reserved for the business operations planning and market research.

As a real estate start-up entrepreneur, the business planning regarding the current scalability possibilities for the business operations may increase the likelihood of successful scaling and hence a chance to establish a successful real estate start-up (Chwolka & Raith, 2012).

Overall, scalability is considered a crucial factor in start-up development, where scaling is needed. Inability to scale as a start-up may lead to delays in business growth as the business model lacks clear patterns and plans to sustain and develop the business further. Ultimately the business model scalability issues can lead to failure of the start-up, despite the successful ideation and incubation phase. (Nielsen & Lund, 2017; Picken, 2017; Nair & Blomquist, 2018; O'Reilly & Binns, 2019)

2.2.2 Growth Factors for Real Estate Start-Ups

The growth factors of real estate start-ups relate closely to the success factors for real estate start-ups. The distinction between the growth factors and success factors in this thesis will be that growth factors are specifically about the factors contributing to the growth of the company. In contrast, the success factors will elaborate more broadly on what kind of success factors affect the success of the real estate start-ups. The success factors will include aspects crucial for sustaining the current growth by considering the growth factors, current scalability patterns, and chosen business strategies.

The researcher found no journal article on growth factors for real estate start-ups in general in the current literature. There is a gap that can be filled by conducting further research. Therefore, the growth factors for the real estate start-ups will be applied by considering the current literature discussing the growth factors in general among the start-ups and large real estate companies.

Regarding the real estate companies, specifically, the data analysis made by Liow (2010) identified that successful real estate companies tend to take advantage of positive financial leverage effects, which further contributes to the sustainable growth rate, and profitability in the long term. Positive financial leverage means borrowing funds at a specific rate after which the borrowed money will be reinvested at a higher rate than the loan costs to the borrower (Adkins, 2021; Bragg, 2021). As part of the company's risk management is wise to utilise debt with a fixed interest rate, meaning fixed-income securities, to ensure that the financial leverage stays positive (Adkins, 2021). Also, financial leverage can be obtained by selling preferred stock to the shareholders (Liow, 2010). The journal article written by Liow (2010) lacks specification, what kind of positive leverage is meant. The scope of the research made took into consideration only large real estate firms that are listed on a stock market (Liow, 2010). When applying to start-ups, the size of the company should be taken into account.

Positive financial leverage is considered one of the growth factors as it contributes to profitable growth in the long term (Liow, 2010). From the perspective of the entrepreneur, raising capital, in general, is a challenging process that requires time and effort (Timmons & Sander, 1989). While seeking financing, the start-up should also consider the knowledge and experience those potential investors may have to offer (ibid.).

Leverage is identified as a growth factor by O'Reilly & Binns (2019). In the journal article, resources between mature companies and start-ups are compared where the lack of resources is identified as an issue with start-ups. In contrast, mature businesses already have the resources to leverage the new growth areas identified. In practice, the leverage resources could mean an existing customer base, marketing channels, and capital. In addition to the leverage, the potential growth factors contributing to the growth of the start-ups identified are partnerships and acquisitions. (O'Reilly & Binns, 2019)

For the real estate start-up, partnering with the foreign start-up may increase both parties' growth potential (Baloh et al., 2008; O'Reilly & Binns, 2019). According to Baloh et al. (2008) partnerships embrace innovative ways of conducting operations

due to the differing organizational knowledge they possess. As an example, two separate real estate start-ups operating in different parts of the EU could partner and gain mutual resources utilised by both. For instance, one start-up flipping apartments in Finland and other flipping apartments in Spain could establish a joint customer base. Both parties would benefit from the increased demand for the renovated apartments. Another option would be that the Finnish real estate start-up would acquire a Spanish real estate start-up. Even though the growth potential in this scenario might be higher, there would be multiple managerial risks involved as the business environment in Spain would differ from Finland.

O'Reilly & Binns (2019) identify the available capital as a growth factor in start-ups in general, whereas Liow (2010) identifies precisely how the positive financial leverage is considered a growth factor among large real estate companies. In addition to the positive financial leverage, partnerships and acquisitions are identified as potential growth factors for real estate start-ups (O'Reilly & Binns, 2019).

2.3 Business Strategies for Real Estate Start-Ups

According to the research conducted by Svatosova (2018), "Corporate strategy is formulated only by 47% of SMEs, of which only 27,5% formulated the strategy in written form." Further, it is noted by the study that corporate strategy is found to have a positive effect on the financial results of the SME. Svatosova (2018) elaborates well on how the importance of the strategy is being underestimated, especially among SMEs. The larger the company, the more usual it is to have a strategy. Whereas Svatosova (2018) discusses the importance of a strategy for the SME, Khan (2018) proposes a practical one A3 sized strategy framework that can be used as a basis in the formulation of the company's strategy, especially among start-ups. The idea of having a business strategy in a written form is supported by both Khan (2018) and Svatosova (2018).

The terms strategy and business models are often used interchangeably when dealing with business-related topics. Hence, it is important to clarify the difference between a

business strategy and a business model. In the journal article written by Casadesus-Masanell & Ricart (2010) the differences between the business model, and the business strategy are discussed. The business strategy means what business model the company is choosing (ibid.). In contrast, the business model itself means what kind of practices need to be taken to operate as a profitable business (Casadesus-Masanell & Ricart, 2010; Kopp, 2020). For example, a real estate start-up may choose to start flipping apartments in crowded city centers. The flipping will be done by searching apartments with a low listing price compared to the potential value of the apartment after the renovation is made. The profit is made by providing already renovated apartments to citizens for which the citizens are willing to pay. The flipping is the company's strategy, whereas explaining how the strategy can be implemented in practice to provide value to the stakeholders is called a business model.

The following business strategies are covered in this section of this literature review:

- Apartment Flipping
- Apartment Construction
- Apartment Renting
- Developing Real Estate Information Systems

2.3.1 Apartment flipping

The basic idea behind apartment flipping is to buy an apartment at a relatively low price and sell it later at a higher price. The flippers flipping apartments tend to renovate the apartment bought to maximise the profit from the flipping activity. According to Depken et al. (2009), flip apartments tend to be older and smaller than non-flip homes. Further, it is defined that flip apartments are apartments that have changed hands within two years since the last owner bought the property. Flippers may aim to market the houses at comparatively high list prices regarding the flipped apartments selling. Although it is noted that such a high list price strategy is being used in apartment flipping, the article lacks an in-depth discussion of why the high list price strategy might work. However, one reason noted is the existence of apartment buyers with a lack of

knowledge about the local real estate market. Due to the lack of knowledge, such apartment buyers might buy the apartment with a high listing price because they would think it to be listed at a fair market price. (Depken et al., 2009)

Interestingly, several other scholarly sources identified the high list price strategy, whereas listing an apartment at a higher than the market price may ultimately result in a higher sell price due to the anchoring effect. In the anchoring effect, the property's value with a high list price seems more valuable to the bidder. Hence, the bidder is willing to bid a higher amount for the apartment with a high list price than the apartment with a lower list price. (Gatzlaff & Liu, 2013; Kopsch et al., 2021)

Kopsch et al. (2021) study suggests that the higher list prices enable sellers to capture higher selling prices. However, it is further noted that the amount of time the apartments are sold on the market "TOM" is also higher. In contrast, the low selling price tends to shorten the TOM, time on the market. (Kopsch et al., 2021)

In contrast to Kopsch et al. (2021), a study conducted by Han & Strange (2016) concludes that the asking price might not matter for the seller. Further, it is noted that the asking price is negatively related to the number of bidders (Han & Strange, 2016). So, the higher the asking price, the fewer bidders can be expected. Also, it is identified that fewer below listing price transactions happen in an economic rise, whereas more at or above list price transactions do happen (ibid.). For the real estate start-up, flipping apartments in an economic downturn could complicate the sale of the renovated apartments as the buyers would be less willing to pay the list price of the apartments. Hence, operating in such an economic downturn could drive the profits from the flipping operations down.

The real estate start-up choosing to utilise apartment flipping as a strategy should consider what kind of apartments to flip, the apartments' geographical location, the listing price strategy, and the current economic environment to operate successfully.

2.3.2 Apartment Construction

There were only a few scholarly articles discussing apartment construction from the perspective of business operations, especially regarding start-ups and apartment construction. For the start-ups, apartment construction is probably the least likely initial strategy due to the challenges, such as high capital requirements compared to apartment flipping.

Kaklauskas et al. (2014) identify apartment construction as a “conservative branch of economy and it is difficult to introduce innovations.” Although Kaklauskas et al. (2014) identify that it is challenging to introduce innovations in apartment construction, it is possible to significantly impact innovations by constructing and managing start-up hubs (EIT, n.d.).

The idea of the start-up hub would be to offer facilities exclusively to start-ups, and in return, take a share of the start-up. The start-ups would benefit by creating mutual local connections in the start-up hub. For the start-up constructing the hub, such business operations would be extremely risky and require significant capital. The compensation would at least partly be paid in shares rather than in euros. On the other hand, the potential achieved would be extreme if done successfully. The idea suggested has been partly implemented by the Tampere Startup Hub Oy (n.d.).

2.3.3 Apartment Renting

Apartment renting as a business strategy is a relatively simple way to generate constant cash flow. For the real estate start-up, apartment renting is less favourable in terms of growth potential than apartment flipping, construction, and developing real estate information systems. However, occasions may occur where the already bought apartment should be rented to maximise the return on business operations. For instance, while conducting an apartment flipping strategy, potential apartments with attractive valuations may occur in the markets that the company should consider purchasing. However, they might lack time to renovate the apartment immediately. In

such situations, the real estate start-up can acquire the apartment and rent it until they have resources, especially human resources, to renovate such an apartment.

The academic literature about apartment renting as a business strategy is limited to few journal articles mostly discussing the social aspects of renting or maximising rental income (Bronwyn, 2019; Fawcett, 2020). More case study-based journal articles discussing renting as a business strategy should be published. Publishing case study-based articles would further develop academic knowledge about the real estate industry.

Fawcett (2020) elaborates on the ways to maximise the renting income, of which to first three aspects identified can be applied internationally. In contrast, it comes down to the jurisdictions of the nations where the company is operating in with the later ones. Conducting investments property analysis, picking the right tenants for the rental, and acquiring positively geared properties are identified as ways to maximise the renting income. By positively geared properties, it is referred to properties that generate positive cash flows after considering all the expenditures. (Fawcett, 2020) The positively geared properties might be irrelevant for the real estate start-ups temporarily renting apartments as the value generated comes mainly from the flipping activities rather than renting while apartment flipping strategy is conducted in particular. The renting is only used to maximise the profits from the operations.

2.3.4 Developing Real Estate Information Systems

The development of real estate information systems is probably the most innovative business strategy regarding the business strategies for real estate start-ups. Although the information systems are viewed as highly scalable, it should be noted that scaling information systems includes regulatory risks (Büge & Ozcan, 2021). The key challenges of developing real estate information systems are linked to available experienced human resources, poor project management, and lack of funding (Nelson, 2008).

Regarding the journal articles published discussing the real estate information systems, some well-written, in-depth articles concern the various possibilities for developing the real estate information systems, two of which are identified by the researcher (Ullah et al., 2018; Saiz & Salazar, 2020). In the journal articles, real estate information systems work as a social system between both parties, sellers and buyers. Notably, in both extensive well-written articles regarding the real estate information systems, blockchain is identified as a possible technology to be adapted to the real estate information systems. The blockchain applications might delete the need for the third parties and hence make the real estate industry more efficient. (Ullah et al., 2018; Saiz & Salazar, 2020)

Developing real estate information systems should be considered, especially if there is any expertise in developing information systems or social contacts that have expertise in the field among the start-up founders.

2.4 Success Factors for Real Estate Start-Ups

The success of the start-up is a complex set of actions to be taken and particular characteristics to be possessed, which ultimately lead to generating value for its customers. Start-ups thriving for success should choose the right business strategy, the right business model to deliver value by practicing the chosen business strategy, and especially the right people who eventually are the ones enabling the success of the start-up. Moreover, while start-up is making decisions regarding its success, the current state of the business environment should be considered and compared that to the available financial and social capital, start-up growth potential to choose the right way of developing a successful start-up. (Chesbrough & Rosenbloom, 2002; Sekliuckiene et al., 2018; Skawinska & Zalewski, 2020)

Creating a business strategy and how the business model is operated is affected by entrepreneurial imaginativeness (McMullen & Kier, 2017; Kier & McMullen, 2020). It is identified that both the similarities and differences among the teams' imaginativeness contribute to the new idea generation (ibid.). However, it is noted that there should be similarities among the team in the imaginativeness (ibid.). Kier & McMullen (2020)

specify that while the team members have differences in ideation, it is crucial to understand the different perspectives among team members as such teams can manage the different opinions. Managing the different opinions further contributes to the strong ideation skill of the team (ibid.).

As a part of the business strategy, the start-up should consider building a strong, consistent brand among the business operations to enhance the customer experience by making the specific business easily recognisable from others. The journal article written by Mingione & Abratt (2020) discusses how businesses should start building a corporate brand. One of the first steps identified is internal brand recognition, which should be established before communicating the brand to other stakeholders. Therefore, the brand can remain consistent, which can enhance the overall brand value and recognition in the long term, building upon the success of the respective company. (Mingione & Abratt, 2020)

A Journal article written by Sekliuckiene et al. (2018) elaborates on the importance of organisational learning regarding start-up growth. The key questions addressed are why entrepreneurial learning is important, and how to utilise the learning process in different development stages of a start-up to embrace growth. (Sekliuckiene et al., 2018)

Sekliuckiene et al. (2018) identify a lack of industry-specific experience and case studies as limitations. The article focuses on the secondary data gathered, which can be viewed as superficial compared to the journals where, for instance, the case studies have been included in the research giving a more holistic understanding of the phenomenon described. Despite the limitations, the article can be a valuable source for the thesis relating to entrepreneurship, business growth, and start-ups. (Sekliuckiene et al., 2018)

Term social capital used together with organisational learning is an intriguing aspect. Social capital refers to all connections the organisation may have with the business environment stakeholders, such as investors, researchers, customers, and other professionals in the field of business (Spiegel et al., 2016; Kenton, 2021). Sekliuckiene et al. (2018) elaborate on how developing social skills and building social networks

increase the social capital of the start-up and, therefore, support the entrepreneurs' learning. Further, this learning is viewed as a crucial part of the start-up business growth in the novel conceptual framework established (Sekliuckiene et al., 2018).

The business growth strengthened by organisational learning ultimately contributes to the success of the start-up. As Sekliuckiene et al. (2018) focus on the organisational learning that the social capital enables, the article written lacks elaborating further on the financial capital, which may be gained through investor relations. Whereas Sekliuckiene et al. (2018) refer to the social capital, Skawinska & Zalewski (2020) divide the social capital into three different categories while elaborating on start-ups' success factors; access to human capital, quality and outcomes of institutions and business relations, and business experience.

For the real estate start-ups, it is fair to assume that the insights from the success factors of the start-ups can be applied to the real estate start-ups. However, it must be noted that some of the success factors identified can be more important for the real estate start-ups specifically, for instance, the financial capital. Despite the possible variance of the importance of specific factors, success factors should be viewed holistically rather than reviewing one particular factor at a time.

2.6 Conceptual Framework

The conceptual framework presented in figure 1 illustrates the considerations graphically to be made while establishing a successful real estate start-up. The framework should be reviewed holistically, rather than inspecting a single aspect of the framework, as success tends to rely on many factors. The graph illustrated is purely based on the literature review made, and hence there probably are more factors to the success of the real estate start-ups. Therefore, the objective of this framework is graphically to summarise the factors elaborated on in the literature review. The reviewer should read the literature review to gain a more in-depth understanding of the graph and its relationships represented. Three major consideration categories to be made when establishing real estate start-ups are identifying the success factors, scalability and growth factors, and business strategy.

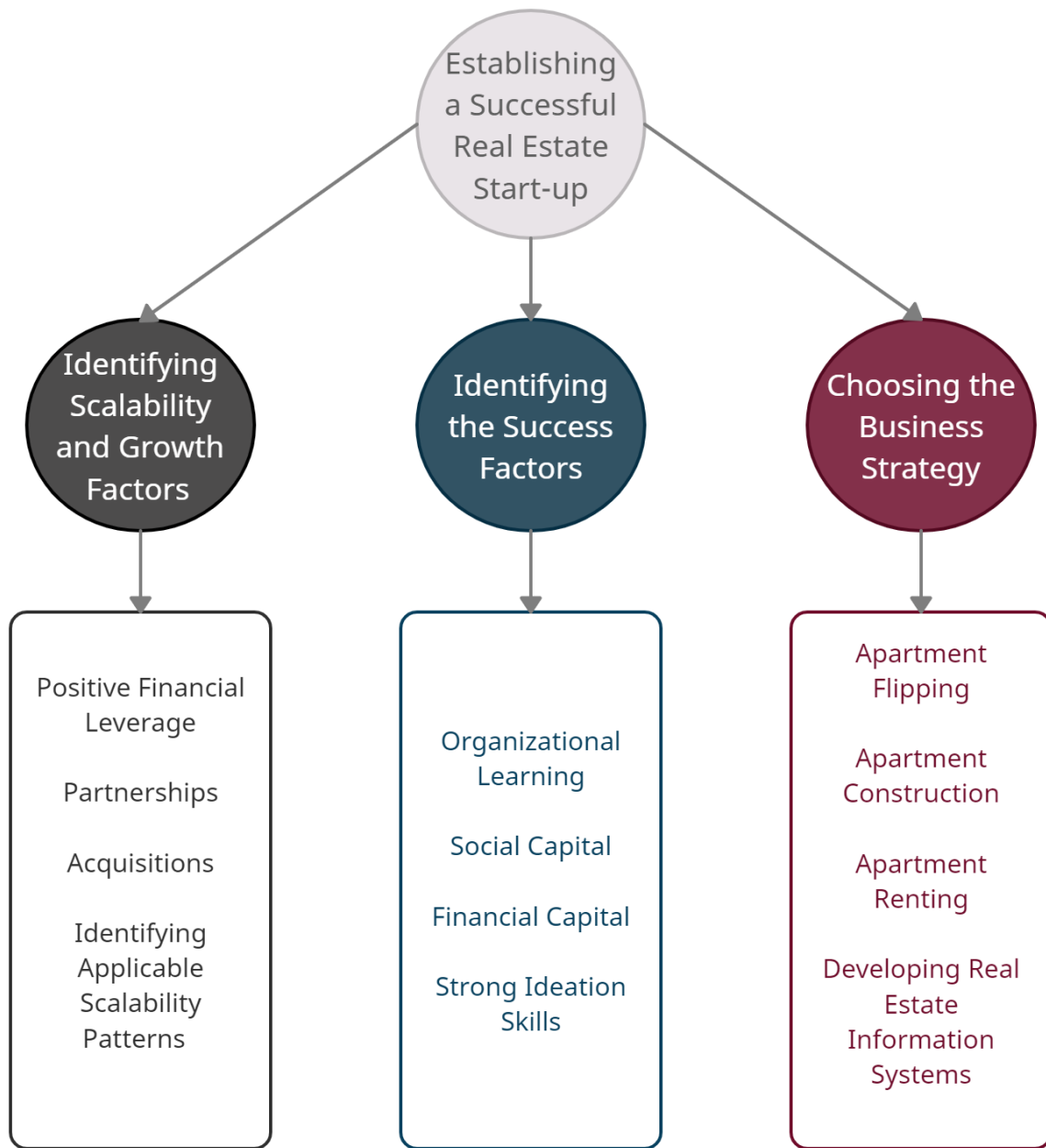


Figure 1 - Conceptual framework of the establishment of the successful real estate start-up

2.7 Literature Review Conclusion

Overall, the literature review conducted three different angles regarding real estate start-ups; scalability and growth, business strategies, and success factors. The literature review gives a relatively strong basis for further research in the field of real estate start-ups. Especially regarding the information systems and real estate start-ups, innovations seem to be arising in the future. Eventually, the success of the real estate start-ups comes down to the people. The success of any start-up requires the right people who are willing to pursue the daily business operations and devote a significant part of their time to the start-up journey despite the high risks of failure involved. These people are called entrepreneurs in our society.

3. METHODOLOGY

3.1 Research Method

The research conducted is based on qualitative research. The data for the research is collected through two interviews, where both interviewees are representatives of the case company, HP Housing Oy. Case study approach is utilised through the interviews with the company representatives. The objective of the case-based interviews is to provide a more extensive analysis of one of the possible real estate start-up strategies, which is apartment flipping. Regarding the future, more interviews can be conducted in apartment flipping strategy and expand to other possible real estate start-up strategies to further develop the research.

The case study approach is noted by Eisenhardt (1989), which the approach is identified to be especially suitable while researching new yet unresearched topics. In the case study approach, novel insights might be discovered, and therefore new research areas, research questions, and perspectives can be obtained. Beyond the potential novelty, testability and empirical validity are identified as strengths in the case study approach. Weaknesses identified are overly complex and narrow theories discovered. (Eisenhardt, 1989)

The apartment flipping strategy for real estate start-ups has remained a marginally researched topic. Hence, the case study approach is an appropriate way to approach the research of the apartment flipping strategy. Regarding future research, the case study approach could be applied to several companies and gain the ability to identify similarities and differences between the real estate companies operating in the apartment flipping area. These learnings further can be applied to real estate start-ups particularly.

3.2 Introducing the Case Company

The case company in this research is HP Housing Oy. HP Housing Oy, a limited liability company, was founded in 2020 in Finland (Kauppalehti, n.d.). As a limited liability company, the purpose of HP Housing Oy is to generate profits for its shareholders (Finlex, 2012).

As a company, HP Housing Oy flips residential apartments by buying the apartments at a relatively low price then renovating the apartments after the apartment is sold in the housing market at a higher price. The monetary value obtained from the sold apartment has to be at least the original purchase price plus the renovation expenses to break even. Operating as a business requires HP Housing Oy that most of the apartments flipped generate profits instead of loss or break-even. (Tiktok, n.d.)

The company is founded and managed by Joonas Hartman and Rasmus Peltola, who devote their full time developing the HP Housing Oy apartment flipping business. Both founders have experience regarding real estate industry previously before starting the apartment flipping business. Regarding the renovating operations, the company currently outsources most of the projects by utilising available social capital.

3.3 Semi-structured Interview Frame

A semi-structured interview frame is utilised to embrace potential novelty found during the interviews. As if the interviewees have a particular topic to highlight regarding apartment flipping as a business strategy, the flexible interview structure supports the variance in the output from the interviewees. The interview focus is on the expertise of the interviewees that the representatives of the HP Housing Oy have gathered during their entrepreneurial journey. The questions of the semi-structured interview frame can be found in Appendix 1.

The breakdown of the semi-structured interview questions found in Appendix 1 is as follows:

- Q1 is an introductory question that aims to prepare the interviewees for the interview process
- Q2 and Q3 are related to the research questions of the thesis
- Q4 and Q5 are about managerial practicalities
- Q6 is about expertise, knowledge, and skillset required
- Q7 and Q8 are about social and financial capital
- Q9 is about corporate brand importance in the apartment flipping
- Q10 and Q11 are about discovering further insights about apartment flipping as a business strategy

3.3.1 Interviews Conducted

Interviews were conducted virtually on the Zoom video communications platform. The interviews were recorded so that the interviewer is able to revise the topics covered during the interview. In both interviews, the semi-structured interview frame introduced in appendix 1 was used so that interviewer can compare the similarities and differences in the perspectives of the interviewees.

The language used in interviews is Finnish as both founders have a robust Finnish background, so communicating through Finnish was the most convenient option for both parties. The length of both virtual interviews was about 30 minutes, which followed the interview structure introduced in Appendix 1. The interviewees elaborated well on apartment flipping, and through the interviews, in-depth insights were gained.

4. FINDINGS

4.1 Findings from the Interviews

The conceptual framework presented in figure 2 below illustrates key steps required to conduct apartment flipping strategy in practice for a real estate start-up. The steps illustrated in the framework are based on the knowledge gathered through the interviews conducted. Figure 1 is also utilised based on the literature review conducted in the second section of this research paper. The purpose of the framework is to summarise the main findings and offer a convenient, easily readable framework, which can be viewed as an additional perspective while conducting further research regarding real estate start-ups or apartment flipping particularly. A more in-depth analysis of the findings can be found in section 5, discussion and analysis.

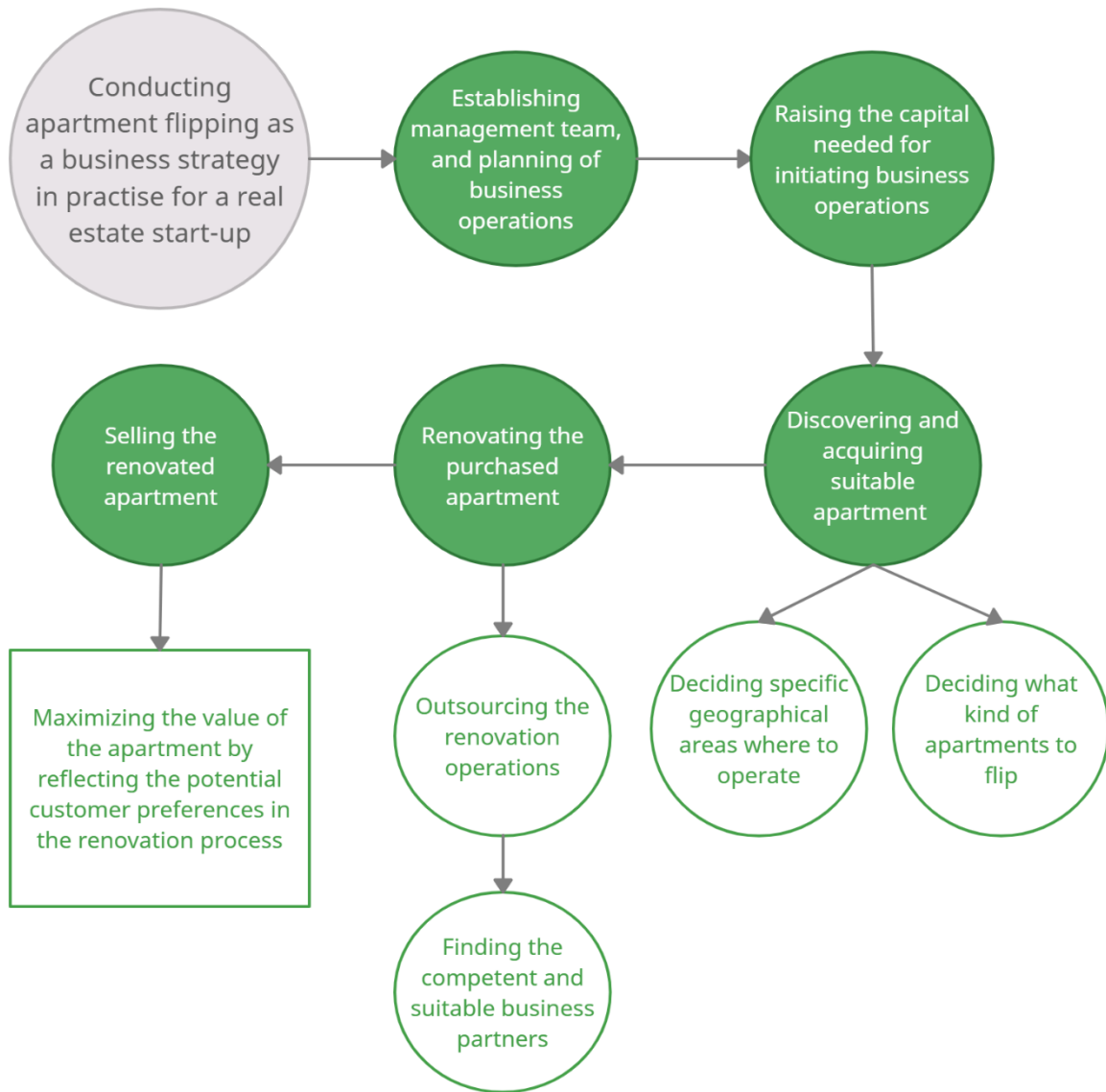


Figure 2 - Conceptual framework illustrating key steps required to conduct apartment flipping strategy in practice for a real estate start-up

4.1.1 Company, HP Housing Oy

The company chosen in this methodology is the HP Housing Oy. The main business strategy that the company is implementing is apartment flipping. Currently, the company operates mainly in Espoo, Finland.

In 2021, the HP Housing Oy revenue was around 1,2 million euros, and they flipped 8 apartments in total, which exceeded their initial goals for the financial year 2021. The company aims to flip 12 apartments in 2022.

4.1.2 Business Model of the HP Housing Oy

The business model of the HP Housing Oy can be explained in relatively simplistic terms. The core idea of the business model of the HP Housing Oy is to find relatively low valued apartments that require renovation. After discovering an attractive apartment, HP Housing Oy acquires the apartment and then starts renovating operations. The idea is that the apartment selling transaction value is higher after considering the purchasing transaction value and renovating expenses. If so, then profit is made in the apartment flipping process.

The apartment flipping process can be divided into three parts:

1. Discovering and acquiring suitable apartment
2. Renovating the purchased apartment
3. Selling the renovated apartment

The apartment flipping may sound to be a simple and easy business model to practise. However, it should be noted that in practice managing the business operations in a profitable and scalable way is the challenge. The operational success of apartment

flipping requires social capital, meaning contacts, to make it profitable. In addition, to the social capital, scheduled planning is necessary so that the renovating projects are completed in a fast phase.

Social capital is required beyond outsourcing the renovation part of the process. Social capital is needed in the first part of the apartment flipping process, where the apartment will be discovered and acquired. Particularly, discovering the apartment requires regional knowledge to maximise apartment flipping operational profit. Knowledge of the local apartments, their characteristics, favourable locations, etc. contributes to the success of the apartment discovery phase. Therefore, if scaling the apartment flipping business, regional managers should be found who know the local real estate market well. The successful hiring process further requires social capital to scale effectively.

4.1.3 Limitations

There are limitations to this qualitative research methodology utilised here in this research. As only one case company was chosen, the information regarding apartment flipping can be viewed as somewhat restricted compared to the study where multiple case companies would be chosen. Multiple case companies would enable analysing patterns between the different case companies, discovering so-called cross-case patterns. In addition, the case companies could be chosen from different geographical locations to gain a more international perspective and discover potential challenges when scaling the apartment flipping business abroad.

5. DISCUSSION AND ANALYSIS

In the discussion and analysis part, abbreviations will be used as follows to enhance the readability:

Joona Hartman – JH

Rasmus Peltola – RP

5.1 Comparison Between the Interviews

Corporate strategy:

JH made a distinction between the two common strategical ways to practise apartment flipping. The first option is to handle the renovating operations themselves, and the second is to outsource the renovating operations. More particularly, the two differing strategical ways to practise apartment flipping could be divided into individuals seeking profits from flipping one apartment at a time and professional business owners aiming to scale the business operations by outsourcing the renovation operations.

The outsourcing method seems to be more convenient as it enables rapid growth for the real estate start-ups compared to the situation where the company handles the operations independently without outsourcing the renovation from the perspective of real estate start-ups and scalability.

Regarding the scalability of corporate strategy, RP and JH identified that selecting specific real estate market areas is crucial for growth. In addition, to the geographical area, specific types of apartments should be sought, rather than intending to focus on everything.

Focusing on specific types of apartments in specific geographical areas facilitates the business strategy scalability compared to a situation where the business intends to focus on kind of everything. The challenge in focusing on all types of apartments on

the market is a large number of apartments available for sale. As the target market is limited to specific areas and specific types of apartments, the sample size of the apartments for sale is smaller, making it easier for the company to find suitable apartments for the flipping activities from the sample.

Both JH, and RP elaborated a bit about the internationalisation process of apartment flipping. JH noted that while expanding to foreign countries, bank relations might become a challenge for a company with limited cash. For instance, the Finnish banks are reluctant to give out loans for buying apartments from abroad. Therefore, while expanding an apartment flipping business abroad, one should have sufficient cash to buy an apartment without a loan or be prepared to negotiate with a foreign bank to get a loan. RP also noted that while planning to expand apartment flipping to a foreign country, one should have contacts with knowledge of the local real estate market as it is crucial for the success of the apartment flipping.

The comments from JH and RP in the internationalisation process were relevant. To further elaborate on the internationalisation process of the real estate start-up, raising the available cash through outside private investors rather than from the bank is also an option to consider.

Sustaining the scalability of the business strategy is highly important while the aim is to grow the business. JH noted that to maintain the scalability of the apartment flipping, the company should consistently aim to find new channels to discover apartments and make sure that enough skilled personnel is found to perform the renovation process. In addition to these two factors, the company should have enough free cash to enable the purchase of the lucrative apartments for flipping activities continuously so that multiple apartment flipping projects can be managed simultaneously.

Managerial practicalities:

Regarding managerial practicalities, JH focused more on the financial side, whereas RP concentrated on the social side.

RP elaborated on how the different personality traits between the founders, RP and JH, have been challenging. However, they have managed the situation professionally and have matched the differing skillsets well. It should be noted that earlier RP mentioned that one of the keys to their success has been indeed the differences in the skillset that they have had between RP, and JH. So, the managerial challenge they have faced could be considered a positive one. In addition, RP added that it is highly important to recognise these differing skillsets, and according to these differences, varying responsibility areas among the management team should be divided. In practice, the advice of the RP means that the one should contribute work, particularly in such areas, where they are good at.

By dividing the responsibility areas based on the skillsets, the company creates a strong foundation for successful teamwork. Specialisation may seem like an apparent managerial practice. However, it is one of the key elements of managing the company successfully and creating strong teams.

Regarding the financial side management, JH emphasised how it is challenging to raise capital for a recently established company. The outside stakeholders view the risk of investing in such a company without previous history or operations to be high. Hence, the company's management should plan how to raise capital in the company's early phase. One practical recommendation that the JH, and RP proposed is to start initially with just one apartment project. Having proof of successful apartment flipping operations enhances the company's possibility of raising capital with better terms and conditions from both private investors and financial institutions.

Both JH and RP highly recommended that the management should plan in advance the business operations, divide the responsibility areas among the management team, monitor the success of the operations continuously, and act accordingly if changes are needed in the business activities.

Learning Curve:

JH mentioned the lack of literature discussing apartment flipping as a business opportunity. None apartment flipping books have been published in Finnish. Despite that, some blogs and articles dealing with apartment flipping in Finnish are available. RP notes that one considering entering the apartment flipping industry should consider available apartment flipping literature as perspective giving, rather than viewing the literature written as an absolute truth. There are varying ways how the company can establish an apartment flipping business and manage business operations. In addition, the geographical location affects significantly how to conduct successful apartment flipping operations. The apartment should be renovated as a luxury in one area, whereas only minimalistic renovation is required in other areas.

Both RP, and JH agreed that the apartment flipping company should consider the differences in citizens' preferences in different geographical locations regarding apartments.

Social and financial capital:

JH and RP both recognise the need for initial financial capital. Initially, entrepreneurs should consider self-funding apartment flipping company operations themselves. It would leave room for more flexibility regarding future operational decisions as the company would lack outside investors with possible voting rights at the beginning of the operations. However, such self-funding requires entrepreneurs to have financial capital available and be willing to risk it to the business.

Managing a successful apartment flipping business requires significant social and financial capital. The business partners found through social capital enables the scalability of a company. The importance of social capital also applies to the apartment flipping business, which RP and JH noted.

Further, JH noted that considering buying the first apartment flipping project personally, rather than through company might be considered as more suitable option. Especially, if there is a lack of cash to buy the first project, acquiring a personal loan

is easier than the company loan. Considering further if enough starting capital is already in place, acquiring the project could be done straight through the company.

Corporate brand:

Both JH, and RP identified that building a corporate brand is beneficial even in the apartment flipping business. The company has gotten multiple contacts through HP Housing brand-building through Instagram and Tiktok, contributing to social capital. JH says that the brand is meant to create a picture for potential house sellers of how easy and convenient it is to sell apartments to HP Housing. RP added that building a corporate brand contributes to the business's reliability, which positively impacts the business in the long term.

5.2 Similarities of the Interviews

- Social capital becomes an even more crucial aspect in the internationalisation process of the apartment flipping company.
- Selecting specific real estate market areas and specific types of apartments to seek is essential for business growth.
- Initially, one apartment flipping project at a time is a good way to approach and enter the apartment flipping business. Firstly, this enables the learning process of the apartment flipping operations while minimising the stress from the operational success. Secondly, managing the first projects successfully further contributes to the ability to raise outside capital, and hence reserving enough time for market entry can be a clever decision.
- Management should plan in advance the business operations, divide the responsibility areas among the management team, monitor the operation's success continuously, and act accordingly if changes are needed to be made in the business activities.

- Management should consider the differences in citizens' preferences in different geographical locations regarding apartments and adjust operations in differing areas accordingly.
- Building a corporate brand is beneficial even for apartment flipping company. The brand contributes to the company's social capital and reliability, which has a positive impact on the business in the long term.

6. CONCLUSIONS

6.1 Main Findings

During the research process, four distinct business strategies were found and analysed applicable for real estate start-ups. The strategies were apartment renting, apartment flipping, apartment construction, and building real estate information systems, of which the apartment flipping was researched more in-depth utilising one case company.

Scalability and growth, business strategies, and success factors identification for real estate start-ups were made. Already established principles about start-ups, in general, seem to be applicable for real estate start-ups. However, the details of how to build a real estate start-up do differ based on the chosen business strategy.

The significant success factors identified for real estate start-ups were organizational learning, social capital, financial capital, and strong ideation skills.

The process of establishing a successful real estate start-up can be divided to three steps. Firstly, choosing a business strategy, and narrowing it down into easily scalable action plan to identify a potential business opportunity. Secondly, identifying the most significant scalability and growth factors to understand in which factors the business growth of the real estate is dependent on. Thirdly, considering success factors to realize what kind of resources the start-up founders already have, and what kind of resources they still need to acquire.

The main finding in this research culminates around the conceptual frameworks presented in figures 1 and 2. They provide practical notes regarding the roadmap for real estate start-ups by highlighting the most important aspects to consider while establishing a real estate start-up.

For the reader, most value from figures 1 and 2 can be captured by skimming through the analysis made in sections 2 and 5 based on the literature review references and case company interviews.

The findings are well in line with the current literature based on the literature review made in this thesis. However, there was a gap in literature review regarding the overall picture of the real estate start-ups. Through this research the gap will be partly filled by providing the literature review, the case-based interview research, and two conceptual frameworks discussing about the real estate start-ups in particular. The discovery of the overall picture about the real estate start-ups, identification of the related principles, and proposed process of how to establish a real estate start-up provide value to future research.

6.2 Implications for International Business

Real estate start-up aiming for high scalability should consider multiple countries where to operate to maximise the growth potential while maintaining the chosen strategy implementation. From an international business perspective, the real estate start-up should have social capital with various cultural backgrounds. Otherwise, operational success is questionable as knowledge of the local housing market culture and varying legal aspects is required.

International business offers the possibility for a real estate start-up to expand its growth path further by expanding its operations in various culturally, socially, legally, and business-wise different nations.

6.3 Suggestions for Further Research

Research around real estate start-ups could be further extended by conducting case interviews with multiple early-stage real estate company founders and hence identifying cross-case patterns among the interviews. The cross-case patterns identified would develop the research around real estate start-ups further. In addition, research could be conducted on the other three real estate start-up strategies identified in the literature review, which remained unresearched in the methodology section. So, regarding apartment renting, apartment construction, and information systems development strategies.

The literature review section noted that the current academic literature lacked a publication elaborating on real estate start-up growth factors, which could be partially filled by conducting even more case study like interviews among real estate companies. There are many partially related journal articles for real estate start-ups topic. Hence, conducting additional literature reviews where drawing conclusions based on the information found around multiple different articles would increase the available coherent research about real estate start-ups.

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8. APPENDICES

Appendix 1,

Semi-structured interview frame:

1. Introduction

Q1: Could you elaborate a bit about your experience and know-how regarding apartment flipping?

2. Corporate Strategy

Q2: What have been the key factors to your success as a real estate company flipping apartments?

Q3: How do you see apartment flipping as a business strategy? Is it scalable enough to enable growth potential for the company? Do you think that it would be possible to establish a start-up operating internationally in the field of apartment flipping?

3. Managerial Practicalities

Q4: Have you encountered challenges during your entrepreneurial journey while managing the company? If so, what kind of challenges and how you have solved these challenges.

Q5: Flipping apartments requires fast-paced operations to capture the most value from the projects. How have you been able to manage multiple business projects at the same time?

4. Learning Curve

Q6: What kind of learning curve there has been before you started your business operations? How much there is relevant knowledge available currently regarding apartment flipping?

5. Social and Financial Capital

Q7: How have you funded your operations initially? In your perspective, what is the most suitable way to finance a real estate company flipping houses at an early stage?

Q8: As a growing real estate company, human resources become crucial for sustaining business growth. How have you been able to manage human resources?

6. Corporate Brand

Q9: Do you think that building a corporate brand is beneficial for such a company flipping apartments? Why or why not?

7. Further Insights

Q10: In which aspects would you focus on if you would establish a real estate start-up flipping apartments today?

Q11: How do you see yourself in 5 years as an early-stage apartment flipping company?