

AN INVESTIGATION INTO HOW PROPERTY DEVELOPERS USE THEIR SOCIAL NETWORKS TO DRIVE DEVELOPMENT

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While there is a substantial literature available regarding the individual specialist constituents of the development process, such as planning, finance, construction management, and economic perspectives, there is very little that discusses the whole process or the perspective of the property developer, their behaviour, methods and motivations. The world of property development is somewhat hidden and it needs researching to consolidate our understanding of the creation of the built environment. The property development world is renowned for its individual's personalities and it is how these individuals work that is of interest. Drawing on Harris and Cundell's observations that individual judgement is often made based on experience and instinct or "gut feel", this investigation aims to explore how developers approach complex decisions with incomplete knowledge. A series of semi-structured, exploratory interviews were conducted with small, independent commercial property developers. Preliminary findings suggested that there are a number of elements whose influence plays a significant role in the development process including social networks and the resultant social capital, which appear to bear a significant impact on opportunity identification. This paper considers the role and importance (as understood by the actors themselves) of their contacts (i.e. social networks) in the commercial development process. Interview data was analysed from an interpretivist stance and compared to relevant theory. Findings suggest that developers have a conscious awareness of the influence and impact that their network relationships have on development.

Keywords: commercial property development, complex decisions, opportunity identification, social capital, social networks.

INTRODUCTION

Property development occurs in order to fulfil the needs and demands of society (Millington, 2000). Healey and Barrett (1990, p. 90) suggest that "land and property are not merely surfaces and spaces upon and within which the processes of production and consumption are played out"; they are the places in and around which our social interactions occur and as such their study is key to our understanding of the economic and social environment.

Commercial development is a lengthy process which accordingly necessitates a series of complex decisions, involving a variety of actors. There is a complexity of interaction between the different stakeholders; the developer, local government agencies, local businesses and local residents; the process of their communications is

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unique to context (Borrini-Feyerabend, 1996). Development activity comprises a series of events from site identification to final sale or lease of the building. For successful development to be achieved the three major components of development, as identified by the developers themselves, must be brought together; land, finance and the market. All are of equal importance to the developer.

This paper is part of a wider study focusing on 'trader developers' and how they understand their world. Commercial developers in general can be loosely categorised according to their development objectives (Boyd and Chinyio, 2006); although the underlying incentive behind development is profit (Isaac, 1994; Isaac, 1996; Millington, 2000), contextual distinctions can be drawn between developers based on size, time horizon and staff numbers as well as sources of financing (Boyd and Chinyio, 2006). Specifically, trader developers' primary *raison d'être* is short-term profit. Success often depends on attention to the detail of the process and the quality of the judgement that guides it (Cadman and Topping, 1995). They are generally small companies who do not normally retain the building; finance is raised through a variety of methods; they largely use funds provided by banks and institutional bodies (debt funding) against a relatively small personal investment (equity funding) (Millington, 2000). They are often headed by dynamic individuals leading multi-skilled teams, which often have a stake in the development and some relevant professional experience of the property business (Boyd and Chinyio, 2006).

While there is a substantial literature available regarding the individual specialist constituents of the development process, such as planning, finance, construction management, and economics perspectives (Harris and Cundell, 1995), there is very little that discusses the whole process or the perspective of the property developer, their behaviour, methods and motivations. What little literature there is is largely biographical in style, detailing the successes and failures of some of the leading post-war developers (Marriot, 1989; Scott, 1996). Healey (1991) outlined the potential for gaining further insight into development by approaching the topic from a variety of perspectives not usually involved in the property field, including geography, sociology, economics and planning. However, her recommendations have not been followed up substantively (Guy and Henneberry, 2000).

This paper aims to develop an understanding of the ways that trader developers utilize their social networks and the resultant social capital across all stages of the development process. Thus, it addresses Guy and Henneberry's (2000) observations, that research is needed that theorises the actions, motivations and methods employed by the developer in the land conversion process. The research has sought an understanding of the developer (the agent) as an individual in the context of their professional practice (property development), not an academic construct acting as a component of a wider society (the structure). Thus, it places the developer themselves at the centre of the development process. The difficulties of undertaking this task will be reviewed from the selection of participants to the data collection employed, thus justifying the methods used in this investigation. Early findings from semi-structured interviews with commercial trader developers are presented through a discourse using the concepts of social networks and social capital. This will be related to Granovetter's (1973) concept of 'strength of weak ties' and Coleman (1991) and Putnam's (2002) discourses on social capital. It will be shown that relationships with contacts are a major influence on development, from opportunity identification and planning consents through to completion and sale.

METHOD AND METHODOLOGY

This research follows the interpretivist tradition and utilises a narrative approach to stay close to how participants view their own activities. This was developed through first stage interviews where it became apparent that, in response to open questioning, participants offered concrete examples in the form of narratives. Narrative provides a rich source of insight into the actions and events which impact on the individual's behaviours (Czarniawska, 2004). It was therefore decided that a qualitative study based on a series of semi-structured interviews should be conducted with trader developers; this would offer the participant the opportunity to introduce elements of the development process they regarded as relevant or important and thus would provide a greater insight into and understanding of the development process.

A total of twenty-two potential participants were identified in three ways; via links with the school of Property, Construction and Planning, by consulting listings in relevant trade publications and by searching local planning applications; company websites were then examined in the hope that it would give an early insight into the way they perceived themselves as developers. This resulted in eleven interviews.

Given the lack of literature and research regarding the role of the individual developer in the development process, a structure was sought elsewhere to provide a framework for the enquiry. According to Gummerson (1991, p12) academic researchers traditionally apply theories and models to their data whilst generally lacking practice knowledge such as "knowledge of market conditions in a specific company, market or industry". Interviews drew attention to a number of concepts which were considered to be worthy of further study, both in terms of current literature and data collection, including social networks and social capital.

ON BEING TRADER DEVELOPERS

Using Boyd and Chinyio's (2006) analysis of types of developer, all the participants involved in this study can be classified as trader developers. With the exclusion of one, all described themselves as being property professionals before diverting their attention exclusively to development; the other had familial links with property development. On average the participating companies comprise of four directors with a minimal number of ancillary staff, hence we believe they correspond with Boyd and Chinyio's (2006) categorisation.

Based on narrative provided by the participants, our view is that the trader developers' role can be seen as one of event management. Participants have identified three key events which they deem to be important; land, funding and the market. As managers of the process they play a number of roles, bringing together the many professional actors involved in the provision of a scheme and managing them in order to turn ideas into physical reality. All of the participants recognise the term trader developers as an element of their identify;

"As a company traditionally we're traders; buy land, build buildings, sell them but more often than not we let them and then sell the created investment to other property companies who are large investment companies or to institutions, insurance companies [or] pension funds."

However, progressively and in direct relation to length of time trading, they retain building stock as equity; one participant explained

“...as property people we all aspire to keep something that’s producing income and then you build up a portfolio, so in 10/15 years when you do want to go skiing you know you’ve got a pension.”

Although the participants understand their function in concrete terms they themselves seem unable provide an overarching explanation of the role they play in the process;

“I think I’m officially called a helicopter. That means I look down on everything that’s going on and I dip in and out of things, not any particular part – and I have the over view of what needs to be done.”

This establishes that while the participants in this study identify themselves with the term trader developer, they do not conceptualise their actions in theoretical terms. Rather, they understand their professional behaviour in concrete terms.

SOCIAL NETWORKS AND SOCIAL CAPITAL

A recurring theme in the interviews of the developers highlighted the significant role played by “connections” in the land conversion process. The concept of “connections” relates well to Granovetter’s (1973; 1985) concept of social networks. To Granovetter, (1985) social networks play a critical role in determining the ways in which problems are solved, organisations are run, and the degree to which individuals succeed in achieving their goals. The network of relationships within which individuals or organisations are embedded may be important vectors for the communication of knowledge and as such can have important consequences for the success or failure of their projects, as well as affecting the wider economy. This conflicts with classical and neo-classical economic hypotheses which contend that social structures and social relations have no bearing on production and consumption (Granovetter, 1985). As noted by Hirschman (1982, p.1473) “Under perfect competition there is no room for bargaining, negotiation, remonstrance or mutual adjustment and the various operators that contradict each other need not enter into recurrent or continuing relationships as a result of which they would get to know each other well”

According to Granovetter (1973) the value of the networks in which the individual is embedded is largely dependant on the “strength of [the] interpersonal tie” connecting them to the larger network or networks. In order to differentiate between strong and weak ties, he posits the following definition “...the strength of a tie is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterise the tie.” (Granovetter, 1973, p.1361)

Individuals who are engaged with multiple networks form local bridges between networks, which as a consequence indirectly link actors who are not ostensibly connected; these Granovetter labels weak ties. As such they are thought to be important vectors for the transference of information (Granovetter, 1973). Woolcock and Narayan (2000) suggest that the connectivity between one’s family, friends and close associates, or to use Granovetter’s terminology strong ties, constitute an important asset and social capital is the result of that asset. People who form close social bonds (a close-knit network) will often share the same information while those who have limited or infrequent contact with one-another (loose-knit networks) will have a greater pool of material upon which to draw (Granovetter, 1973). Most groups are made up of a blend both strong and weak ties (Putnam, 2002). There is however disagreement regarding what constitutes the individual’s network (Granovetter, 1973).

In this paper the individual's network is understood to include both individuals with whom they have direct contact and the contacts of those contacts.

Social capital is derived from the individual's access to and use of resources embedded in social networks (Coleman, 1990; Putnam, 2002). Lin, (1999) observes that proponents of social capital have a variety of interpretations of the concept of social capital; these can be divided into two general perspectives; individual social capital (Coleman 1990) and group social capital (Bourdieu 2001, Coleman 1990, Putnam 2002). This paper will focus on interpretations provided by the former.

TRANSFERENCE OF KNOWLEDGE

Trust and reciprocity are essential elements of social capital (Putnam, 2002). In the property industry they manifest themselves as communication and relationship building which are integral parts of the developer's world. Developers emphasise the importance of maintaining regular contact within their relationships with commercial agents. In turn commercial agents highlight the value of maintaining frequent communication with likely clients. Both parties deem this to be good business sense as it helps to build trust within a high risk business.

Anklam (2000) suggests that individuals extend their access to other people's experiential knowledge through their connections, thus developing their own vicarious learning and building on their incomplete knowledge. Property developers utilise their networks in order to develop their awareness of the various aspects of the property world. Property development is an extremely sociable business, "transactions are negotiated over a beer [or] over lunch...it's very much about meeting people." Developers' vicarious experiential learning is often transmitted at social events and gatherings such as the opening of a new building or formal occasions such as MIPIM, the annual international property awards event, or other official occasions. As one respondent noted;

"... [property] people throw a party if a bottle of pop is opened... Certainly on a local level we know most of the agents who are doing commercial business in [the area] and if we don't know them they certainly know us, or someone here. It's a constant discussion that's going on."

Findings indicate that, while developers may not directly reference the theoretical constructs of either social networks or social capital, they are aware of their existence as tangible phenomena in the form of "connections" or "contacts".

HOW DEVELOPERS UNDERSTAND THE EFFECTS OF NETWORK MEMBERSHIP

One of the participants spent twenty plus years working within "the large[r] corporate environment" in a variety of senior roles before taking semi-retirement; he is in the unique position of spending part of his time working as an independent property consultant for a large corporate developer, part advising various charitable bodies on their land use and "...1/3 with [a trader development company] with people I know". He uses his cross sectoral insight to observe that

"...outside London there is always a local mafia, a local network into which the local business man will fit far more easily than a humping great elephant coming in from London and stomping all over the local turf."

He further observes that the property market is inherently territorial and as such is surrounded by relatively closed communities of interested parties. Consistent with Granovetter's (1973) analysis of the strength of weak ties, he notes that if the developer is able to build a link to these communities via one of their contacts, or to use Granovetter's (1973) terminology networks and bridging ties, they will have greater access to the other actors involved in the development process.

"If you're working in [a provincial area] there'll be people you need to relate to like the local planning officer, you may have a local architect, [or a] local solicitor, who may have connections with the local bank to provide you with finance or will be in touch with the business community who may be interested in taking the property off you"

If the developer has no bridging ties to local networks they may fail to spot local opportunities. His experience as a property consultant has allowed him to observe tactics employed by corporate developers to create links to local networks outside London. Being aware that development success may be hampered by their inability to access opportunities, they often have a policy of forming joint ventures with local developers outside the capital. While the corporate developer is in overall control of the project, "maintaining a tight grip", the local developer is their "man on the spot".

"He's got a stake in the development, spotted the opportunity, [brought] it to us; he's got a stake in the development because he's got a profit share but he's got the local networks."

Indicating that he is aware of the importance of developing an understanding of the market; he further observes that "London's so big and amorphous that the mafia can't exist in the same way as it does in other towns."

IDENTIFYING OPPORTUNITIES

Participants indicated that while trader developers are ostensibly alike, they recognise distinct and tangible points of difference.

"It's a question of opportunity, or what we perceive to be an opportunity. What we perceive to be an opportunity other people will discard – it's not their field or they don't know who's looking for that type of property at the time, or what they might be prepared to pay for it."

Trader developers "live off opportunities" and believe that the identification of development and funding opportunities are paramount to their success. Although development inevitably necessitates a level of speculation, Millington (2000) advises in-depth market research, not only for discrete project appraisals but also when looking to broaden the company's range of development opportunities, e.g. by type or region. Instead of this formal approach, much of the market research done by trader developers is based on anecdotal evidence gathered via the developer's networks, complemented by research carried out and published by some of the larger corporate development houses.

The process of development is always similar thus developers may alter either their geographical or typological specialism with relative ease. Gummerson (1991, p.9) suggests that companies may "change direction by means of a process of continuous adjustments within an existing framework of operations". One developer explained how, in the face of compelling research, their original development concept changed

to include a wider geographic market. On the company's inception, the partners made a conscious decision to concentrate their development efforts in the office and industrial markets in southern England, where they had specific experience and knowledge of the market. However, their most recent development is in the Cotswolds. Having identified an emerging market for small industrial units, they found a suitable opening. Confirming Coleman's (1990) hypothesis/belief that social capital depreciates if social relations are not maintained, they are now looking for more opportunities in the area, largely because while;

“the distance remains the same but the benefit you get from it increases.... We know the planning team there, we know the banking market, we know the lawyers there, we know the agents there and once you've made that investment it seems stupid to say 'well actually we've done our job there, we're going to go somewhere else'.”

While findings are consistent with Gummerson's (1991) analysis, participants have also clarified their understanding of the role played by their networks when establishing a practice base. The interviewees stressed the importance of the role played by their social networks, whose influence can have a major impact on development, from opportunity identification and planning consents through to completion and sale.

NETWORKS IN SITE IDENTIFICATION AND ACQUISITION

Property market research is a combination of formal and informal identification of opportunities. Informal identification is normally made via the developer's network connections, be they industry, e.g. other developers or old friends and colleagues, or less frequently architects or planning staff, or they may quite simply come from “...the man in the pub, who says ‘my mate works for so-and-so and they're closing down’”. Formal identification usually originates from the commercial agents who send developers details of land, or from relevant publications such as Estates Gazette. Trader developers tend to specialise be it by type or place; variance in their typography is usually initiated via contacts. Studies have shown that people “rarely act on mass media information unless it is also transmitted through personal ties” (Granovetter, 1973, p.1374, emphasis in original). One developer recounts how having initially rejected an advertised redevelopment site which they deemed to be both unprofitable and out of their sphere of expertise, they were introduced to the owner by an old school friend (a weak/bridging tie) and were subsequently able to negotiate by means of an informal dialogue and reach a position which was beneficial and profitable to all.

Commercial agents are involved in events at either end of the development process, land acquisition and sale/lease of the building; developers are aware of the importance of building good relationships with them and seem to understand their social capital will decline if relationships are not maintained (Putnam, 2000). Businesses wishing to expand into a particular area will often approach commercial agents and furnish them with details of their requirements. One developer explains;

“Trader development and commercial agents are the perfect market which relies on a closely knit community; agents tip off other agents. If an agent bids for an instruction but doesn't get it they may pass the info on to developers to let them know it is coming onto the market, in the hope that if that developer gets it they may use them when it is time to sell or lease.”

Although developers are regularly contacted by commercial agents regarding potential development sites all the participants say they would rather buy off market and negotiate directly with the vendor, which will normally be a more cost efficient approach.

FUNDING

Profit is of primary concern to developers; consequently, access to the “right” funding is imperative if successful development is to be achieved. Developers utilize their connections when raising project finance and where possible will try to “go for repeat business”, often maintaining ongoing relationships with several funders at a time ranging from institutional investors and banks to “high net worth individual[s]”. As funders and developers are both constantly seeking profitable opportunities their communications are reciprocal (Putnam, 2002). As one developer observed

“The problem with a lot of funds is they’ve got the cash but they can’t find the product. We’re three guys who’ve been in the industry for 20 years; we stick close to the agents and we pick up opportunities, so the funds come to us because they know we can come up with good opportunities.”

Conversely another developer related how

“...we got an early ... and put it to [an institutional investor] because we had a good relationship with them, we’d done a few things with them before and they trusted our judgement. We said ‘we think you should buy this site and put us in as the development partner’.”

Whilst developers are opportunity driven, so too are investors, who, like developers, often maintain simultaneous relationships with several different partners, across several different categories of business. Thus, investment in social capital, or time spent maintaining links with contacts is deemed by developers to be of considerable import, particularly in the current economic climate.

SOCIAL CAPITAL AND PLANNING

The possession of social capital, developed from membership of a social network, entails a cycle of expectations and obligations (Lin, 1999). This is exemplified by the developers’ relationship with planning; specifically the negotiated finalisation of the scheme presented to the planning committee.

Most of the developers interviewed say they are conscious of the potential benefits brought about through nurturing links within the local planning office and will approach their local planning officer and seek their opinion before submitting plans. As one developer observed;

“No-one’s got a monopoly on good ideas and planning officers are reviewing these things all the time. Some of these officers are very good. Some of them can say ‘put another floor on there, but I’d like you to set it back a bit, [or] I’d like you to do this...’”

While they understand that as all plans are recommended or rejected by committee, officers cannot directly “do [them] any favours”, they can, over a succession of meetings, contribute to the final plan. The participants believe that if the planning officer feels they have been influential in the final submitted plan, i.e. it is a collaborative and reciprocal agreement; they are more likely to recommend it to the committee. Although they note that as some departments are understaffed they may

not have the opportunity to develop these links. Developers often consult planning officers before offering on a site, although planning officers cannot tell the developer if a plan will get past the committee stage their opinions may “colour [their] mind as to whether [they] bought it outright or conditional on planning”. Occasionally officers may advise the developer on zoning; this will be non-specific and will generally relate to a specific plan on a particular site. As reciprocation the developer will not attempt to submit plans in the area which are not likely to be passed at committee.

CONCLUSION

As part of a wider investigation into the world of commercial property development, this paper has begun to develop an understanding of the ways that trader developers utilize their social networks and the resultant social capital across all stages of the development process. Using interview data conducted with commercial trader developers, relationships with contacts are a major influence on development, from opportunity identification and planning consents through to completion and sale. Developers measure their success in terms of fiscal achievement or profit; however, there is a general awareness amongst them of the importance of maintaining positive links with other members within their social network, thus accruing social capital. As this research only looked at one aspect of the social network (the developer) it was not possible to gauge the extent to which the reciprocal norms, an inherent aspect of social capital theory, apply. Further research is needed which expands the scope of the investigation to include other actors in the process.

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