



# Commercial Development and Residential Development

Johan Bergman, EVP  
Skanska AB

# The Skanska Group

Group staff units

Senior Executive Team

Skanska Financial Services

Skanska Project Support

## Construction

Skanska Sweden

Skanska Norway

Skanska Denmark

Skanska Finland

Skanska Poland

Skanska Czech Republic

Skanska UK

Skanska USA Building

Skanska USA Civil

Skanska Latin America

## Residential Development

Skanska Residential Development Nordic

## Commercial Development

Skanska Commercial Development Nordic

Skanska Commercial Development Europe

## Infrastructure Development

Skanska Infrastructure Development

# Commercial Development

# Commercial Development Markets

Stockholm  
Gothenburg  
Øresund  
Helsinki  
Prague  
Warsaw  
Budapest  
Regional markets in Poland



## ...and sectors

- Office
- Retail
- Logistic

# Criteria for success – Why we chose a market or a sector

- In order for us to show sustainable profitability over a business cycle, we must be a leading developer in any given market and sector where we are.

## WHY?

- Attract and keep talent
- Market coverage / tenant adherence surface
- Relationship with authorities and brokers
- Number of business opportunities in direct relation to size and quality of network

# Business Stream strategies

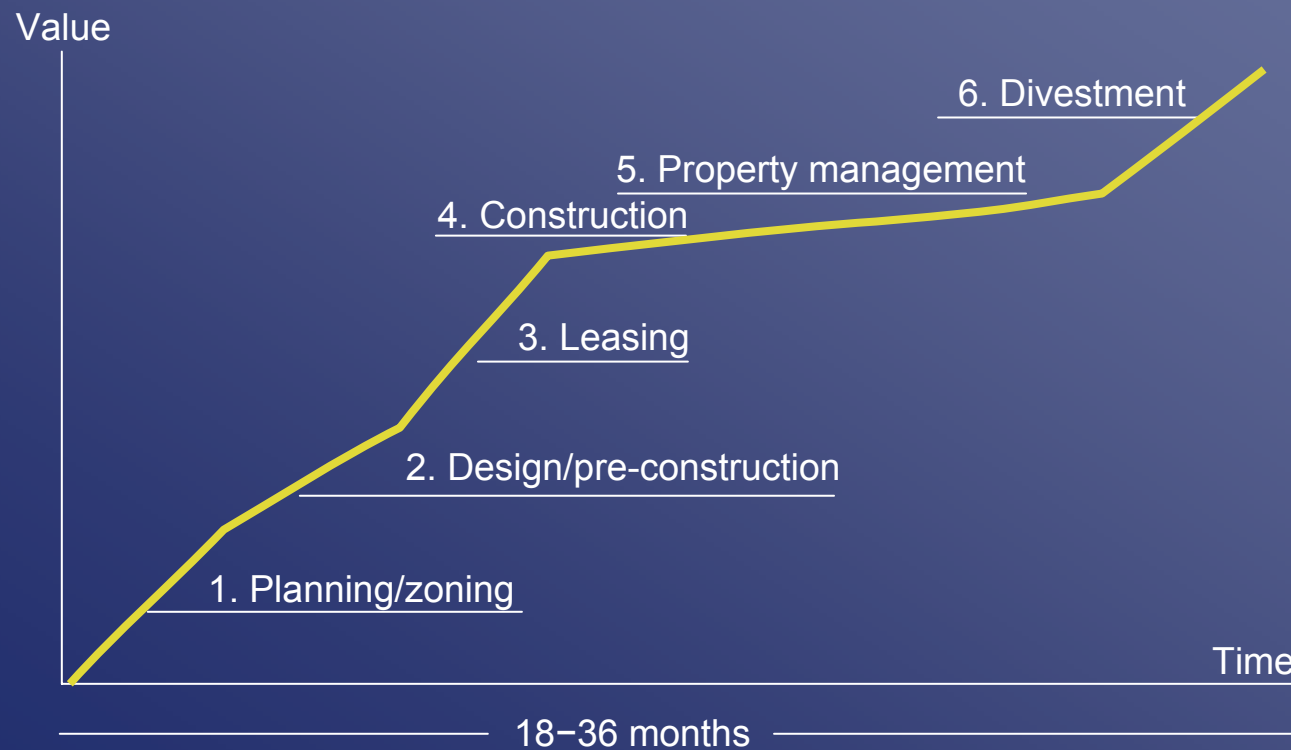
- Project development – entire chain
- Transaction orientation
- Specialization
- Leading developer in defined markets
- Dual customer focus

# Why project development with property portfolio?

- To be an interesting alternative on the letting market
- Daily contact with the letting market and present and future tenants
- 80 % of lease contract deals are made within the portfolio
- Credibility as property owner ensures right price when we sell
- Feedback between development and property management
- Competence in all stages of the real estate chain
- Possibility to make combination deals
- Be able to work counter cyclical

# Skanska Project Development – Business concept Commercial Development

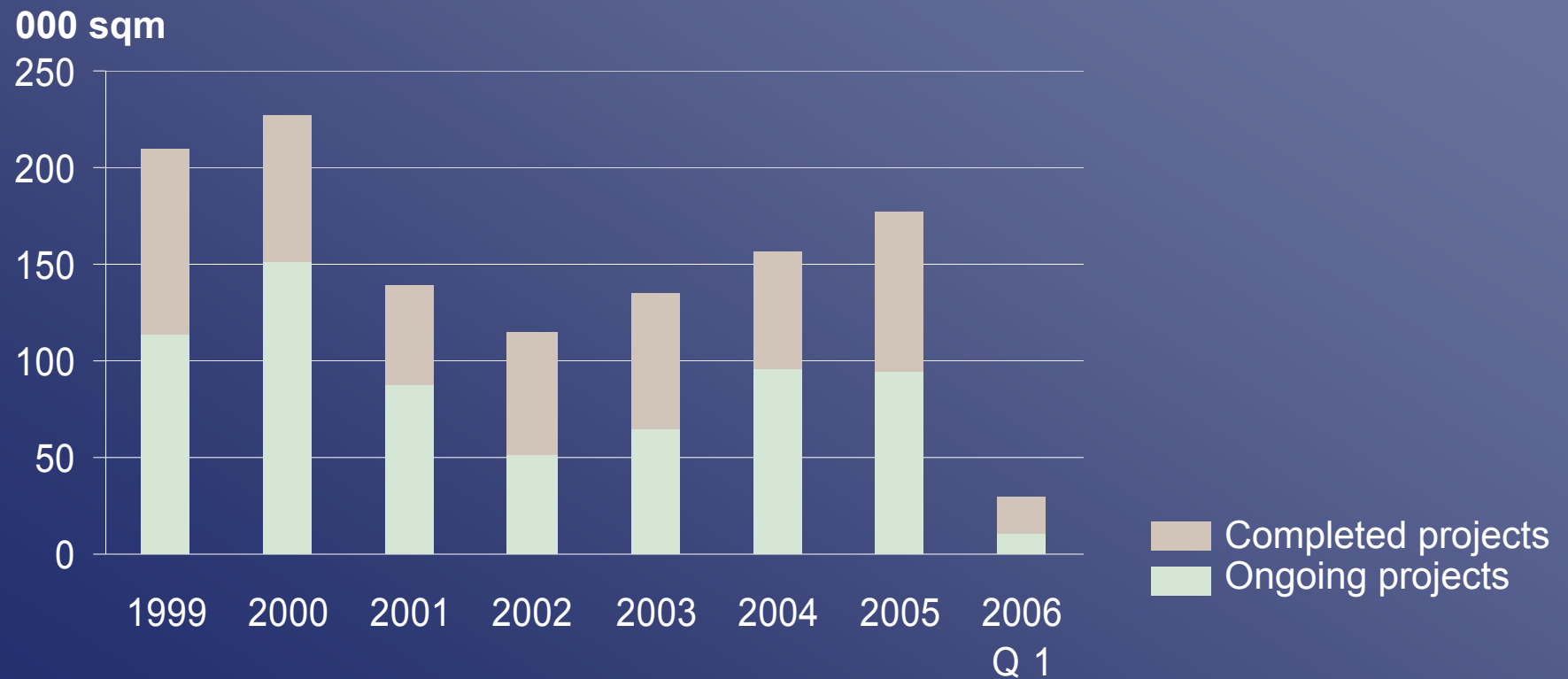
## Value creation in Commercial Development



## Key challenges

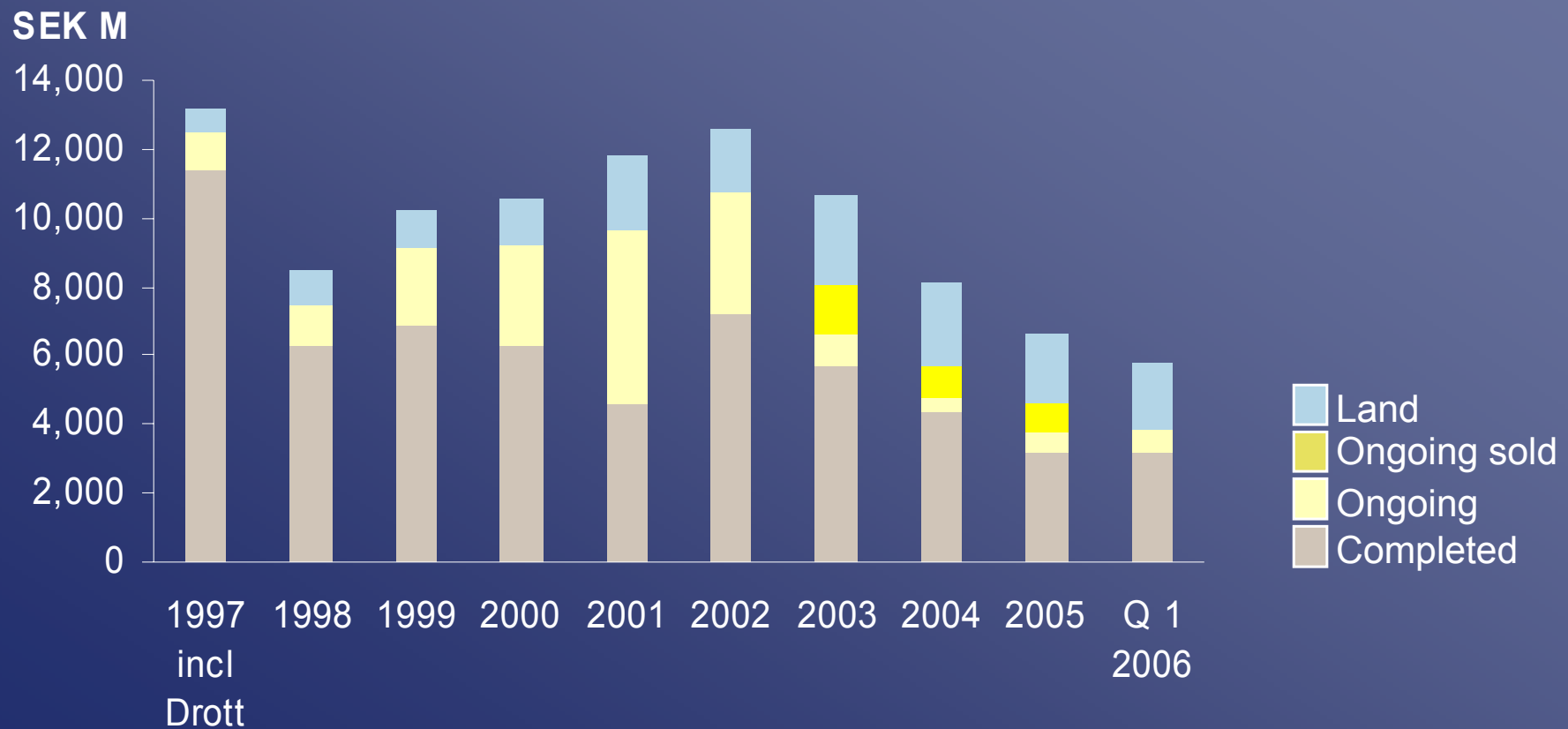
- Keep high and sustainable development profits
- Keep and develop highly specialized organization
- Increase project volume with reasonable risk/reward
- Find strategic land, and at the same time decrease portfolio of building rights

# Leasing a core competence

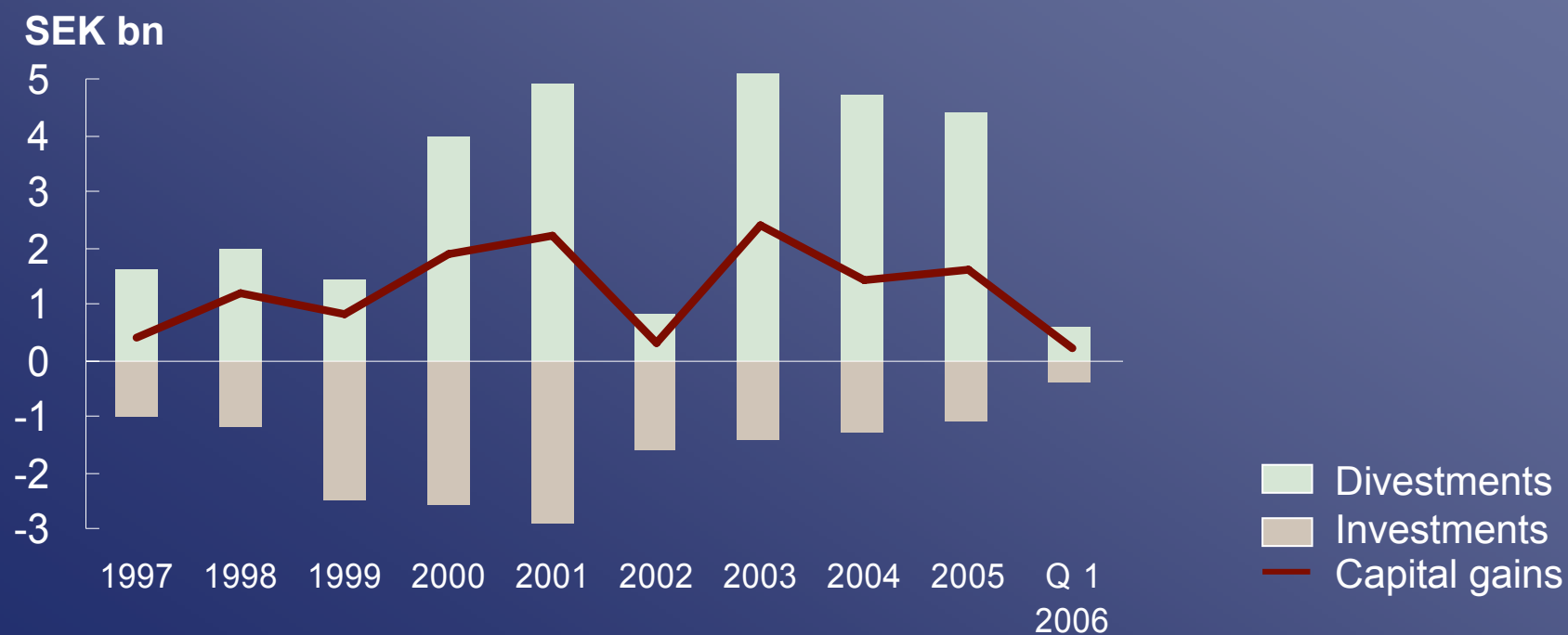


# From asset manager to developer

## Properties in CD, book value

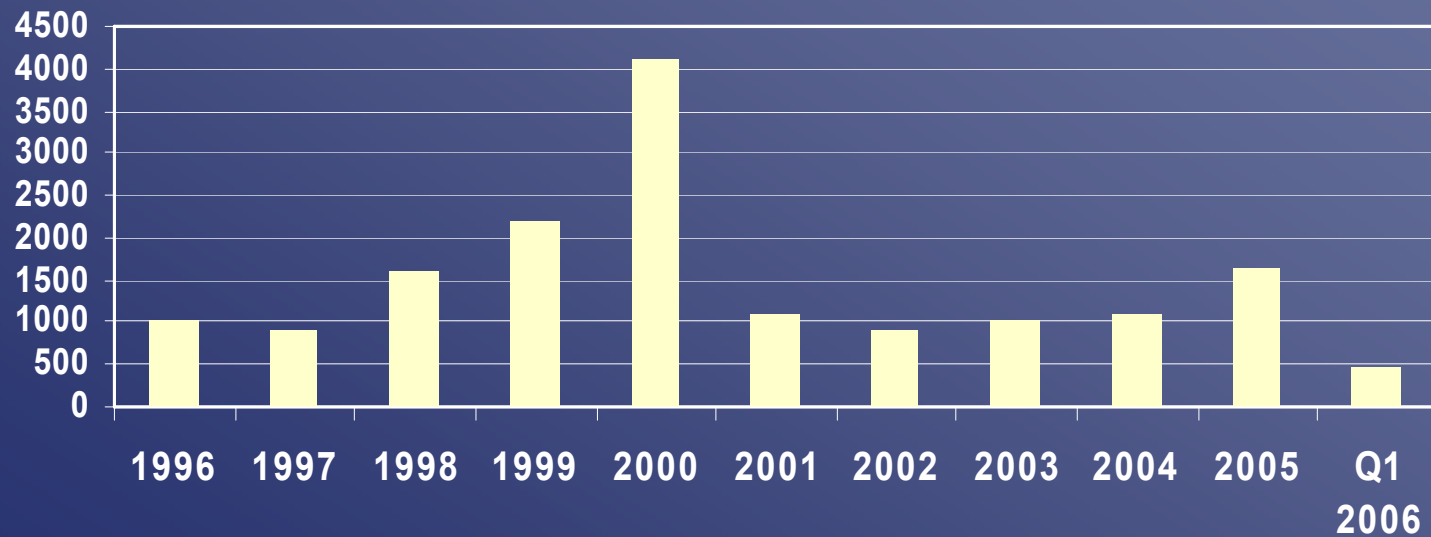


# Real estate investments, divestments and capital gains



# New projects 1996–2005 (10 years) (book value at completion)

SEK bn



- 1 million square meters
- Investment volume SEK 16 bn
- 80 projects
- No loss projects!!

## Completed projects— book value and surplus value 1999–2006, SEK bn

| Year                      | Market value<br>at completion | Book value  | Surplus value | Surplus value/<br>book value, % |
|---------------------------|-------------------------------|-------------|---------------|---------------------------------|
| 1999                      | 2.1                           | 1.5         | 0.6           | 40%                             |
| 2000                      | 1.1                           | 0.6         | 0.5           | 83%                             |
| 2001                      | 4.0                           | 3.0         | 1.0           | 33%                             |
| 2002                      | 4.5                           | 3.1         | 1.4           | 45%                             |
| 2003                      | 3.2                           | 1.9         | 1.3           | 68%                             |
| 2004                      | 2.2                           | 1.6         | 0.6           | 38%                             |
| 2005                      | 0.7                           | 0.5         | 0.2           | 40%                             |
| Subtotal                  | 17.8                          | 12.2        | 5.6           | 46%                             |
| Ongoing projects Q 1 2006 | 2.8                           | 2.2         | 0.6           | 27%                             |
|                           | <b>20.6</b>                   | <b>14.4</b> | <b>6.2</b>    | <b>43%</b>                      |

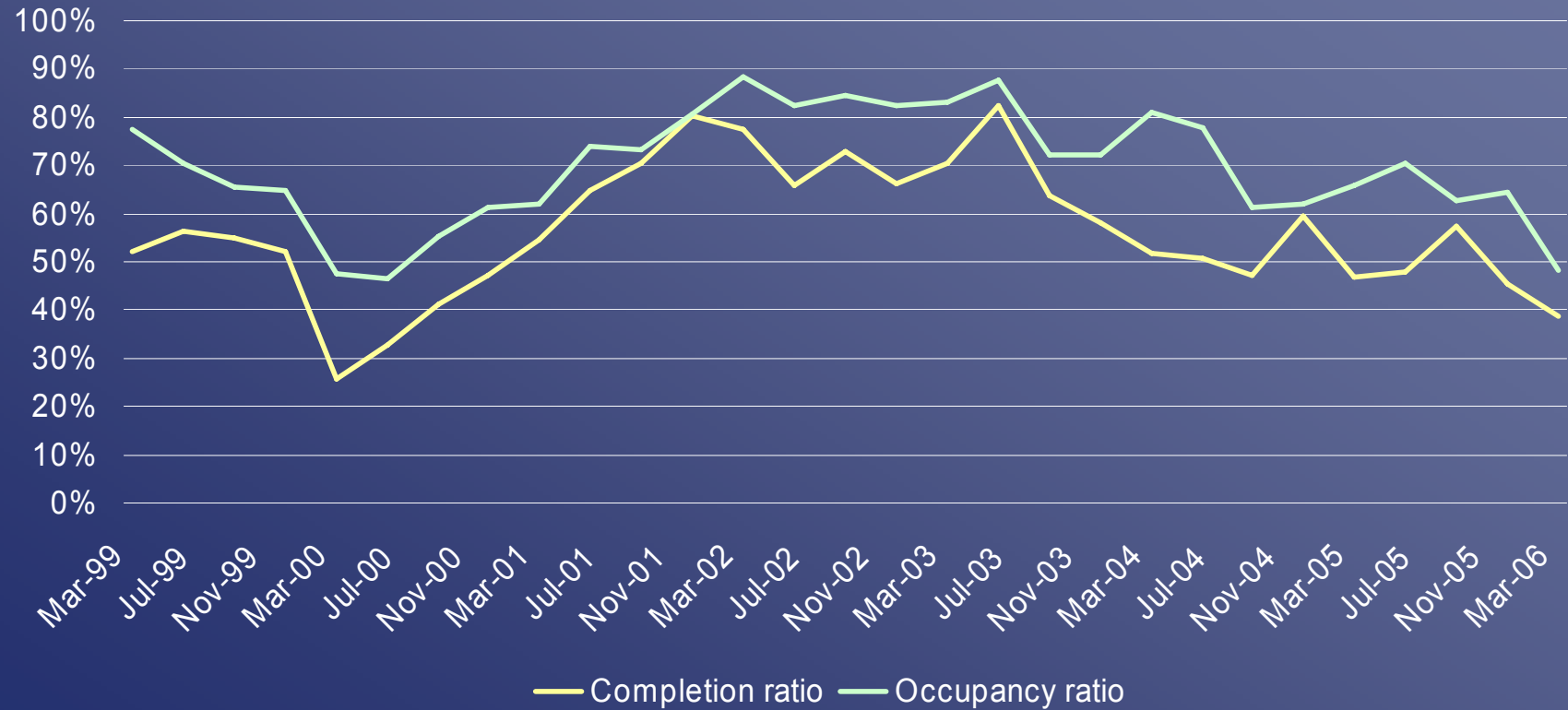
## Surplus value completed projects and capital gains sold properties 1999-2005

| SEK bn                              | Total | Average per year |
|-------------------------------------|-------|------------------|
| Surplus value in completed projects | 5.6   | 0.8              |
| Capital gains sold properties       | 10.5  | 1.5              |

## Building rights Dec 31, 2005

| SEK bn              | Sq.m             | Estimated total investment |
|---------------------|------------------|----------------------------|
| Stockholm           | 120,000          | 2.4                        |
| Öresund, Malmö      | 60,000           | 0.9                        |
| Öresund, Copenhagen | 230,000          | 4.6                        |
| Gothenburg          | 200,000          | 2.0                        |
| <b>Total Nordic</b> | <b>610,000</b>   | <b>9.9</b>                 |
| Warsaw              | 130,000          | 2.0                        |
| Budapest            | 50,000           | 0.8                        |
| Prague              | 180,000          | 1.8                        |
| Munich              | 40,000           | 0.6                        |
| <b>Total Europe</b> | <b>400,000</b>   | <b>5.1</b>                 |
| <b>Total CD</b>     | <b>1,010,000</b> | <b>15.0</b>                |

# Risk analysis, CD stream



# CD Target – 15 % ROCE over a business cycle<sup>1</sup>

(average over a nine year business cycle)



<sup>1</sup> Including operating net, accrued unrealized development gains as well as changes in market value

# Residential Development

# Residential Development Markets

Norway  
Sweden  
Denmark  
Finland  
Estonia  
The Czech Republic  
S:t Petersburg



## ...and sectors

- Blockhouses
- One family houses
- Semi detached houses
- Terraced houses

# Criteria for success – Why we choose a market or a sector

- In order for us to show sustainable profitability over a business cycle, we must be a leading developer in any given market and sector where we are.

## WHY?

- Attract and keep talent
- Market coverage
- Relationship with authorities
- Number of business opportunities in direct relation to size and quality of network

# Business Stream Strategies

- Increased customer understanding
- Standardization and Industrialization
- Land bank management
- Specialization of organization

# Financial 2003–2005

| SEK M               | RD Total |       |       | RD Nordic |       |       |
|---------------------|----------|-------|-------|-----------|-------|-------|
|                     | 2003     | 2004  | 2005  | 2003      | 2004  | 2005  |
| Revenue             | 5,839    | 5,814 | 6,113 | 4,887     | 4,889 | 5,353 |
| Operating income    | 259      | 528   | 611   | 194       | 409   | 522   |
| Operating margin, % | 4        | 9     | 10    | 4         | 8     | 10    |
| Capital employed    | 2,800    | 2,800 | 2,500 | 2,400     | 2,400 | 2,000 |
| ROCE, %             | 8        | 18    | 24    | 7         | 17    | 25    |

# Key challenges

- Increase margins
- Form the best team
- Grow ahead of market
- Improve products – design, cost, quality
- Land Bank Management
- Strengthen Skanska image

## Key challenges cont'd...

Reach and push past outperform targets of

10% operating margin

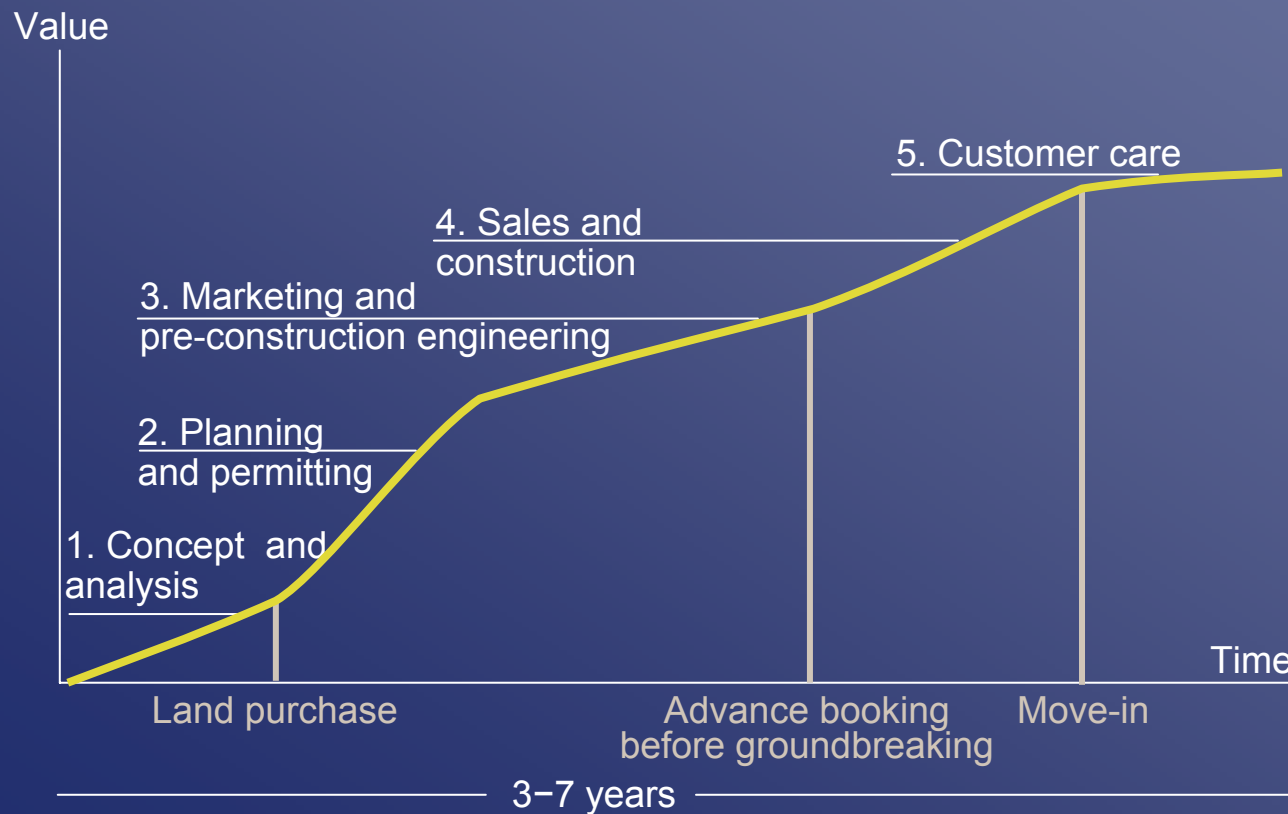
18% ROCE

# Nordic Residential Development – Separate BU

- Different business
- Different customer (B to C)
- Investment business
- Better focus on development skills

# Value creation

## Value creation in Residential Development



## Building rights per December 31, 2005 (SEK bn)

| Market               | Building rights | Options      | Total building rights incl. options |
|----------------------|-----------------|--------------|-------------------------------------|
| Sweden               | 10,100          | 1,100        | 11,200                              |
| Norway               | 3,300           | 1,400        | 4,700                               |
| Finland incl Estonia | 4,300           | 5,400        | 9,700                               |
| Poland               | 400             |              | 400                                 |
| Czech Republic       | 1,800           | 600          | 2,400                               |
| Russia               | 700             |              | 700                                 |
| <b>Total</b>         | <b>20,600</b>   | <b>8,500</b> | <b>29,100</b>                       |

# Future markets of interest for RD activities

## Poland

- Strong and stable economic growth (~4%)
- ~100,000 units completed annually (10,000 in Warsaw)
- Strong urbanization and a shortage of more than a million dwellings
- Experience of project development (commercial and residential)

## Hungary

- Strong and stable economic growth (~4%)
- ~40,000 units completed annually (10,000 in Budapest)
- Stable number of completed units in short term but growing number in long term
- Experience of project development (commercial)

# Skanska Rental Housing

## Business rationale

- Large demand for rental apartments from tenants
- Municipalities want apartments
- Efficient production through industrialization
- Dependant on price and availability of land and state subsidies
- Large demand from property investors
- Total market in Sweden of approx. 15,000 units in multifamily buildings
  - of which approx. 8,000 units in rental apartment buildings

## Business concept

*“Our business concept is to purchase land, develop, lease and manage rental apartments and to sell rental apartment buildings in selected markets in Sweden. Our actions shall be characterized by business mindedness, cost efficiency and sense of urgency.”*

# Where?

- Greater Stockholm
- Greater Gothenburg
- Greater Malmö
- University cities and regional centres outside the cities above

## Hurdles and returns

- Investment hurdle between 15 and 20%
- Expected ROCE between 10 and 15%
- Higher debt capacity will give ROE similar as for CD and RD

**SKANSKA**