



DEGREE PROJECT IN TECHNOLOGY,
FIRST CYCLE, 15 CREDITS
STOCKHOLM, SWEDEN 2021

How short-term leasing can mitigate vacancies in retail stores

Implementing short-term leasing in the retail
industry

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Bachelor of Science thesis

Title	How short-term leasing can mitigate vacancies in retail stores
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TRITA number	TRITA-ABE-MBT-21346
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Keywords	Pop-up Store, Short-term Leasing, Property Owners, Commercial Real Estate, Retail

Abstract

Retail is changing. E-commerce is increasing its percentage of total sales while physical stores are closing. This affects how real estate companies work with retail spaces to minimize vacancies, and short-term leasing, also called pop-up stores, is one way to do so. Pop-ups have existed in different forms for a very long time. Seasonal stores and farmers markets are two examples. The modern-day pop-up, assessed and discussed in this study, is the one not always used for sales purposes but also marketing purposes. This study aims to see how modern-day pop-ups can fill the void left by rapidly closing retail stores.

The study was carried out by reviewing existing literature about pop-ups and how they work, followed by semi-structured interviews with real estate companies and consultants throughout the property industry. Emphasis was put on bottlenecks and problems with implementing short-term leasing and how market platforms can aid real estate companies with this.

The study shows that real estate companies and the industry as a whole are aware of the status of traditional retail and that they have started to use short-term leasing to a greater extent than before. The real estate companies were positive towards using short-term leases as a tool to minimize vacancies. However, it also shows some problems with implementing short-term leases from a real estate company's perspective. The main obstacles found during the study were transparency issues regarding vacant spaces, how short-term leases can negatively affect property values, and the time-consuming aspect of signing short-term contracts. Concluding that market platforms can solve certain problems regarding short-term leases, but others have to be solved by the real estate industry itself.

Acknowledgement

This Bachelor's thesis was written during the spring of 2021, at the institution of Real Estate and Construction management at the Royal institute of Technology in Stockholm, Sweden. The degree project comprises 15 credits, it is the last project of our first three years in the program Civil Engineering – Real estate economics and Real estate law.

A big thank you to our supervisor Berndt Lundgren for guidance and support throughout the writing process. We would also like to thank Ioannis Charalampakis for setting us up with many of the respondents. Lastly, we would also like to thank all the respondents who took their time to do the interviews with us.

Thank you,

Stockholm, June 10th 2021

Knut Benson & Jesper Öhman

Examensarbete

Titel	Hur korttidsuthyrning kan minska vakanser i butikslokaler
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Institution	Fastigheter och Byggande
TRITA nummer	TRITA-ABE-MBT-21346
Handledare	Berndt Lundgren
Nyckelord	Pop-up butik, Korttidsuthyrning, Fastighetsägare, Kommersiella fastigheter, Detaljhandel

Sammanfattning

Detaljhandeln genomgår en förändring. För varje år som går ökar e-handelns andel av detaljhandelns försäljning och antalet butiksvakanser blir allt större. Detta påverkar hur fastighetsbolag jobbar med sina butiksytor för att minimera det ökade antalet vakanser. Ett tillvägagångssätt är att arbeta med korttidsuthyrningar, så kallade pop-up butiker. Pop-up butiker har funnits väldigt länge och i olika former, så som säsonsbutiker och lanthandel. Den moderna typen av pop-up butiker som kommer tas upp och diskuteras i denna uppsats är dock den som inte alltid är till för att maximera försäljning utan också för att använda i marknadsföringssyfte. Denna studie syftar till att undersöka hur moderna pop-up butiker kan hjälpa till att fylla det vakuum som lämnats av ett ökat antal vakanta butikslokaler.

Uppsatsen skrevs genom en litteraturstudie av existerande litteratur om pop-up butiker samt semistrukturerade intervjuer med fastighetsbolag och konsulter inom fastighetsbranschen. Här lades stor vikt vid de flaskhalsar och problem som uppstår i samband med implementering av korttidsuthyrning samt hur marknadsplattformar kan hjälpa fastighetsägare att lösa dessa.

Studien visade att fastighetsägare har börjat använda sig av korttidsuthyrningar i en större utsträckning än tidigare. Fastighetsägarna var positiva till att använda sig av korttidsuthyrningar som ett verktyg för att minska vakanser. Det visade sig också att det finns problem med implementering av korttidsuthyrningar från ett fastighetsägarperspektiv. De största problemen som studien visade på var transparens av tomma lokaler, hur korttidsuthyrningar kan påverka fastighetsvärden negativt samt tidsåtgången för att skriva ett korttidskontrakt. Vissa problem kan lösas av marknadsplattformar för korttidsuthyrning medan andra behöver lösas av fastighetsbranschen i sin helhet.

Förord

Den här kandidatuppsatsen skrevs under våren 2021 vid Institutionen för Fastigheter och Byggnad på Kungliga Tekniska Högskolan i Stockholm. Arbetet omfattar 15 högskolepoäng och utgör slutet på de första tre åren på programmet Civilingenjör Samhällsbyggnad med inriktning Fastighetsekonomi och Fastighetsjuridik.

Ett stort tack till vår handledare Berndt Lundgren för goda råd och bra tips under arbetets gång. Vi vill också tacka Ioannis Charalampakis för att ha hjälpt oss att komma i kontakt med respondenterna. Slutligen vill vi också tacka alla respondenter som tagit sig tid att bli intervjuade för detta arbete.

Tack så mycket,

Stockholm, 10 juni 2021

Knut Benson & Jesper Öhman

Table of Contents

1. Introduction	7
1.1 Background	7
1.2 Objective	8
1.3 Research question	8
1.4 Boundaries	8
1.5 Definitions and explanations	8
2. Literature review	10
2.1 Pop-up concept	10
2.1.1 Pop-up history	10
2.1.2 Pop-ups today	10
2.2 Retail today in Sweden	12
3. Theory	13
3.1 Porter's Five Forces	13
3.1.1 Threat of Entry	13
3.1.2 The Power of Suppliers	15
3.1.3 The Power of Buyers	15
3.1.4 The Threat of Substitutes	16
3.1.5 Rivalry Among Existing Competitors	16
3.1.6 Application to the research question	17
4. Methodology	18
4.1 Choice of method	18
4.2 Qualitative method	18
4.2.1 Interview questions	18
4.2.2 Selection of interviewed companies	18
4.2.3 Interview structure	20
4.3 Methodology and source criticism	20
5. Results	22
5.1 Perspective of the property industry	22
5.1.1 Standpoint on short-term rentals	22
5.1.2 Working with market platforms for short-term leasing	23
5.1.3 Obstacles and problems with short-term rentals	25
5.1.4 Trends on the retail market	27
5.1.5 Why pop-ups?	27
6. Analysis	30

6.1 Standpoint on short-term rentals	30
6.2 Working with market platforms for short-term leasing.....	30
6.3 Obstacles and problems with short-term rentals.....	31
6.4 Trends on the retail market	31
6.5 Why pop-ups?	32
7. Discussion	33
7.1 Opportunities	33
7.2 Limitations and challenges	33
8. Conclusion.....	35
8.1 Final thoughts	35
8.2 Further research	35
References	36
Appendixes.....	38

1. Introduction

1.1 Background

While it is clear that Europe's retail sector has to change its ways to tackle disruption from e-commerce, physical stores will still be crucial, however, traditional leasing and managing of retail properties will have to change to adjust to the ever-changing market. (JLL, 2019) Globalization, digitalization, and automatization are all disrupting the sector, and experts predict that the retail sector will change more in the next 10 years than it has in the previous 50. (HUI, 2019)

One thing that still is equal across all age groups is that physical stores are the preferred way to shop. Two-thirds of all Swedes rather shop in stores compared to one-third who rather shop online. Even the younger groups prefer to shop in physical stores, although to a lesser extent with a little over half in favor of physical stores. Amongst the older groups over eight out of ten favor physical stores which indicates the continuous need for physical stores. (Nets, 2020) This has created a need for flexible retail spaces that do not put a company out of business by tying them to a high rental cost, but instead gives them a boost both financially and marketing-wise. Here is where the pop-up concept can come into play and help business owners with their sales and marketing, while at the same time fight vacancies from a real estate company's standpoint.

As a result of the trends and shifts mentioned above an increased interest in short term retail leases, also called pop ups has occurred. As vacant spaces within the retail sector are increasing so is the need to fill them. A Pop-up is not a long-term solution to a vacancy, though it can help a landlord to increase their cash flow while they are looking for one. (Rosenbaum, Edwards & Ramirez, 2021)

The Swedish leasing contracts are regulated in the 12th chapter of *Jordabalk* (SFS 1970:994) commonly referred to as *Hyreslagen*. The leasing contract contains terms and conditions for the respective part within the leasing agreement. There are fewer laws regarding the structure of commercial leasing contracts than apartment leasing contracts. Thus giving commercial leasing contracts more room to be flexible. (Lithander & Kristoferson, 2020)

In Sweden today there are several existing platforms for long-term leasing, these are independent sites online that advertise vacant office, retail, and logistics spaces. Thus creating a beneficial environment for future tenants by presenting several premises for lease from different landlords. (Palm, 2015) Some of these sites are Objektvision, Lokalguiden, and Blocket, all of which have helped tenants find a space whether it is an office or a retail space.

To accommodate the rising demand for pop-up stores the role of "broker" between companies and landlords has been established. Just like Objektvision, Lokalguiden and Blocket act for the long-term market, companies like Storefront, AppearHere, and We Are Pop Up have started acting as intermediates in the short-term market. (Warnaby & Shi, 2019) While those companies mostly operate in the New York and London markets, and not on the Swedish one. There are however some players on the Swedish scene. Some of these brokers are companies such as xNomad and Pop-up Agency. These platforms are built to make it easier for companies to come in contact with landlords. The idea is to make landlords publish their empty spaces, or spaces that are going to be empty sooner rather than later on the brokers' websites. From there, companies that are interested in doing a pop-up can browse through a list of spaces, and from

there reach out to the landlord in question. By connecting the landlord with a brand, the broker then takes a cut of the rental income, much like a regular broker. The business models differ from one platform to another but are in general similar.

1.2 Objective

To examine the bottlenecks that exist between real estate companies and brands to effectively implement and execute short-term leases of retail space.

Investigate how market platforms for short-term rentals of retail premises can reduce these bottlenecks and identify which obstacles these platforms have to effectively connect brands and retail spaces.

1.3 Research question

Why do problems/bottlenecks arise regarding short-term rental of retail space and what is the basis for these problems during the rental process?

What are the possible solutions and how can market platforms for short-term rentals of retail spaces such as xNomad facilitate the rental process for short-term rentals?

1.4 Boundaries

A majority of the literature focuses on central locations in large US cities and London. This dissertation will focus on Stockholm's inner city. However, also see if landlords with properties outside of Stockholm work differently regarding short-term rentals in different parts of the country.

1.5 Definitions and explanations

Pop-up store: A temporary store that is confined in time, used for both marketing purposes and sales.

Stockholm inner city: Within the tolls

Size of Swedish cities: Small cities: 10 000-14 999 inhabitants. Medium-size cities: 15 000-37 499 inhabitants. Large cities: 37 500-149 999 inhabitants. Major Swedish cities: 150 000 inhabitants plus

Swedish retail: Swedish retail is categorized into two segments, daily commerce, and non-daily commerce. Daily commerce consists of groceries and non-daily commerce consists of products seldomly bought such as electronics, clothing, and furniture.

Short-term leasing: Rental leases shorter than 9 months.

Vacancy rate: Empty/not leased area of a property compared to the maximum leasable area.

Occupancy rate: Leased area of a property compared to the maximum leasable area.

Incumbent: An existing player within an industry.

Market platform: Website/platform that provides a service to the market. In this dissertation they are referred to as market platforms for short-term retail leases.

Objektvision.se: The leading market platform for vacant property spaces in Sweden.

2. Literature review

In this section, the foundation of the dissertation will be presented. A background on pop-up stores, predominantly in the UK and the US, and internet platforms that work these areas of the real estate market with information collected from previous dissertations, articles, reports, and other literary sources.

2.1 Pop-up concept

A pop-up store is a temporary store that is confined over a certain time, ranging from a few days to multiple months. The name stems from that the store “pops up”, just like the pop-up screens on a computer. The pop-up concept first appeared in London in 1999, with watchmaker Swatch and jeans company Levi’s, launching events that created a buzz with consumers and media. (de Lassus and Freire, 2014) Different kinds of temporary events could be called pop-ups, and these have been around far longer than 1999. Flea markets, yard sales, farmers’ markets could all be called pop-up stores with the criteria previously mentioned. What sets contemporary pop-up shops apart from these is that the pop-up shops today are centered around a strategic point of view. Vendors are using these temporary stores for marketing purposes rather than to boost sales or to make ends meet. (Rosenbaum, Edwards & Ramirez, 2021) Pop-ups do not necessarily have to be static, an example is the London Fashion Bus which is a constantly moving fashion outlet, touring around London with over forty different brands in stock. (de Lassus and Freire, 2014)

2.1.1 Pop-up history

The history of pop-ups could be traced back to as early as the late 1970s when Hickory Farms opened their first temporary store, selling Christmas products for a limited time during the holidays. (Brown, 2019) In 1984 Spirit Halloween opened its first temporary store in California, selling Halloween costumes and articles. The stores are open for two to three months from August to November, the rest of the year the company only sells products online. (Yu et al., 2018) Unlike the seasonal stores of Hickory Farms and Halloween Spirit, the current contemporary pop-ups started to evolve in the early 2000s. This new kind of pop-ups started to experiment with the customer experience, creating limited-time offers, launching new products, and testing out new markets. Pop-ups became a way for solely online retailers to connect with their customers, establishing relationships with them and generate brand awareness. (Yu et al., 2018) As the internet along with online retailing rose to prominence so did the need for a physical way of interacting with customers, which the pop-up concept could fulfill. The need for an omnichannel experience, where retailers combine physical and digital experiences for their customers, has grown ever since. (Rosenbaum, Edwards & Ramirez, 2021) This is strengthened by research that has shown that opening a store increases visits to a company’s websites by an average of 27%. Thus often enlarging the total sales amount. (Lee et al., 2019)

2.1.2 Pop-ups today

As the e-commerce business is growing, the physical retailing business is losing ground. From 2010 to 2019 e-commerce in the US has had an average growth of 15,3% per year in that span, where the total retail sales have risen an average of 3,8% per year in the same years. In 2020 the e-commerce in the US grew 44%, mostly due to the current COVID-19 pandemic. (Ali, 2021)

As the vacancy rate in U.S. malls rose from 8,3% to 9% in the fourth quarter of 2018 to 2019 some mall owners have adopted the pop-up concept to a certain degree. (Maki and Reinicke, 2019) Macerich, one of the biggest mall owners in the U.S. (Macerich, 2021), has started to experiment with pop-up stores to combat the vacancies. Macerich has started to offer 180-day leases to fill empty retail space within their malls. (Maki and Reinicke, 2019) Aside from financial relief for the real estate company, pop-ups can help create a more vibrant community. As (Madanipour, 2018) writes, in 2012 a charitable foundation was set up by the Brent Council and Locality, which is the national network of community-led organizations in the UK. Its goal was to help local business owners by leasing them development properties for a cheap price, that otherwise would have stood empty during the remodeling. This helped both landlords with an extra source of income, but it also created buzz and excitement within the community. The added value of pop-ups and temporary land use is also connected to less crime, property value increase, and revitalization of neighborhoods, malls, and plazas. Since all of the above decreases when the occupancy rate falls. (Rosenbaum, Edwards & Ramirez, 2021)

As mentioned earlier the pop-ups of today are not exclusively for seasonal users. Just in New York City alone, there were an estimated 300 pop-ups during 2018 according to a Cushman & Wakefield report. (Brown, 2019) Today, pop-ups can range heavily in the aspect of what type of tenant occupies them, this includes everything from restaurants to movie launching events. Thus making pop-ups segmented into a few subcategories, these do sometimes overlap but there are also significant differences between them according to (Brown, 2019).

Pop-in stores: Pop-in stores are pop-ups within an already existing retail store. One example is the online native company BirchBox, which sells cosmetic subscriptions. They have opened 12 stores within 12 already existing Walgreen's stores, as a collaboration effort. (Walgreen's 2021) Most pop-in stores are often online brands that want to create a new type of connection with their customers and boost sales. The concept is popular due to the smaller retailer generating foot traffic, and the often bigger existing retailer gains exposure in the form of a media buzz or frenzy. Pop-ins are often a way for the smaller brand to create a long-term collaboration with the bigger retailer, where the goal is to become a permanent fixture. (Brown, 2019)

Experimental pop-ups: Contrast to the traditional pop-up, which is designed to act as both an experience for the customer, but also to add additional sales, the experimental pop-ups are purely designated to be just an experience. (Brown, 2019)

Media/Entertainment pop-ups: This kind of pop-up is on the rise, with especially Netflix in the forefront. Having launched multiple pop-up spaces alongside their releases of popular television series. An example is the premiere of the interactive movie "Bandersnatch" which was a spin-off on their series "Black Mirror". (AppearHere, 2019) Where Netflix opened multiple pop-ups across the UK to help create excitement and bring media attention around it. (Brown, 2019)

Hospitality pop-ups: This segment includes restaurants, bars, and hotels. This kind of pop-up may, like any pop-up, take place in a vacant space, but will more often than not be a short-term collaboration between two parties. This collaboration is often mutually beneficial and is often about exposure and re-branding. (Brown, 2019) Just as with the Nutella branded hotel in Napa Valley at the beginning of 2020, where Nutella 'super fans' along with reporters and influencers were invited to a big Tuscan villa to stay for three days. (Campbell-Schmitt, 2020) However, these types of pop-ups do not have an immediate effect on vacancies in general.

Pop-up to permanent: A common way of establishing your store or company in a new market is to first test the market out, and fine-tune the retail experience for their customers. Many companies intend to become a permanent fixture in the market they are testing out by starting with a pop-up. This is likely to happen in areas with a lower occupancy rate, where landlords are more incited to execute these types of deals. Whereas areas with a higher occupancy rate tend to decline these types of deals. (Brown, 2019)

2.2 Retail today in Sweden

The rise of online shopping has lessened the demand for physical retail spaces. Partly due to the covid-19 pandemic, sales from online shopping in Sweden grew 40 percent in 2020, up from 13 percent in 2019 and 15 percent in 2018. Since 2006 the sales of online shopping have increased from 14,3 billion SEK to 122 billion SEK in 2020. As of 2020 online shopping is responsible for 14 percent of total Swedish retail sales compared to 11 percent in 2019 and 4 percent in 2010. (Handelsfakta, 2021) With companies such as Amazon entering the Swedish market in 2020 and people getting accustomed to shopping online during the Covid-19 pandemic, the growth of e-commerce shows no signs of slowing down. (Johnson, 2020)

Constantly updated products and fast fashion have led to larger supply chains. Companies nowadays have to adapt quickly to new trends and large international chains do this most efficiently. (RetailDetail, 2019) Over the past 10 years, the number of companies within the Swedish retail sector has decreased 4 percent, creating fewer and larger conglomerates. (Handelsfakta, 2021) Companies with 100 or more employees have increased their share of total Swedish retail sales from 39 percent in 1997 to 55 percent in 2016. Every company group with less than 50 employees has lost a share of total retail revenue. (Svensk Handel, 2018)

3. Theory

In this section, the theory that is the foundation of the thesis is explained. In this particular dissertation The five competitive forces that shape strategy, more commonly known as Porter’s Five Forces will be presented.

3.1 Porter’s Five Forces

Porter’s five forces are the five major forces that shape every competitive industry. The theory behind Porter's five forces is that orthodox rivals in the industry are not the only main driving force behind the competition for profits. It extends to include: potential newcomers, suppliers, customers, and substitute products. The result of the five mentioned forces defines an industry’s structure and its competitive nature. (Porter, 2008)

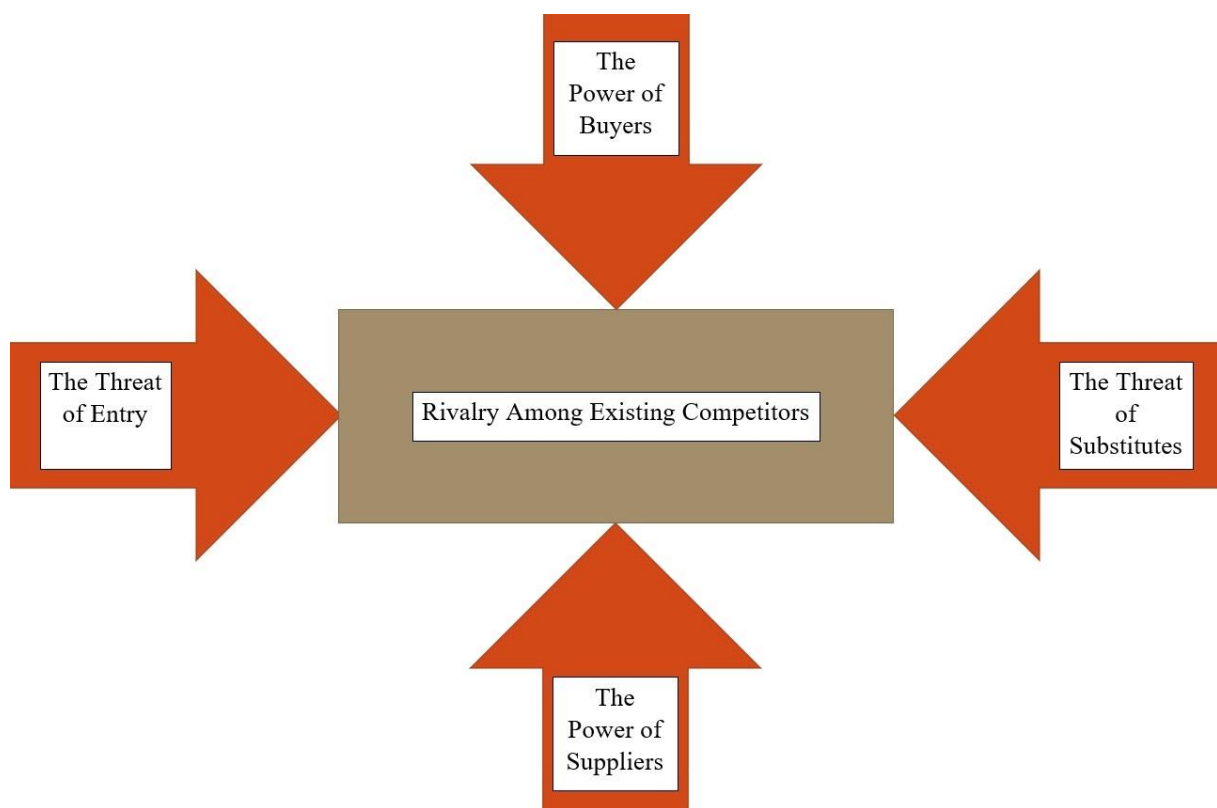


Figure 1. The Porters’ Five Forces model.

3.1.1 Threat of Entry

When a new company enters a market, with a desire to gain market shares, it puts pressure on already existing competition to offer prices, costs, and rate of return required to compete. This force applies especially when a company comes from another market and has the cash flow and capabilities to compete with the rest of the industry. When the pressure from the threat of entry becomes greater, it puts a cap on the profitability of an industry. Since companies have to cut expenses and margins to stay afloat and not lose any market shares to the newcomers. The threat of entry depends on the entry barriers, the bigger those are the less of a threat newcomers are to the market. If on the other hand, the entry barriers are smaller, the threat of new competitors is much greater. For example, the coffee retailing industry has small barriers due to the low establishment costs which means that other competitors on the market have to push their prices down leading to a less lucrative industry, profitability-wise. Also constantly invest in new

equipment and facilities which in return affects the profits. (Porter, 2008) An industry that has bigger barriers, such as the car manufacturing industry, has less of a threat of entry due to the costs of the establishment (factory, machines, etcetera). From a threat of entry perspective, this industry is, therefore, more profitable. Thus, the threat of entry, therefore, depends on the height of the barriers present and the probable reaction from the rest of the industry, not on the actual entries, but only on the threat of them.

The seven most vital advantages bigger and already existing companies have in a market compared to new entrants are:

Supply-side economies of scale: When a larger established company can produce at a high volume it increases the profit margin since the company can spread their fixed costs over more products, install expensive machines and software, or demand superior terms from suppliers. This causes the new entrants to either accept a cost disadvantage or enter the industry on a larger scale from the beginning, which can be hard to do if the company does not have large funding.

Demand-side benefits of scale: Established companies enjoy "network effects" which arise when a consumer's inclination to buy a product or service increases with the number of already present consumers. This means consumers may often trust bigger companies for crucial services or products because of the number of customers who are already using or buying it, and thus making it harder for a newcomer to take market shares before they have a consumer pool big enough.

Customer switching costs: These costs are fixed costs that a consumer faces when switching between different products and services. These limit the keenness of the consumers to switch from a company's services to another's. It could be anything from re-teaching its employees how to use the product to alter their work procedures, which comes with costs both in terms of time and money, that the consumer may not be willing to sacrifice.

Capital requirements: When entering a new market, companies initially have to invest to be competitive, which can scare off new entrants. Initial investments do not only apply to fixed facilities and manufacturing machinery, but it also includes building inventories and funding start-up expenses. This barrier is considerably greater if the industry requires investments in irretrievable fields such as research and endorsements, which is also harder to get funding for. Capital requirements should not be overstated, if it is an attractive industry in which a company tries to settle in there are often good chances of getting funding from investors.

Incumbency advantages independent of size: Incumbents might have advantages no matter their size, which is only available for them and not the new entrants. This could be exclusive technology, access to the best supply line, or beneficent geographical location which stems from time spent honing their product or service.

Unequal access to distribution channels: New entrants must distribute their service or product, to secure a distribution channel they must often do so by pushing incumbents out of it via intense selling or reductions in price, etcetera. The more limited a distribution channel is, the tougher it is for a newcomer to secure a spot in it. Sometimes new entrants, therefore, create their own distribution channels, an example is low-fare airlines which have bypassed the traditional traveling agents and instead started to encourage their customers to book tickets on their own websites.

Restrictive government policies: Government policies can hamper or assist the other barriers, as well as completely nullify them. With licensing laws and a ban on certain kinds of funding, the government can make it harder to establish a new entrant. They can also help new entrants by making research available to the public, thus reducing the scale economies that incumbents draw benefits from. (Porter, 2008)

3.1.2 The Power of Suppliers

The power of suppliers is essentially the ability suppliers of a certain product or service have over the market. By limiting service or quality and charging higher prices, the suppliers can take a bigger profit. An example is the power that Microsoft has over the personal computer makers since most of them use their operating system. Microsoft knows that all these companies depend on their product, which they can raise the cost of and thus make more money. This in turn leads to the computer-making industry having low-profit margins. The computer makers know that there are no other options to the Microsoft operating system without great *switching costs*. These switching costs are one of the main factors to why suppliers can exercise their power over an entire industry. These costs can be everything from having to upgrade specialized equipment to re-teaching all the employees how to work with the new product. When the switching costs are high, consumers have a hard time waging different suppliers against each other, thus making the suppliers able to charge more for their product. An extreme form of supplier power is the power the pilots' union exercises on the airline industry. In this case, there are no other suppliers of pilots than the union, therefore the airline companies have no other choice than to listen and obey the demands of their supplier. (Porter, 2008)

3.1.3 The Power of Buyers

On the contrary to the power of suppliers, the power of buyers is when buyers use their power to pressure prices by waging suppliers against one another. Customer groups have negotiating leverage if there are a few buyers, or if the buyers purchase in large amounts relative to their size. This is usual in industries that generally have high fixed costs and low marginal costs, where these conditions intensify the pressure among rivals. In industries where products or services from different companies are undifferentiated, the buyers can switch between suppliers without high switching costs. The buyers can therefore pressure the vendors with the threat of leaving them for another vendor, thus getting better terms. Certain powerful customers can also threaten to integrate backward and start manufacturing the product it buys from a seller, a powerful bargaining chip to get better prices.

Customer groups can also be price-sensitive, this occurs when the product it buys makes up a notable part of the buyers' cost structure or if the buyer has a tight budget. Opposite to this, when the product represents a fraction of the budget the company is likely to be less price-sensitive. Low-profit buyers, with less liquidity, are keen to trim their purchasing costs to maximize their earnings. Whereas buyers with more cash tend to be less price-sensitive depending mostly on how big of a part the product is to their cost structure. Another deciding factor when it comes to price sensitivity is the quality of products being purchased. Products that need to be cutting edge or advanced often mean that the buyer is less price-sensitive because the importance of the product is grand.

In general, this kind of power applies both to industrial customers and regular consumers. Where the consumer just like the industrial customer becomes more likely to switch between suppliers if the products are undifferentiated. Intermediate customers, which are not the end-users of a product, gain noteworthy bargaining power if they can affect the purchasing decisions

made by end-users downstream. The suppliers sometimes reduce this kind of channel clout by reaching out straight to the end-users via advertising. Thus creating a preference for their products and the end customers will in turn put pressure on the intermediate customers. (Porter, 2008)

3.1.4 The Threat of Substitutes

A substitute is defined as having a similar function or performing to the same degree as an industry's already existing product. A typical substitute is video conference calls, which have become a substitute for physical meetings. Substitutes are often overlooked because sometimes they do not look at all like the industry's current product, but they are always present. An example is neckties and power tools, both are suitable father's day gifts, which makes them a substitute to one another.

When the threat of substitutes is high the industry profitability plummets. The substitutes put a ceiling on the industry's current product in terms of what price the vendors can put on it. It is therefore of importance for an industry to separate itself from its particular substitute through marketing, product performance, or in another way. Otherwise, the industry will suffer from profitability loss and growth potential loss. Substitutes also keep a lid on the earnings an industry can capture in good times.

The threat of substitutes becomes greater when there is an attractive price to performance contrary to the industry's product. The more desirable this ratio is to the industry's product, the more strained the ceiling on the industry's profitability becomes. With low switching costs, the effect of substitutes amplifies, thus making it easier and cheaper for the consumer to switch between the products.

Changes and innovations in other industries may also affect the threat of substitutes, creating new technology or materials which may contribute to the creation of a substitute. It is therefore of essence that incumbents keep an eye on or even explore new technology themselves since it could help their development as well. (Porter, 2008)

3.1.5 Rivalry Among Existing Competitors

The higher the rivalry is within an industry, the more every competitor has to fight for market shares. This often means discounting prices, advertising, and constant product introductions. The profitability loss within an industry is decided by two factors, the intensity with which companies compete and on the basis on which they compete.

An industry's intensity is at its highest when competitors are numerous and approximately the same size. In these conditions, companies find it hard not to get poached by their rivals. Slow industry growth is another reason why the intensity becomes greater, causing the rivals to compete for market shares. In industries with a high level of specialization, there are often high exit barriers, contrary to entry barriers, which make companies stay in a market even though they barely make any profit. Thus creating a toxic environment for the other competitors, stealing possible market shares. The most devastating factor for an industry when it comes to other rivals is when they are very committed to the business. When the aspiration of the rivals goes further than economic performance it becomes especially destructive profitability-wise. This is because price cuts or discounts translate immediately to less profit for a vendor.

Price competition often occurs under certain circumstances. When a product or a service on a market is interchangeable and almost identical and the switching costs between the two are low the only real way to get the upper hand on the other competitors is to cut the price. This creates an industry with low profitability in the long run, as is the case with the airline industry. Furthermore, the price competition increases in industries that have high fixed costs and low marginal costs, such is the case in industries like paper and aluminum. Another reason behind price cuts may be when a product is perishable, meaning it has a date of expiry. This is the case with vegetables, but also with things like computers and screen monitors which lose in demand when a newer model comes out. This results in aggressive price cutting close to the expiry date.

When the competition is on another dimension than prices, like support service, delivery time, and product features, for instance, the effect on profitability is less likely to be negative. This is because it ups customer value and can instead make an industry more justified to charge higher prices for products which in turn increases profitability. When many of the competitors compete within the same dimension, the risk of zero-sum competition is greater. Even though price competition poses a greater risk of becoming zero-sum, the chance still exists when too many companies compete within the same dimension. Opposite of zero-sum competition there is positive-sum competition, where rivalry increases industry profitability. This happens when rivals compete within different dimensions and different segments of an industry.

The gist of this is that when the forces are mild there are good chances for the companies to earn better returns on investments, on the other hand when the forces are intense there are generally low returns on investments across the whole industry. No matter if an industry produces products or services, high tech or low tech, regulated or unregulated, the competition and profitability are driven by the industry structure. There are of course a lot of factors that can affect profitability in the short run, the medium- and long-term profitabilities are dependent on the industry structure, which in itself is dependent on the five competitive forces. (Porter, 2008)

3.1.6 Application to the research question

To apply the Porter five forces theory to the question at issue in this report one must look at the individual parts of the theory and the question at hand. There are several parts of the five forces theory to apply to the research question.

The power of suppliers could be applied to the fact that the real estate companies in this case translate to suppliers. For the platforms to work efficiently it is of essence that there is a constant supply flow, thus meaning vacant spaces. The suppliers of those are the real estate companies who may make the industry less profitable by squeezing the flow of new vacant spaces. Thus creating a bottleneck across the industry. Real estate companies can also affect the industry by only supplying a limited number of the platforms with spaces, creating an oligopoly-like structure. This might also affect the threat of entry since it raises the entry barriers for new competitors by not being able to tap into the supply pipeline immediately.

From another perspective real estate companies might look at the platforms as competition. Since the platforms' business idea is to take a cut of the rental income, which in turn affects the real estate company's cash flow. Many real estate companies and landlords might be reluctant to lease their space through a third-party broker due to this. Thus being affected by the rivalry part of the five forces theory. This puts a lid on the industry as well, by keeping some spaces vacant because the real estate company only looks for long-term tenants.

4. Methodology

In this section, the modus operandi for the collection of data will be presented. Furthermore, this part of the dissertation will explain how we chose the method we did and why. Lastly, this part will include the companies which were interviewed and why they were chosen.

4.1 Choice of method

This study began with the review of existing literature about the subject. This included gathering and examining previous written reports, journals, articles, and other studies. Thus creating a deeper understanding of the question at hand and about the topic of this report.

To get first-hand information about how the industry looks at pop-ups and short-term leasing contracts, the method of choice was semi-structured qualitative interviews with players in the industry. The interviews were done through video calls, as we still have not made it out of the pandemic yet this was the best option. A summary of what the report was about and about us as authors were sent out to several real estate companies who previously have worked with pop-ups. This also included the questionnaire which was answered during the online interviews. They were meant to investigate how short-term leases could affect business for the respective real estate companies. Furthermore, they were meant to shed light on the bottlenecks and obstacles that face the short-term leasing market, and highlight possible solutions for those.

The choice of a qualitative method over a quantitative one in this study was because of the need for a deeper input into the subject. The benefit of a qualitative approach is that the answers you get are often a bit more nuanced. Thus, giving us vital information about how the industry is viewing the subject, both from a tenant's perspective and a real estate company's. If a quantitative approach was being used, the risk is that the answers from the respondents would have been more shallow. Leading to us being unable to draw any justified conclusions.

4.2 Qualitative method

4.2.1 Interview questions

The interview questions were constructed in the same way for all of the companies, but as the interviews were semi-structured the follow-up questions to some answers differed. The focus was still on the bottlenecks and obstacles within the said industry, just from their respective point of view. The interview questions are presented in *Appendix A*.

4.2.2 Selection of interviewed companies

Since short-term leasing is not something that is adopted throughout the industry the property companies that were interviewed were chosen by sorting out relevant companies. In this context, relevant companies are real estate companies who have worked with short-term leasing to different degrees before. Their contact information was gathered through xNomad and the people working there. There were not only real estate companies that were interviewed, but also people from the industry such as retail consultants. Thus giving the most insight into the process of actually doing a pop-up and what they thought of the process to do so.

Within the relevant companies, people who worked with business development and things alike were chosen to take part in the interview, since they are the ones with the most insight into the subject. To get the most out of the interviews from an information standpoint, experience and titles were some traits that were prioritized. The respondents are presented in Table 1 below.

Table 1: List of interviewed real estate companies

Company name	Name and title	Company information
Vasakronan	Jesper Örtengren Head of Business Development	Vasakronan is Sweden's largest real estate company with a real estate portfolio of 2,3 million square meters spread out over 170 properties and a combined value of 165 billion SEK. Vasakronan's real estate portfolio consists of central office and retail properties in Stockholm, Gothenburg, Malmö, and Uppsala with the majority of properties in Stockholm.
Mind Retail	Caroline Strömblad CEO	Mind Retail offers services at a strategic and operational level to real estate companies, property managers, cities, municipalities, and organizations. These services include data-driven consulting in areas such as retail business development and market and trade analysis Since the start in 2015, Mind Retail has worked on behalf of municipalities and the leading real estate companies in Sweden.
Atrium Ljungberg	Alexander Yü Business Developer	Atrium Ljungberg owns, develops, and manages properties of 846 thousand square meters of leasable area with a property value of approximately SEK 44,5 billion. It is Sweden's 16th largest real estate company by property value. The focus is on developing attractive urban environments with a mixed content where offices, housing, and trade are mixed with culture, service, and education. The focus is on offices in the Stockholm area.
Fabege	Pernilla Tellberger Retail Leasing	Pernilla works as a consultant, at the moment for Swedish Real Estate company Fabege and have previously worked at Lundbergs Fastigheter and Unibail Rodamco
Pob & House AB	Pernilla Björk Owner of Pob & House AB.	Pob & House is a retail consultancy firm helping landlords with retail development and management

Hufvudstaden	Gustaf Lundén Manager, Retail Business Development	Hufvudstaden's property portfolio is completely concentrated in central Stockholm and Gothenburg and manages properties of 384 thousand square meters of leasable area with a property value of approximately SEK 47,7 billion. It is Sweden's 13th largest real estate company by property value
Nordanö	Louise Richnau Partner as Nordanö, previous partner at Brunswick Real Estate and previously a board member at Norrporten	Nordanö is a leading financial advisory firm for Nordic property-related transactions The firm's offering includes Property Transactions, Corporate Finance, and Research. The firm has been voted 'Best Real Estate M&A Adviser' in the Nordic region (for six consecutive years, from 2013-2018) and Sweden (for nine consecutive years from 2011-2019) in Euromoney's annual survey within the real estate sector. The firm has offices in Stockholm, Helsinki, Copenhagen, and Oslo.

4.2.3 Interview structure

By doing semi-structured interviews with the respondents we could make room for discussion throughout the interviews and be more flexible with the questions. Making us able to get answers to questions we might have not thought of otherwise, and if not, miss out on critical information and insight.

The interviews took place with the help of online video conference calls, with one respondent at a time. The downside of having the interviews online and not face to face is that it does not create the same kind of personal interaction. One of the benefits of having one interview at a time is that it gets more personal, and you can connect with the respondent in a better way. Participants who take part in interviews on an individual level are more likely to discuss sensitive subjects than interviews done with multiple respondents. (Kaplowitz, 2000) This leads to better and well-developed answers, giving us a better understanding of the respondent's point of view. Finally, it also makes the interview easier to transcribe since there is only one party talking at a time. (Denscombe, 2018, s. 270)

After the interviews, they were fully transcribed to make it easier to see patterns in the different respondents' answers. These patterns were then identified and brought up in the result part, and further analyzed in the analysis part.

4.3 Methodology and source criticism

Because short-term leasing is a relatively unexplored topic in the scientific community, there is a limited amount of research and scientific articles about it. There is a mix of scientific articles and industry reports in the report. Therefore, the literature was gathered from multiple independent sources to avoid bias and subjectivity as much as possible. To diminish as much bias as possible from the interviews data triangulation was used. When data collection is spread out between individuals it gains validation and includes as many perspectives as possible. (Carter, et al., 2019)

Commonly semi-structured interviews with a qualitative approach cannot be representative of the industry as a whole, since the number of interviewees is fewer there is a greater chance that some things do not get brought up. Studies that rely on qualitative interviews tend to be influenced by opinions and bias. Furthermore, qualitative interviews are flawed in the way that the questions can be interpreted in different ways to different people. A way to counteract this is to interview a lot more people and companies. (Lithander & Kristoferson, 2020)

5. Results

This section will present results from interviews, how property owners react to changes within the retail industry, their thoughts about market platforms, and how they work with them.

5.1 Perspective of the property industry

The results from the interviews with all of the property owners and industry people will be presented here. The interviewed property companies and consultants were: Vasakronan, Hufvudstaden, Atrium Ljungberg, Mind Retail, Nordanö, and Pob & Hous and Tellberger. These results are the foundation of how property owners, landlords, and industry insiders view pop-ups, the problems with pop-ups, how these issues can be solved, and their thoughts on the future of pop-ups.

5.1.1 Standpoint on short-term rentals

All of the interviewed companies are positive towards short-term leases and all have worked with the concept in the past or are working on it right now. They all said that retail is developing and that short-term leasing is one of the future concepts of the future. How the respondents defined a short-term lease, did however differ. Atrium Ljungberg views short-term leasing as contracts up to nine months, because of the security of tenure that activates after this point. Yü from Atrium Ljungberg adds that some companies work with short-term leasing in a more structured way than others who do it out of necessity. Vasakronan does not have a clear definition of what a short-term lease is. Vasakronan would for example probably not count a one-week lease as a short-term lease. They will however do so in the future when Vasakronan launches their internal pop-up concept in 6-7 dedicated pop-up spaces. Hufvudstaden is not against short-term retail leases even though they do not prefer it and have started looking into short-term retail leases, even more, to see if it could work for them. One example is how they currently are investigating if concepts such as coworking and short-term office leases can be implemented in their retail spaces. Hufvudstaden defines a short-term retail lease as one under one year. As long as the short-term tenant does not hinder Hufvudstaden's work finding a long-term tenant, the lease can be everything from 2 weeks to 1 year.

Several respondents have their own in-house teams working with short-term leasing. Pernilla Björk stated that she has noticed an increase of companies creating their own in-house short-term leasing teams. Vasakronan has its own short-term leasing team, and they also have designated spaces specifically for pop-ups. Whereas Atrium Ljungberg do not have their own short term leasing team, and short-term leasing is split between the leasing- and business development departments. The same goes for Hufvudstaden who does not have a dedicated team working with short-term leasing. The work is divided up between the marketing department and leasing managers and the one who gets a lead regarding a short-term retail lease is also often the one in charge of that lease. Pernilla Tellberger mentions the only company that had their own team for short-term leasing at which she worked, was Unibail Rodamco. She adds they had a couple of spaces in Mall of Scandinavia dedicated solely for pop-ups. Vasakronan has done approximately 100 pop-ups during the last couple of years, excluding their Beyond Us-space in Malmö. Within the same period, Atrium Ljungberg has done about 50-60 pop-ups in 2018 and 2019 respectively.

Where the interviewees want to place pop-up stores differ a bit. Yü says that in prime retail locations the incentive is not very high to rent the space out short-term, in those spaces the focus

is often solely on finding a long-term tenant. He further explains they much rather place a short-term tenant in less lucrative areas in more need of activation. Tellberger states that companies doing pop-ups often want central locations with high footfall. Tellberger then further enhances Yü's claim saying central locations are the opposite of where real estate companies want to do pop-ups in many cases. Örtengren agrees to this observation but does not share their unwillingness to do pop-ups in central locations. He adds, most of their dedicated pop-up stores, therefore, are in the city centers. Something he wishes to prove is that short-term leases can generate as much income as long-term leases if the implementation of pop-ups is being done effectively.

5.1.2 Working with market platforms for short-term leasing

Overall the consensus throughout the interviews was positive about working with market platforms such as xNomad. Caroline Strömblad, CEO at Mind Retail, tells us that many of the property owners they work for often have their own cooperation agreements with different pop-up platforms. She says that in cases with property owners who do not have any cooperation agreements, she has told them about short-term leasing and suggested they try it. Örtengren thinks companies like xNomad can be of great help to find and fill out not only Vasakronans dedicated pop-up stores but also vacant stores meant for long-term leases and stores in properties with ongoing or planned renovations. Vasakronan aims to do most of the work themselves but realizes they might need help from market platforms. Since platforms quickly can scout the market and have a larger reach than Vasakronan and find alternative tenants whom Vasakronan might not have found themselves. As long as a company comes with good ideas and tenants, Vasakronan is willing to work with them. Previous relationships do not have a significant impact on whom Vasakronan chooses to work with. Overall, Vasakronan does not want to sign exclusivity agreements with one company and wants to have the flexibility to work with whoever comes with the best ideas and offers.

Tellberger explains that transparency towards market platforms with upcoming vacancies and current vacancies should not be a problem. According to her, many property owners are not fully transparent today because it often leads to extra unnecessary work for leasing managers. When property owners advertise their space, they get too many rouge calls from prospects who do not fulfill their requirements. She further explains that this aspect of finding a new tenant is where companies such as xNomad and Pop Up Agency can add value. By acting as a filter for future short-term tenant prospects, market platforms could play a large part in real estate companies work with short-term leasing. Hufvudstaden agrees with this, thinking that xNomad's main value add is finding potential short-term tenants that Hufvudstaden might not be able to find independently but also act as a filter coming to Hufvudstaden with potential tenants that Hufvudstaden is interested in. Yü mentions that Atrium Ljungberg will never give out information regarding upcoming vacancies due to the confidential information between the landlord and the current tenant. Yü also says Atrium Ljungberg can become better at giving out information about current vacancies. However, since real estate companies tend to have many vacancies and do not want to be too public about these, there are still some issues regarding full transparency with current vacancies as well.

Atrium Ljungberg publishes their office vacancies on Objektvision and their website since they take a longer time to rent out. Retail spaces are usually not vacant for a long time and therefore are not published to the same extent as office spaces. However, larger retail spaces in need of renovation are more challenging to rent out and often published on Objektvision as well as Atrium Ljungberg's website. Vasakronan does not have a history of a high vacancy rate and has often found new tenants within the time that they know the contract is not getting extended

until the space is vacant. However, they do sometimes publish their spaces on Objektvision, and there have been discussions to do it to a greater extent in the future. Vasakronan does, on the other hand, publish all of their vacant spaces on their website and sometimes foil display windows with advertisements of the vacancy. Hufvudstaden aims to be exclusive and of great quality, which is why they do not want to advertise their retail spaces on websites such as Objektvision. Another reason is that they have many leads and ideas of whom they want to move into their spaces. Hufvudstaden adds that advertising on Objektvision would lead to non-targeted companies contacting them and taking up leasing managers' time.

Björk mentions that working with market platforms can be problematic from a property owners' perspective. Most property owners are not used to paying commissions to brokers for them to find a tenant. She says that the idea to pay commission can scare some property owners away from using platforms such as xNomad. Björk suggests market platforms should focus on getting paid by the brand instead of the property owner. Björk thinks this would make more property owners positive about using platforms such as xNomad and short-term leases. On the contrary, Örtengren believes it is reasonable to pay someone if they help Vasakronan bring in a new tenant and, by doing so, bring in rental income. Vasakronan has previously offered office tenants discounts on their rent if they find a new tenant for one of Vasakronan's vacant office spaces, and this could be used for retail tenants as well.

Atrium Ljungberg often works with companies they have worked with before and with the ones who have a solid track record. However, Atrium Ljungberg typically does not use consultants due to their sizeable in-house leasing team. Hufvudstaden mainly works with external companies they have a relationship with and whom they know do a good job. However, they are always open to new ideas and willing to listen to companies with different or new concepts. Vasakronan's leasing teams in different cities work semi-independently, and how they choose to structure their work to fulfill Vasakronan's vision differs. As a result, the amount and which consultants firms Vasakronan use differs in each city. Örtengren says many brands no longer have a dedicated employee solely for finding new retail spaces, and consulting firms such as CBRE, JLL, and NewProperty have taken over this role to a large extent as a result. Vasakronan has previously not worked with consultants but has started to do so in the last couple of years. Vasakronan believes some real estate companies do not want to advertise their vacant spaces and keep the information to themselves while their in-house leasing team tries to find tenants on their own. Hiring consultants and using services such as xNomad is also expensive. Historically, at Vasakronan, it has almost been taboo to use consultants, but this has changed and continues to do so, especially for less attractive spaces. Vasakronan has a somewhat clear vision for all of their properties and, as a result, has continued discussions with companies they believe fit into each vision. This is also why they do not publish all of their vacancies on Objektvision since they then would get calls from numerous companies that they are not interested in. Vasakronan mentions that they have to be open to new ideas so they do not miss someone they might want, and not publishing vacancies on different websites can hinder these potential tenants from finding the space. As a consequence, they tend to share information about vacancies with existing partnering companies such as xNomad. Hufvudstaden, on the other hand, says that the main obstacle when it comes to giving, for example, xNomad info about all of their vacancies, is because they do not want to do so with spaces where they have ongoing discussions with potential long-term tenants. Since most spaces often have at least one ongoing discussion, this reduces the number of spaces Hufvudstaden is willing to send to companies such as xNomad.

5.1.3 Obstacles and problems with short-term rentals

Strömblad says the issue with short-term leasing is that the contracts do not get valued as high as long-term ones. If a short-term lease is put into the balance sheet as rental income, the property value might be negatively affected. On the other hand, real estate companies can put income from short-term leases as additional income, which would not affect property value negatively. There is some skepticism among real estate companies regarding short-term leases, mainly due to their lack of knowledge of accounting for them.

“Our valuation model regarding properties is built from the standpoint of longer leases. With 12-, 6-, 3-month contracts becoming our new normal, we have to solve this from a valuation standpoint”

- Caroline Strömblad, Mind Retail

As Strömblad points out, the property owner needs a stable income from the property to analyze future rental income and property value. By accepting short-term tenants, property values can decrease due to uncertainty regarding future cash flows. Strömblad says this is the major problem with short-term leasing from a property owner’s perspective. Especially when the property owner is smaller and more affected by such fluctuating income, a larger property owner might not have the same problems. Larger property owners can afford to have specific spaces empty for a more prolonged period since they have other spaces that generate income. Yü says that Atrium Ljungberg does not put short-term leases as rental income on their balance sheet. Only leases of more than nine months account as rental income. Short-term leases are put as additional income. Yü continues by saying that smaller real estate companies might not have the means or will to do this and, therefore, not willing to do short-term leases. Hufvudstaden is flexible in setting the rent level for short-term retail leases but does not want to do short-term leases for long periods since it could affect their actual base rent. Hufvudstadens short-term rental income is accounted as additional income and does not affect property values the same way a long-term contract does.

Tellberger on the other hand says, that prospecting and signing short-term leases take about as much time as a long-term tenant. This is an issue since short-term leases are not as lucrative as long-term ones. Short-term leases might affect not only property valuations but also increase uncertainty about future rental income. She says this is a significant problem when she is working with short-term leasing. The time put into short-term contract discussions does not generate the same value as for long-term ones. Her opinion is that this needs to change before short-term leasing becomes attractive to property owners. By making short-term leasing a less time-consuming process for the property owners the incentive to do short-term leasing will increase. Örtengren says it, on average, takes around two months of work between numerous people to sign a long-term retail lease. This includes different reviews of the tenant as a brand but also their economic stability as well. Örtengren continues by saying short-term retail leases do not necessarily have to take as much time, especially if the real estate company has built a concept with standardized contracts, terms, and conditions. An example of this is in one of Vasakronan’s dedicated pop-up spaces in Malmö, Beyond Us, where short-term retail leases can be signed in a few hours. This convenience is largely because Beyond Us has pre-made offers, and being a store-in-store concept, other tenants can easily be moved around, and no one must move out as a result of a long-term tenant coming in.

“Real estate companies do not have tons of employees in relation to the value of the company itself, and since long-term leases are a higher priority, real estate companies usually do not have the resources that are needed to handle short-term retail leases”

- Alexander Yü, Atrium Ljungberg

Björk says one of the biggest obstacles is that short-term rentals often have to occur within a short period of time. She says property owners have difficulties timing pop-ups since most long-term tenants need to do renovations before they move in, and as a result, many spaces are empty but not vacant. Also, property owners often do not want a pop-up to interfere with a potential long-term tenants renovation start date. This becomes hard to overcome unless the property owner in question has dedicated spaces for pop-ups. Örtengren says Vasakronans average retail vacancy is around one year, but for prime areas, this can be longer since Vasakronan is rather picky regarding the type of brand they accept. Tied into this vacancy rate is also the number of retail spaces affected by renovations on the properties they are in. Vasakronan has, for example, 30-40 retail spaces in buildings being renovated or soon will be. Örtengren says there is a potential for short-term retail leases in these properties since long-term tenants have to move or terminate the lease independently. As a result, these retail spaces are often vacant during different periods of the renovation and suitable for short-term leases. An example is in Vasakronans property next to Sturegallerian in Stockholm. This property is currently being renovated, and over the past year, Vasakronan has relocated most of the long-term tenants. However, renovation of the facade, with scaffolding around the building, will not start until the end of 2021. In the meantime, Vasakronan has rented out most of the retail spaces short term. Manifesting the possibilities with short-term leasing, making it an opportunity rather than a necessary evil.

Another problem Louise Richnau points out is that the property industry is behind in the digital transformation. She believes this is a significant reason many property owners are as conservative as they are towards fully implementing new concepts such as pop-ups. There is also often a big demand for good spaces in the central parts of Stockholm, which has led to property owners generally being less keen to test out new concepts to be at the forefront of retail development.

One prominent reason why short-term retail leases are difficult to implement is due to how long-term retail leases work. The standard is that when a tenant moves out from a space, they have to make sure to remove all of their stuff and are often obligated to strip the space of all interior they put into the space when they moved in. The reason is that the new tenant then does not have to invest in clearing out space before they renovate it. Vasakronan is trying to change this by building standardized stores with, for example, floor and lighting. The tenants can then make minor changes, but Vasakronans goal is to reduce the number of materials used, speed up the time needed in-between leases and reduce the cost of opening up a new store. Short-term retail leases do not generate much revenue in comparison to real estate companies' total revenue. Adding commission to companies such as xNomad leads to even less income. Because of these two reasons, real estate companies tend to ignore short-term retail leases and focus on finding long-term tenants. Örtengren thinks this mindset is wrong since you lose a potential income if you ignore short-term retail leases.

Hufvudstaden mainly owns properties in central locations and wants to create a high-end feeling in the areas, so people want to go there. A problem Hufvudstaden sees is to maintain a high standard with short-term retail leases due to tenants moving in and out, often resulting in much work finding new tenants who fulfill Hufvudstaden's standards.

5.1.4 Trends on the retail market

As for the trends in the retail market, the respondents all said similar things. Tellberger says there is practically no one who is up-sizing their spaces, and an increasing number of brands are moving into spaces that are more like showrooms. This trend has gone on for a while, mainly due to increased e-commerce and accelerated by the COVID-19 pandemic. Hufvudstaden has noticed many customers starting to want smaller spaces but with large storage areas, and some wanting their stores to be more like a showroom than an actual store. COVID-19 has not fundamentally changed retail demand but has been an accelerator to the already ongoing trends. Strömblad says this trend is most apparent in city centers, where brands want to use spaces more efficiently than before. She also says that big spaces are in more demand outside of the city, especially in markets like groceries. Yü adds that he sees a trend in which companies with an established online presence seek spaces they want to use for marketing purposes rather than boost their sales.

Björck agrees that within the fashion industry, there is no longer a need to have a two-story store with a thousand square meters of space in the middle of the city, but also says that things like gyms need big spaces. So there will, in the foreseeable future, always exist a need for bigger spaces in the city. Örtengren says he sees the same thing. The store in demand from the size of stores sought after from the tenants point of view has shrunk. He estimates it to be around 30% in the last ten years, where tenants who previously wanted 1000 square meters now want around 700.

All of the interviewees agreed that pop-ups and short-term leasing are on the rise. They all thought that there would be more of them as the industry is adapting to a new era of retail, where many sales are online and not in person as before. Both Strömblad and Björck think that the terms “pop-up” and “short-term leasing” need to change. She believes a re-branding of them could do good for the industry. Flexible leases are, according to Strömblad and Björck a better name for short-term leases.

Another trend that Atrium Ljungberg says they have noticed is that larger retailers such as H&M have acquired fewer but larger stores. For example, H&M wants to gather all subsidiary brands in the same space or right next to one another. H&M has done at Drottninggatan in Stockholm where they have H&M Home, Monki, Weekday, ARKET, and Afound close to each other. Vasakronan continues by saying that prime locations are more critical now than ten years ago, and brands might be okay with smaller spaces as long as they are located in a popular area.

Hufvudstaden has noticed that many customers are starting to want a bit smaller spaces but with large storage areas, and some wanting their stores to be more like a showroom than an actual store. Covid-19 has not changed the demand side of retail very much but has been more of an accelerator of the already ongoing trend.

5.1.5 Why pop-ups?

A major reason to do a pop-up from a property owner’s perspective is to activate the area or the property itself. Thus creating a more attractive area for other tenants. Richnau says that she thinks a varied street or ground level in a property makes it more attractive and lively, thus making pop-ups an excellent concept to implement into some spaces. Strömblad says the same and adds that instead of cardboard and duct tape, as it might be in a vacant store, the street level will experience variation, which she thinks consumers will appreciate. All interviewees agreed that the main reason behind doing pop-ups was to activate the space and the area. The economic

reasons were not the main priority. Vasakronan says that they have previously leased spaces for 1 SEK/month. This is because one cannot lease a space for free.

“We have previously leased spaces for 1 SEK, just to activate the space, and we loved what the tenant would bring to the area in terms of activation”

- Jesper Örtengren, Vasakronan

Historically retail rents have been more expensive than office space, but today in Stockholm's central business district, it is rather the opposite. Vasakronan says that as a result, they now try to activate the street in other ways than just traditional retail stores. According to Vasakronan, relying solely on retail stores to attract people and businesses is not enough. They, therefore, work with area strategies where they have properties.

These strategies are, for example, Soltrappan by Sergelstorg in Stockholm, where they demolished a part of one of their buildings and built a staircase connecting Sergels Torg to Malmsskillnadsgatan. In addition to creating spaces for restaurants and getting the municipality of Stockholm to create a summer street which is when you block out traffic on the street during the summer and put out large flower pots intending to make the street more attractive for pedestrians. Vasakronan's plan was to transform the previously not so lucrative street Malmsskillnadsgatan to an active and exciting place where people want to go. By doing this, making the office spaces more valuable. Within this vision of transforming Malmsskillnadsgatan, Vasakronan thinks short-term retail leases can be a great tool to make the street even more lucrative and, in return attracting more people and businesses to their office spaces.

Hufvudstaden's main purpose with short-term retail leases is to activate the space and area in a way that fulfills the overall concept and vision Hufvudstaden has for their properties; the rental income is more of a bonus and not something that they solely focus on.

The main reason why Atrium Ljungberg works with short-term leases is not to generate rental income even though they see a possibility to make significant amounts if they were more organized regarding short-term leases. The main reason why Atrium Ljungberg does short-term retail leases is to create soft values in terms of more active and lucrative properties and areas that give people a reason to go there. Short-term retail leases can therefore be one way to create soft values. On the other hand, Atrium Ljungberg tends to first work with established restaurants, experiences, and vibrant streets. Short-term leases are also included but are less prioritized than the other factors that they believe create an active and lucrative area. Atrium Ljungberg emphasizes that if they lease a space short-term, and the rent is lower than for long-term tenants, they make sure to explain to existing tenants the reason behind it and that it is to activate the space and make the building more attractive which in turn affects existing tenants positively. On the other hand, if the strategy with short-term rentals is solely to make money, Atrium Ljungberg believes it could worsen the relationship with existing clients.

“Soft values is something one must work with to create attraction to the property and by doing so increase the value of larger rental incomes that tend to be office leases”

- Alexander Yü, Atrium Ljungberg

Tellberger said that pop-ups are a great way of activating spaces that are not top-tier attractive. By having a pop-up in a vacant store that might not be in a prime location, tenant prospects can

see the potential of the space and become inclined to signing a long-term lease for the space. She thinks this a good use of pop-ups outside of the city center.

6. Analysis

In this section, the results of the interviews will be analyzed.

6.1 Standpoint on short-term rentals

All of the interviewed companies had different definitions of what a short-term retail lease is. All did, however, work, based on their definition, with short-term retail leases. Most of them did not have their own in-house short-term retail lease division. Unibail Rodamco, where Björk had worked, and Vasakronan were the only two companies with in-house short-term retail lease divisions. Most of the interviewed companies preferred short-term retail leases in more remote locations. At the same time, Vasakronan said they understand companies who do a short-term retail lease want exposure, and remote locations are therefore not as suitable for short-term retail leases.

6.2 Working with market platforms for short-term leasing

All the interviewees were positive towards working with platforms such as xNomad. The industry consensus is different regarding partnership agreements. Strömblad said several real estate companies choose to have partnership agreements with external companies they work with. Large real estate companies such as Vasakronan and Hufvudstaden are hesitant to partnership agreements since it can limit their options. They preferably work with several partners and choose who can get them the best deal or brand in each specific situation.

All respondents agreed that market platforms for short-term leasing could act as a sorting tool for leasing managers. Filtering out attractive tenants could help them make their leasing process more efficient. For example, Hufvudstaden primarily wants high-end brands in their spaces near the city centers. Therefore, market platforms can sort out high-end brands for Hufvudstaden, so they do not have to spend time talking to brands they are not interested in.

Complete transparency regarding vacancies and advertising them on market platforms was a sensitive topic to most respondents, besides Vasakronan being the only one fully endorsing this strategy. There were three main reasons why the interviewees did not want to be fully transparent with their vacancies:

1. It can be a privacy issue between the current tenant and the landlord.
2. Real estate companies are often in discussion with potential long-term tenants and see no need for advertising these vacancies.
3. Real estate companies often envision the type of brand they want in a space and preferably contact these brands directly rather than getting calls from non-targeted ones.

The way real estate companies approached vacancies differed a lot. As mentioned above, Vasakronan had a very different approach than Hufvudstaden. Vasakronan was also not against paying a commission to market platforms, while all others were, in part, hesitant to pay market platforms a commission.

The real estate companies in question often work with the same consultant firms when needing external help with leasing. Consultant firms are often chosen based on previous relationships, service, and expertise. All interviewees were, however, not against working with new consultant firms with different strategies and concepts. Vasakronan said they are open to almost

everything because they do not want to miss any opportunities. The same goes for Hufvudstaden.

6.3 Obstacles and problems with short-term rentals

Multiple respondents brought up a significant problem regarding short-term leases: short-term contracts are financially not considered very valuable. Most of the value lies in activating the space. Additionally, short-term contracts often affect large and small real estate companies differently. Small real estate companies often put income from short-term contracts as rental income in the balance sheet. The property value will then be affected if short-term contracts are cheaper than long-term contracts. Therefore, solely activating a space is not worth it to small real estate companies who report their income in this way. Large real estate companies do, however, put income from short-term contracts as additional income in the balance sheet. As a result, the property values will not be negatively affected by short-term contracts if they are cheaper than long-term contracts. They are resulting in being more open towards short-term leases. Atrium Ljungberg and Hufvudstaden do not put income from short-term contracts as rental income.

Another obstacle is that contract negotiating is time-consuming, and it sometimes takes as much time to sign a short-term lease as a long-term one. Tellberger says the incentive from real estate companies to do short-term leases is, therefore, often low. Vasakronan also agrees and wants to make short-term contract signing and negotiation more standardized. Vasakronan is also trying to make some of their retail spaces more standardized with regular wooden floors and lighting, reducing or eliminating the need for renovations between two leases.

Further difficulties include the timing process of short-term leases. Renovations and tenant improvements are made before long-term tenants move in, making it hard for a real estate company to plan ahead. Björk says short-term leases seldom are ideal unless the real estate company has spaces solely for pop-ups. There are exceptions, including when properties have to undergo construction and long-term tenants move out before construction starts. These situations leave an opportunity to do short-term leases before work has begun.

Also, a problem is how long-term contracts usually work. The tenant who is leaving their space has to strip the space of installations, interior, and furniture. This hinders practical short-term leases from taking place immediately after it becomes available. Vasakronan believes this is why many real estate companies ignore short-term leasing. Hufvudstaden also added that they usually only want very high-end brands in their spaces, making it difficult to find new high-end short-term tenants every few months consistently.

6.4 Trends on the retail market

All the interviewees mentioned similar trends in the retail market regarding lower demand for large spaces. Many companies today use their store more as a showroom than to generate maximum sales. Tellberger and Hufvudstaden agreed that COVID-19 has not changed these trends but acted as an accelerator. Björk did mention that large spaces that previously were occupied by fashion brands are today occupied by gyms and restaurants. She believed there would be a demand for these large spaces even in the city centers for the foreseeable future. Vasakronan estimated that companies on average demand space 30 percent smaller than they did ten years ago, and prime locations are more important today than ten years ago. Brands might be okay with smaller spaces as long as it is located in a popular area. Atrium Ljungberg

also mentioned another trend regarding large brands wanting bigger but fewer stores, gathering them close to each other.

6.5 Why pop-ups?

All the interviewees said the main reason they want to do short-term retail leases is to activate the area and property. By doing so, making the properties more attractive to both visitors and other tenants. The economic aspect was not the priority for any of them. Vasakronan has, for example, rented out space for 1 SEK/month, and Vasakronan even operates two stores themselves, partly to activate the space but also to learn more about running a retail space. Atrium Ljungberg mentioned that doing short-term retail leases can generate much income if done strategically and efficiently. Vasakronan's goal was to prove that their pop-up concept could become as profitable as their long-term leases. However, both Atrium Ljungberg and Vasakronan did mention that short-term retail leases are not their priority to activate retail spaces. Atrium Ljungberg mainly tried to activate properties and areas by attracting restaurants and other experience-oriented businesses. Vasakronan did this by renovating entire areas with several properties and getting the municipality to create summer streets. For both Vasakronan and Atrium Ljungberg, short-term retail leases are only a complement to activate properties and areas, not as prioritized but still essential.

7. Discussion

This section compares the results and analysis to the existing literature and theory.

7.1 Opportunities

The opportunities at this point in the retail industry are many. As the access to vacant spaces increases, there will be a more significant opportunity for platforms such as xNomad to gain additional market shares. As physical retail is on the decline and the need for innovation within the industry grows, so will the short-term leasing of retail spaces. The overall retail industry is still growing. However, most of the growth comes from e-commerce. The need for e-commerce brands to physically connect with their customers is also growing, further easing the restraint on the competition amongst market platforms for short-term retail leases and increasing the industry's profitability. It is also apparent that pop-ups are a great way to establish brands in a new market, giving real estate companies incentives to expand their short-term leasing supply. Not only to generate additional income and the possibility of acquiring a long-term tenant if the pop-up is successful but also to activate spaces while they are vacant. It also encourages cooperation amongst different brands, launching products together, creating new concepts, and becoming more flexible, which short-term leasing makes possible.

All of the interviewees were also keen on working with different market platforms for short-term leasing, saying that whoever brings them the best solutions and tenants is the one getting the job. Thus creating competition between market platforms, further encouraging competing platforms to deliver the best service possible. As short-term leasing is a somewhat new concept, everyone does not yet know precisely how the market will evolve, and it is still developing. This competition within the market platform industry can be both good and bad in regards to Porter's five forces. There are not enough players in the industry for it to become a low-profit industry solely due to competition, such as mentioned earlier within the airline industry. This in turn leads to a healthier competition climate where there is still room to be profitable.

Perhaps the most intriguing part of short-term leasing is the opportunity to activate spaces and make them interesting for other tenants and pedestrians. This was the consensus throughout all interviews and the literature study. Real estate companies seem to be increasingly positive about consistently having their retail spaces rented out with the help of short-term leases. Creating a lively and active property makes it more lucrative for other tenants, making it possible to charge higher rents for other tenants. Creating a lively and active property also makes it easier to find tenants for the rest of the building and the possibility to charge higher rents. Short-term retail leases can, in turn, if done efficiently, increase property values through their nonfinancial added value.

7.2 Limitations and challenges

Several interviewees mentioned that small real estate companies are not familiar with short-term leases. They are, as a result, not knowledgeable of how to account for them without negatively affecting property values. Thus, creating a bottleneck for market platforms that want access to smaller real estate companies' vacant spaces.

The power of suppliers is apparent in terms of the market platform's need for transparency of vacant retail spaces. It now creates a barrier for companies who do not have access to or knowledge about these vacancies. When connecting this to the five forces theory, it is clear that

the industry's supply side is the force keeping a lid on the industry right now. During the interviews, most respondents see several obstacles regarding transparency, partly because of sensitive information about current tenants and because they do not want to publicly expose all their vacancies. In combination with the fact that the real estate industry is not very innovative compared to other industries, creates a bottleneck for both market platforms and short-term leasing as a whole. However, real estate companies are positive towards short-term leases but can often not supply themselves with enough short-term tenants. As a result, most of them must share some of their vacancies with market platforms to find enough short-term tenants.

There is also the problem of how time-consuming it is to sign a short-term lease. Today the time spent to money earned ratio is too low. As Vasakronan said in the interview, standardizing contracts will make short-term leasing less time-consuming and more profitable for real estate companies. Thus, increasing the incentive to expand short-term leasing operations. Vasakronan had shortened the contract signing period in one of their spaces in Malmö, showing that it is possible to do so. The possibility of real estate companies signing short-term contracts by themselves can be considered a substitute, but they will still need market platforms to find tenants, so this substitute is mitigated.

8. Conclusion

8.1 Final thoughts

From the given result, we can conclude that the short-term retail leasing market will continue to grow. Market platforms such as xNomad have a significant possibility of taking part in this transition within the retail sector. There are also many challenges ahead, such as informing some real estate companies how convenient short-term leases can be to implement. More innovative real estate companies are simultaneously creating their own pop-up concepts, which could be seen as a threat. However, we believe this will speed up the transition in the retail leasing market, which market platforms such as xNomad will benefit. Also, we assume real estate companies will have difficulties filling out their pop-up spaces independently, thus relying on platforms such as xNomad to do so for them.

The main bottlenecks found in this study were the effect short-term leases can have on property valuation, transparency issues regarding vacant spaces, and the time-consuming aspect of signing short-term contracts. These are the major obstacles to implementing short-term leasing across the industry at a larger scale. However, the consensus amongst all interviewees is that effectively implemented short-term leases are sought after and expected to grow in the coming years. Thus, making market platforms good tools for the real estate companies to further develop this kind of leasing.

8.2 Further research

Further research can include questioning more real estate companies, both large and small, and asking companies with properties in cities other than Stockholm. Examining more real estate companies in different cities can give a clearer view of the market and how it varies between large and small companies and how it differs between large and small cities.

Further research can also include questioning brands who have done short-term retail leases. The reason why they did it and what they thought the results were. Adding to this point, questioning brands who have not done short-term retail leases would also help give a clearer insight into the concept by knowing why some brands decide not to do short-term leases.

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Appendixes

Retail in general

- What's the value of retail for you?
 - How does it affect your cash flow/income?
 - How does your office rent get affected?

Choosing tenants

- How do you reason when it comes to what type of tenants (store-wise) you choose?
 - Central/Not central locations
- What are your challenges when matching different types of tenants with different retail spaces?
- Have you seen a development in the size of the spaces your tenants request?

Advertising of vacant retail spaces

- What are the reasons why not all your vacant spaces are advertised?
- What are the obstacles to you being fully transparent with your vacant spaces, in the sense that you inform platforms such as xNomad about them?

The work with short term leasing today

- Do you have your own unit that works with short-term rentals?
 - If not, you have an external partner in addition to xNomad who will help you with this?
- What do you think partners can do to facilitate pop-up stores?
- Is the purpose of a pop-up primarily to activate the space or to bring in rental income?
- How important is trust/relationship with partners, do you work entirely with one actor (xNomad) or several (Pop up agency etc)

Problems/Opportunities with short term leasing

- What is your stand on short-term rentals?
- Why do you want/do not want to use short-term rentals?
- What problems and obstacles do you think there are today? (With short-term leasing)
 - What problems and obstacles do you think can be solved?
 - What problems and obstacles do you think cannot be solved?
- How many short-term rentals have you made per year in recent years?

Swedish version

Retail i allmänhet

- Vad är värdet med retail för er?
 - Hur påverkar det era intäkter?
 - Hur påverkas resterande kontorshyror mm?

Att välja hyresgäster

- Hur resonerar ni när ni väljer ut nya hyresgäster för olika typer av butikslokaler?
 - Centrala kontra mindre centrala butikslokaler
- Vad är era utmaningar med att matcha brands i olika butiker?
- Ser ni en utveckling av storleken på butiker era kunder söker?

Annonsering av vakanta butikslokaler

- Vad är anledningen varför ni inte annonserar alla era vakanta butikslokaler?
- Vad är hindret för att ni ska vara transparenta med era butikslokaler i den mån att ni meddelar tjänster som xNomad innan en lokal blir vakant?

Arbete med korttidsuthyrningar i dagsläget

- Har ni en egen enhet som arbetar med korttidsuthyrningar?
 - Om inte har ni en extern samarbetspart utöver xNomad som hjälper er med detta.
- Vad anser ni att samarbetspartner kan göra för att underlätta pop-up butiker?
- Är syftet med en pop-up främst att aktivera ytan eller att få in hyresintäkter?
- Hur viktigt är tillit/relation med samarbetspartners, jobbar ni helt med en aktör (xNomad) eller flera (Pop up agency etc)
- Tar ni ut hyra under tiden en lokal renoveras för hyresgästanpassningar?

De problem/möjligheter ni ser med korttidsuthyrningar

- Hur ställer ni er till korttidsuthyrningar?
- Varför vill ni/vill inte använda er av korttidsuthyrning?
- Vilka problem och hinder anser ni finns idag?
 - Vilka problem och hinder anser ni kan lösas?
 - Vilka problem och hinder anser ni inte kan lösas?
- Hur många korttidsuthyrningar har ni gjort per år de senaste åren?

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