

Real Estate players rallied around the flag in Aulanko

The Finnish real estate professionals met in Aulanko, Hämeenlinna, with mixed feelings in November. The headlines of the past year have emphasised the negative with construction declining and property transactions being put on ice. The aim of the Kiinko's Annual Convention of Property Investment Prospects was to rally the troops, so to speak: to focus on the positive messages, the success stories, solutions and innovations.



To help with this goal, the organisers had enlisted the help of couple of gurus: philosopher Esa Saarinen and Swedish professor, author Kjell Nordström. The pair did their best to fire up the participants with their often unorthodox think-out-of-the-box ideas.

A more conventional look was delivered by Sakari Tamminen, Chairman of the Board for the Confederation of Finnish Industries EK as well as the CEO of Rautaruukki. While Tamminen assessed that the recession is far from over, he expressed a view that construction business might recover faster than many other industries – globally, at least.

Schizophrenic Situation

Some of the most precise international observations in the convention were delivered by

Michael Schönach, Managing Director of Catella Property. Schönach offered an insightful overview of the Finnish real estate market fundamentals and trends. He called the current situation “schizophrenic” with the (dropping) rents as the driving factor in business premises investments, while it used to be yields just a little while ago.

“Even 30% reductions in rents are being negotiated now,” he said, while adding that this does not apply to prime real estate.

Still, the situation is not as gloomy as it was with the recession of the early 90’s, where speculative development led to the eventual downfall of many a real estate player. Now, there are still business parks in the pipeline but not too many projects are kicked off.

Perhaps surprisingly Schönach analysed that Helsinki may be more vulnerable to the

crisis than some other parts of the country.

“Growth cities which are vibrant communities are less liquid and thus less volatile.” Helsinki on the other hand is part of the international playground and more open to global effects.

Game Still On

While exercising cautious tones, Schönach was still upbeat about the future.

“There are still good real estate deals to be made today,” he commented, adding that there is nevertheless a check list to go through before committing. Of course, properties should have long term leases with prime tenants – right now the public sector is quite desirable in this regard.

A great location does not turn bad overnight, even with ill winds blowing. Add good traffic conditions and versatility

and you might have a winner in your hands, Schönach believes.

According to Schönach, the big trends in the sector are to raise environmental buildings and fill them with ethical tenants.

And there are still opportunities in the field: Schönach used Citycon as an example of a company which was able to maintain stable financing status in spite of the exceptionally challenging market conditions. The rapid fall of the interest rates and the successful repurchase of Citycon’s own convertible capital bonds reduced the company’s interest expenditure.

“In effect, Citycon bought back its convertible bonds at 50% of the price.”

This goes to demonstrate that good bargains can be struck in all types of circumstances. Still, Schönach echoed the words of the old sergeant from Hill Street Blues when he advised:

“Be careful out there!” ●