

Press Release
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NEWSEC PROPERTY OUTLOOK SPRING 2010

Commercial property market recovering cautiously

The decline of commercial property prices seems to have slowed down during early spring. The yield required by investors for office properties in Helsinki CBD appears to have stabilised at approximately 6 %. On the other hand, office rents especially in Helsinki area suffer from the effects of oversupply during the past few years and the forecast of weakening employment in the 12 months to come.

A clear differentiation on the market now occurs between properties of good quality with a good location, and the inferior ones. When it comes to location the investment demand is mainly focused on the few largest growth centers. In smaller regional centers local investors are the active players, but bid prices are low.

"It is still hard to attract bank financing and this still keeps the real estate market quiet. The amount of major real estate transactions last year was EUR 1,7 billion and this year we forecast it to rise to approximately EUR 2 billion", says **Managing Director Juhani Reen from Newsec Advice Oy.**

International investors are becoming active in the Finnish market again and they are looking for good purchase opportunities. However, they are only willing to secure well-let properties in the best locations. In addition, some players are looking for so called forced sales properties, which they hope to purchase for a good price. So far low interest rates have however saved most leveraged property investors from major difficulties. While international investment demand seems to be recovering, new, first-time investors to Finland will probably not be seen on the market this year.

"We do not believe that the financial institutions will begin large-scale forced sales in the near future. This is due to the fact that at the moment realisations would have to be made with significant sale / reductions and the losses would be great. In the longer term we will see major re-organisations of property assets, when loans for property transactions will have to be renewed", tells Reen.

The strong downturn of the national economy together with massive construction of new office premises during the last few years will have a lowering effect on office rents this year. There will be pressure for cutting market rents especially on certain Helsinki main area submarkets, in which there are ageing office premises. The direction of tenant flow has been towards new appealing areas in which you are currently able to find modern premises at very attractive terms.

The trade with grocery goods reached a growth of over 2 %, but for example car trade came down over 30 % and wholesale approximately 18 %. This has already affected the rents of retail premises, and landlords have been forced to negotiate temporary rent reductions.

However, the demand is high at the best business locations and there the rents have remained the same.

In addition to office premise rents, there is also a downward pressure on the industrial and warehouse premise rents. The decline of exports and slow down of trade has resulted in dampened flows of goods, increasing vacancy rates, and deteriorating demand views. Vacancy rates are though still fairly low in this sector.

“The leasing activity has clearly improved compared to last year. Companies are again able to make decisions and move to more suitable premises. The strong increase of sub-leasing due to changing space needs can be seen as a phenomenon of this period”, says **Lea Poijärvi, Director of Leasing and Brokerage at Newsec Advice Oy.**

“Space supply in many branches and submarkets is very good and rental levels are very reasonable, so now is the right time to look for functionally and economically effective premises”, Poijärvi continues.

We are confident that the worst in the commercial property market is now behind us. Nonetheless, adapting to significant volume decreases will take its own time and due to this construction of new premises will remain on a low level at least during this year and the next year. The expected slow economic growth will keep the commercial property market quiet for an extended time.

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Newsec offers services to property investors and to those who own or occupy premises. The company was founded in 1994, is owned by its partners and has about 600 employees of which over 130 in Finland. Our market is the Nordic and Baltic region. Newsec is the result of a unique history of growth, marked by constant innovation. For further information, visit www.newsec.fi.