

Publication 5

Heidi Falkenbach and Saija Toivonen. Effects of international investments on the Finnish commercial real estate market. *Journal of Real Estate Literature*, forthcoming. Accepted to be published 19.1.2010.

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# **Effects of international investments on the Finnish commercial real estate market**

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**Key words:** international real estate investments, commercial real estate, real estate market, Finland

## **Abstract**

The Finnish commercial property market has internationalised rapidly, with nearly 80 foreign property investors participating in the market today. This paper explores through interviews of domestic investors how the entry of international property investors has affected the Finnish commercial property market. The results indicate that the internationalisation has had a profound effect on the dynamics of the Finnish market in terms of investor strategies and ways of action, market liquidity and size, as well as market transparency and the availability of real estate related services. These changes have together contributed to the maturity and attractiveness of the Finnish market.

## **1. INTRODUCTION**

European commercial property investment markets have internationalised rapidly during the past ten years. During the past five years, cross border transactions have accounted for more than half of the European transactions volumes, and even in 2008, despite the falls in transaction volumes in general, cross border investments in Europe accounted for 56 per cent of the total transactions volume (Jones Lang Lasalle, 2009). The growth of international activity has also meant that new markets, such as Finland, have entered the list of potential investment markets, alongside with the largest European property markets in the UK, Germany and France.

In Finland, internationalisation took off in 2002. Thereafter, the internationalisation of the commercial property market has been rapid, and today almost 80 international investors have entered the market (Catella 2008a). The rapid internationalisation of the small Finnish

property market has not, however, happened without changes in local market dynamics. This paper explores how the internationalisation has affected the dynamics of the Finnish commercial property market.

The research on international real estate investments has had two lines of research. The first consists of studies focusing on international real estate investment strategies (see, e.g., Worzala, 1994; and Newell and Worzala, 1995) and decision-making criteria, where especially the literature on the diversification benefits of international real estate investments is vast (for a review, see Sirmans and Worzala, 2003; and Worzala and Sirmans, 2003). The bulk of the literature suggests that investors do benefit from international diversification, but that the increasing market integration in Europe has reduced these benefits (Lizieri et al., 2003; and McAllister and Lizieri, 2006).

The second line of research, to which this paper also contributes, discusses internationalisation in the context of the evolution and maturity of property markets, where the structural changes in the market are seen as responses to international requirements (de Magalhães 2001). The line of research builds on the extensive work by Keogh and D'Arcy (1994) and D'Arcy and Keogh (1998) who suggest that the level of market maturity can be evaluated based on the level of real estate service provision, market information, the property investment market as well as the importance of non-domestic actors and funds.

As suggested by De Magalhães (2001), due to the differences between unique national market characteristics, the development paths towards maturity and their results should also be different. The case studies typically focus on the general development of markets in, when compared to the Finnish market, an emerging stage, such as Spain (Keogh 1996) and Central and Eastern Europe (Adair et al., 1999; Ghanbari-Parsa and Moatazed-Keivani, 1999; Keivani et al., 2001; McGreal et al., 2002; and Adair et al., 2006), and regard the entry of international actors as one factor of change among others.

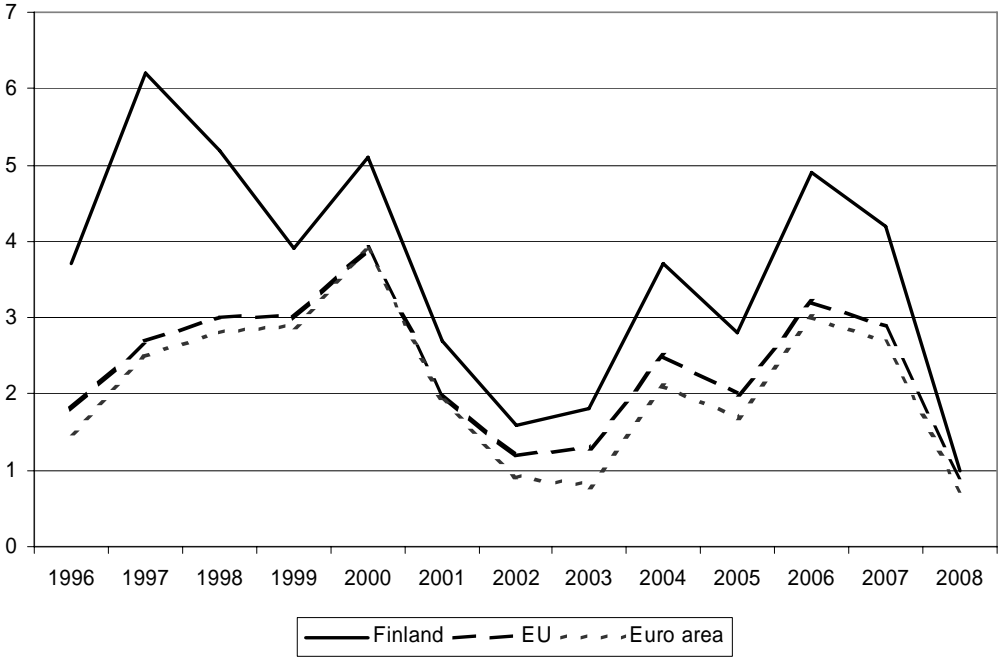
These studies take the viewpoint of evaluating the competitiveness of cities in the global economy and emphasize the effects on multinational tenants and investors on the development markets, where demand pressures have led to better building standards and provision of investment-grade properties (Keogh 1996; and Keivani et al., 2001). A natural emphasis in Central and Eastern European markets has also been on the development of the institutional, regulatory and infrastructural environment, which in these countries has been

observed to be one of the barriers hindering foreign property investments (Keivani et al., 2001; and McGreal et al., 2002).

In the Spanish context, Keogh (1996) suggests that the rapid internationalisation of the property investment market had, through stronger investor demand, an effect on building standards, the widening of prime markets, the management of properties, and investment strategies, but also probably severed the property cycle. In addition, internationalisation has been observed to affect the transparency of the market through the foreign investors' demand for more accurate and detailed market information (Adair et al., 2006) but also through the entry of international consultancy firms (Keogh, 1996, De Magalhães, 2001).

The internationalisation of Finnish real estate investment markets started late in comparison to the internationalisation of European real estate markets in general. Since the severe economic depression in the beginning of the 1990's, Finland has experienced economic growth above the European average (Exhibit 1) and has been evaluated to be one of the most competitive economies according to the Global Economic Competitiveness index (Exhibit 2). A member of the European Union since 1995 and, as the only Nordic country, of the European Monetary Union since its inception, the Finnish economy has been characterised by institutional maturity and low levels of political risk .

**Exhibit 1**  
**Economic Growth in Finland, European Union and Euro area**



Souces: Eurostat (<http://epp.eurostat.ec.europa.eu>)

### Exhibit 2 Profile of Finland

<b>Population:</b> 5,3 million (July 2009)
<b>GDP at Market Exchange Rate (2008):</b> EUR 184,7 billion (EUR 34 769 per capita)
<b>GDP Growth (2008):</b> 1,0 % (2008); 3,3 % (2004-2008)
<b>Share of GDP by Sectors:</b> Services (64,9 %); Industry (32,4 %); Agriculture (2,8 %)
<b>Fixed Asset Investment:</b> 20.6% of GDP (2008 est.)
<b>Foreign Direct Investment (2008):</b> EUR 63,1 billion
<b>Exports (2008):</b> EUR 86,8 billion
<b>Trade Partners (2008):</b> Russia 11.6%; Sweden 10%; Germany 10%; US 6.4%; UK 5.5%; Netherlands 5.1% (2008)
<b>Global Economic Competitiveness (2009-2010):</b> 6 <sup>th</sup> in the world
<b>Environmental Sustainability (2008):</b> 4 <sup>th</sup>
<b>Corruption perceptions (2008):</b> 5 <sup>th</sup> (2008)
Sources: <a href="http://www.stat.fi">www.stat.fi</a> ; <a href="http://www.cia.gov">www.cia.gov</a> ; <a href="http://www.weforum.org">www.weforum.org</a> ; <a href="http://www.epi.yale.edu">www.epi.yale.edu</a> ; <a href="http://www.transparency.org">www.transparency.org</a>

When compared to the studies conducted in Central and Eastern Europe and Spain, the internationalisation of Finnish property markets started late in the evolution of the economy and the market. Possible reasons for this include the small size of the market and its strong regional concentration, as well as lack of market transparency.

The capital Helsinki, and the metropolitan area around it, is the main economic centre of Finland. Most headquarters and government agencies are located there, and professional services, the financial sector, as well as high tech industries are focused in the area. The dominant position of Helsinki is reflected in the property market (Exhibit 3), as a large share of the office stock and the prime retail areas are located there. The concentration of activities makes Helsinki Metropolitan Area the tenth largest European centre, when measured in volume of office stock (KTI, 2009).

### Exhibit 3 Commercial property stock in the major cities of Finland

City	Office	Retail	Industrial / Warehouse	Total stock (sqm)
Helsinki Metropolitan Area	8,263,550	3,113,400	7,359,000	18 735 950
Tampere	943 983	938 821	2 028 063	3910867
Turku	791 771	851 566	2 191 026	3834363
Oulu	543 008	659 567	1 139 425	2342000
Jyväskylä	338 606	717 948	1 096 480	2153034
Kuopio	330 605	530 969	674 078	1535652
Vaasa	269 474	768 183	563 482	1601139
Lahti	263 310	609 311	1 627 300	2499921
Sources: <a href="http://www.stat.fi">www.stat.fi</a> ; Catella, 2009.				

## 2. METHODOLOGY AND INTERVIEWEES

The topic was approached by studying the experiences and conceptions of actors in the Finnish commercial real estate market through an interview study. The interviews were conducted as themed or half-structured interviews, which focus on preset topics but give the interviewer the possibility to modify questions and ask some clarifying questions. (Robson, 1993.) In this study, the theme was to study how internationalisation has changed the Finnish commercial real estate market. The interviews were analysed based on content analysis. In content analysis, the comments of the interviewees are categorised under general headings arising from the data, which in this research were effects on the investment market, effects on the transaction process, and consequential effects on the market. The paper is organised according to these headings. The discussion is based on the results of the interviews, and secondary data from market and consultancy reports is used to verify and illustrate the notions of the interviewees. When these additional sources of information are used, they are indicated separately.

Altogether 20 Finnish real estate investors and asset managers participated in the interviews, including institutional investors, listed real estate companies, fund managers, non-listed real estate companies and the state property company. The respondent organisations were selected to cover the domestic investors in the market and the individuals based on their position and experience in the market. The people interviewed in the organisations were typically CEOs or investment managers.

Exhibit 4 shows the respondents by type and total size of property portfolio. The size of the real estate investment market in Finland is around €42 billion, the figure including state property holdings but excluding municipal property holdings. Of this figure, around €10 billion is owned by foreign investors (KTI, 2009). The interviewees' property portfolios had a total value of almost €24 billion, thus representing more than half of the property market and 75 % of the markets held by domestic investors. To illustrate the representativeness of the sample by investor type, the right hand column of Exhibit 4 presents the share of the domestically owned property market owned by the investor type in question. As can be seen, the sample represents the market well; only the non-listed property companies are slightly

underrepresented. In addition, some investor groups, like charities and trusts, which own around 2 % of the market, were not included in the sample.

**Exhibit 4 Interviewed investors by type and value of property portfolio**

Investor type	Respondents			Share of property market owned by the investor type (%)*
	n	Size of property portfolio (1000 MEUR)	Property portfolio (%)	
Institutional investors	9	10,0	42	43
Listed real estate companies	3	3,9	16	14
Real estate funds	3	2,7	11	9
Non-listed real estate companies	4	1,6	7	14
State property company	1	5,7	24	18
<b>Total</b>	<b>20</b>	<b>23,9</b>	<b>100</b>	

Note: percentage of property market owned by domestic investors, excluding municipal property holdings.  
Sources: Interviews, Annual reports of companies, KTI 2009

### 3. EFFECTS ON INVESTMENT MARKET

#### 3.1 Investors in the Finnish commercial real estate market

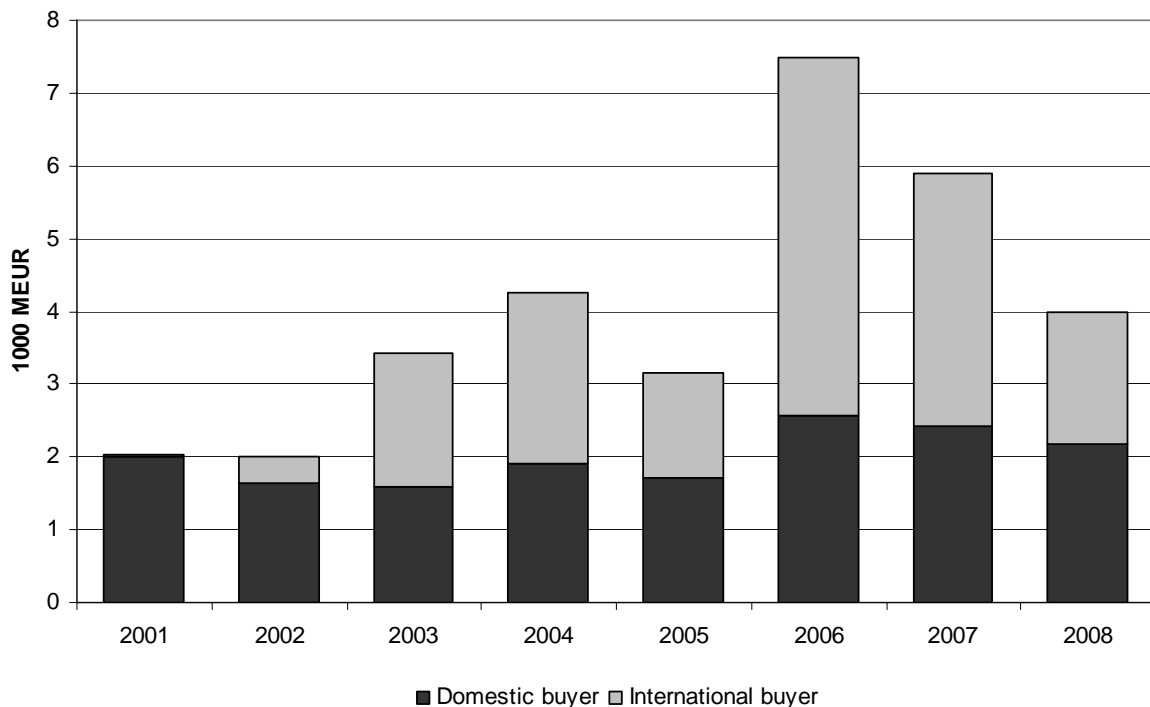
The Finnish commercial property investment market has traditionally been characterised by a small number of investors, the number of professional investors being around 30 (KTI, 2001). In the domestic environment, the investors traded properties among each other, and knew each other well. As one of the interviewees put it: "Earlier there were only few players, who as a group agreed on an appropriate yield level. This yield was then used in transactions and no one would have paid more." With internationalisation, the number of investors in the Finnish commercial property market has increased rapidly: Today, almost 80 international investors have entered the Finnish market (Catella, 2008a). The importance and power of individual investors has thereby decreased, and for example in transactions, the prices are set by supply and demand. The largest domestic and international property investors are illustrated in Exhibit 5.

**Exhibit 5 The largest domestic and international investors in the Finnish property market**

<b>Domestic</b>	<b>International</b>
Varma Mutual Pension Insurance Company	RBS Nordisk Renting (UK)
Sponda	NIAM (SWE)
Ilmarinen Mutual Pension Insurance Company	Wereldhave (NL)
VVO	Protego Real Estate Investors (UK)
Tapiola Group and Tapiola Funds'	Genesta Property Nordic (SWE)
Local Government Pension Institution	I/S EjendomsInvest (DK)
Citycon	Bronda Properties (NL)
Aberdeen's funds' investments in Finland	Norgani Hotels (NOR)
Sato	ING REIM (NL)
CapMan Real Estate	IVG (GER)

Internationalisation has also had an effect on yearly transaction volume, which has doubled from the level before internationalisation (Exhibit 6). A large share of these transactions (65 % in 2007, 45 % in 2008), are today conducted by the international investors.

**Exhibit 6 Transaction volumes in the Finnish commercial property market**



Source: KTI, 2009.



### **3.2 Strategies of foreign investors**

The international investors have not only affected the amount of actors in the property investment market, but also changed the nature of the market by introducing investment strategies different to the ones the market had been used to. Major differences in strategies have been the use of leverage and preferences for different types of transactions and real estate.

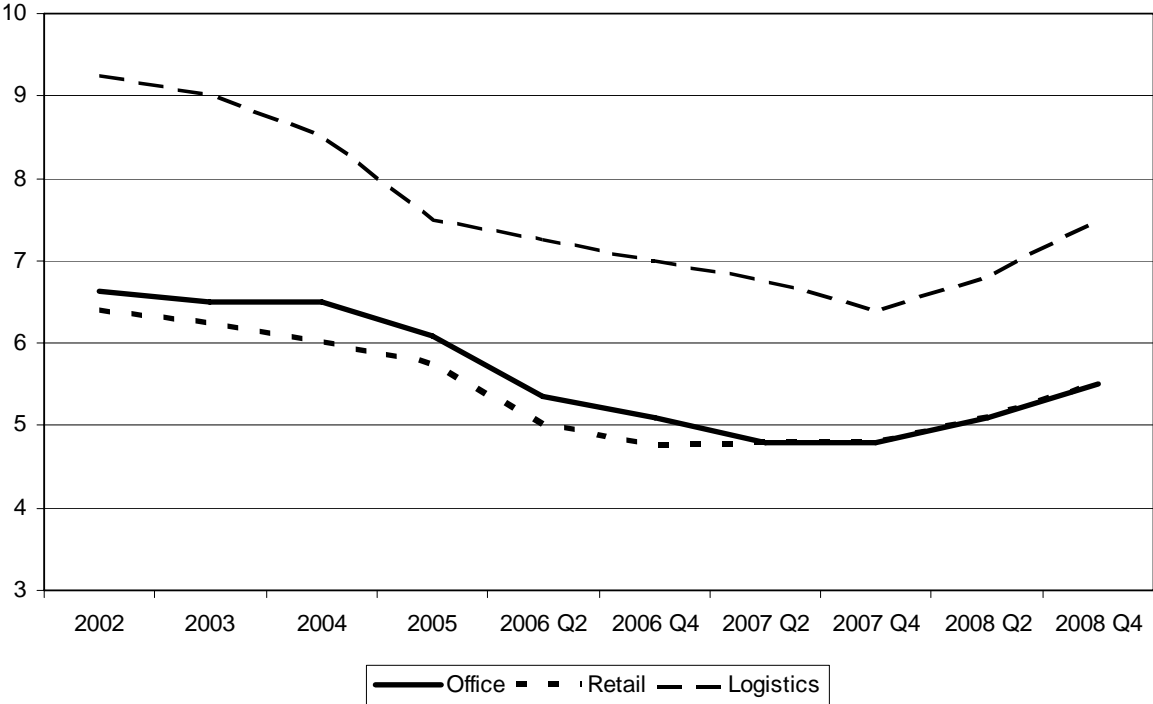
In the beginning of the 2000s, the large domestic investors participating in the property market did typically not use much leverage in their investments, which also affected the existing yield levels. The international investors entering the market, on the other hand, typically used a high leverage of up to 100 per cent, which, when propped with the historically low interest rates, changed the pricing of properties.

According to the interviewees, the international investors have had different preferences for their investments than the domestic investors. One obvious shift has been the popularity of large transactions. Secondly, the domestic investment market has traditionally been concentrated in prime-type properties in the Helsinki Metropolitan Area and the largest cities. The international investors have not had such strict preferences, but have instead invested also in small regional centres and cities, development objects, objects requiring active management as well as class B properties, which had traditionally been outside the investment plans of domestic investors. Many Finnish investors also commented that the nature of property investments has shifted towards financial investments, reducing the importance of the physical property itself. The respondents often illustrated the shift by the fact that investment decisions are more often made far away, without the investor having even seen the property that is being traded.

The internationalisation has increased competition in the market. The earlier monopoly-like environment has been replaced by competition, especially for core investments and large prime properties. As one of the investors put it: “The international investors have spoiled a good market: the prices have soared and the returns decreased.” Due to the differences in the use of leverage, the domestic players were almost priced out from both the core office as well as the retail market. Rivalry has also been fierce between the international investors, adding to the competition in the market.

The changes in the competitive environment have had a direct influence on the yields and prices of property. Yield compression was rapid during 2002-2007, the decrease in yields occurring in the Helsinki Metropolitan Area and in the major growth centres (Catella, 2008b). Exhibit 7 illustrates the yield compression in the Helsinki area after the beginning of the internationalisation of the market. As can be seen from picture, the yield compression for office and retail premises was between 1.5 and 2 per cent, whereas for logistics investments, the compression was close to 3 per cent.

**Exhibit 7 Prime yields in Helsinki 2002-2007**



Source: Catella, 2009.

The internationalisation of the Finnish property market has also been one of the main drivers for the development of property and asset management services in Finland. Foreign investors need the external service providers if they do not have a local office in the market. The entry of international players has enabled the growth of the service provider sector, and contributed to the quality of the services provided by requiring the same service quality as in other markets, making the outsourcing of these functions attractive also for domestic players.

### **3.3 Changes in the strategies of domestic investors**

The internationalisation of the commercial real estate market has had positive effects on its competitive environment. On the other hand, internationalisation has made the business more difficult for the investors who had been used to the old, traditional property market, i.e., the domestic investors. For many Finnish investors, the compressing yields and increasing prices meant that they were not able to compete for the attractive objects. The yields were too low for equity-only investors, and some investors even regarded the compression having gone too far when taking into regard the risks of the market.

For some domestic investors, internationalisation had no effect on their investment strategies, as these companies operated in market areas the international actors have not shown interest in. Those domestic investors who were competing with the international investors were not able to adapt their strategies immediately to the new market situation, but needed some time to learn how the “new” market functioned. In practise, this meant that domestic players were not active in participating in the open market transactions because they knew that the final price would exceed their bids. For some investors, it did not make any sense to restructure their portfolio, as the existing investments in the portfolio were providing significantly higher returns than the ones being offered in the market. A good indication of this is that the office yields used in transactions in 2005 (Exhibit 7) were 0.6 per cent lower than the office income return in the Finnish property index (KTI, 2009), which is predominantly based on the returns reported by domestic investors on their existing portfolios. At the end of 2006, the difference was 1.6 per cent (KTI, 2009).

The inability to do transactions in the core market forced the domestic investors to widen their selection criteria. As mentioned, earlier the demand was focused on the Helsinki Metropolitan Area, and the CBD in particular, and the investment demand was focused on core property. Due to the keen competition, Finnish investors were forced to also look at other submarkets, as well as to extend their scope towards objects requiring more active management, especially towards B-class properties and development objects. A second strategic change has been in the way domestic investors have been sourcing deals: As the international investors were getting most of the deals that were on the open market, domestic investors started to source deals more actively by approaching prospective sellers, for example small developers who do not organise their transactions through competitive biddings. Some investors shifted their

demand towards smaller deals, as these were not that popular among the international investors.

It should be noticed, however, that not all the strategy changes of domestic investors have been defensive. For some investors, the booming market enabled restructuring of their portfolios through selling assets that did not fit their strategic criteria. Some investors also noted that due to the increased liquidity of the market, they have been able to extend their scope of investments towards larger objects. Earlier these deals were regarded as non-investment grade because of the exit risk being too high.

Internationalisation of the Finnish commercial property market, and the tightened competition, has also lowered the barriers for Finnish investors to invest abroad. Especially the adaptation of international transaction practises and new international contact networks have encouraged the Finnish investors to search for opportunities in new markets.

A significant change in the strategies of domestic investors has been a shift towards the use of leverage. Many companies have decreased the share of equity in the financing of transactions, and companies have also been forced to learn more about debt finance and the instruments available. On the other hand, the entry of foreign investors has increased the availability of financing alternatives in Finland, too. The competitiveness of especially institutional investors, in practise pension insurance companies and pension funds, took a hit, as they for regulatory reasons do not tend to leverage their direct property investments. Thus, they shifted their allocation from direct property investments to indirect investments through which they can use leverage. The specialised demand of institutional investors for unlisted indirect property investments has had a direct effect on the growth and development of the market for these instruments in Finland.

#### **4 CHANGES IN TRANSACTION PROCESS**

The internationalisation has also had an influence on the way transactions are carried out. An instant change in the market that occurred as the international investors were entering the market was a shift from exclusive trading to trading through transactions with competitive biddings. The popularity of competitive biddings can be explained by the yield compression and rising prices: In a highly competitive market environment, where there is more demand than supply for prospective investments, a competitive bidding is expected to lead to the highest possible price. It is clear that the tradition of competitive biddings started with the

internationalisation of the market but one could argue that the reason for the change in the market was not internationalisation itself, but rather the instant demand shock, which made trading this way most profitable for the seller. A factor that would support this argument is that that bidding competitions got rarer and rarer as the investment market started to cool down in 2008.

A more permanent change has happened in the documentation and risk management in transactions. In Finland, the tradition and culture in property transactions has been the trust to the familiar trading partner. This is probably due to the small number of actors in the market. The deed on sale could consist of only one sheet stating that the property had been sold, and if something went wrong in the transaction, the involved parties would sort it out afterwards. With internationalisation, this tradition has been replaced by a more systematic, complicated and also more documented process. The change has occurred due to the requirements of foreign investors, who have different attitudes as to trust in sales partners as well as differing regulatory and company policy requirements.

The transaction process in general has shifted towards the style used in corporate acquisitions. The amount of material has increased markedly and the information content of sales memorandums has grown, especially in terms of information regarding economic issues and taxation. From the Finnish investors' point of view, most of the additional information covered in the sales memorandums is such that used to be self-evident for all market participants, such as the basic demographic features of Finland, or information that used to be self-evident for all the professionals because they were all already familiar with the objects in the market. Thus, the amount of information has in the Finnish investors' eyes not grown, but the information has rather gained a more formal status. The entry of new investors, who do not know the existing objects that well, into the property market has also increased the importance of the memorandum as a marketing instrument.

With the growing importance of formal market information, the provision of market information has also increased. The two main Finnish market review providers started providing the reports in English already before the internationalisation, Catella in 1998 (Catella, 1998) and KTI in 2001 (KTI, 2001), both of them preparing the market for possible internationalisation. After the international investors entered the Finnish market, also international service providers, such as Jones Lang LaSalle and DTZ, have started to include Finland in their market reviews.

Furthermore, the amount of actors participating in the transaction process has grown, as in addition to the seller's advisor, the foreign buyer might also use a financial advisor, whereas this is still quite uncommon for Finnish investors. The use of legal advisors has also gotten more common. On the other hand, as foreign buyers use advisors and experts so extensively, domestic sellers need transaction advisors for managing the process more often. Thus, the internationalisation has increased the use of external service providers also among domestic actors. As in service provision in general, the number of advisors has also grown, with new large advisory companies participating in the market. Large law firms have also started to provide advisory services in property transactions. These changes have had a clear impact on the property related service market in Finland but have also led to an increase in the average transaction costs in the Finnish commercial property market.

The contract of sale has grown more complicated as well. In Finland the law and other regulations are fairly clear and take a stand on many issues related to property transactions. Traditionally, these issues have not been commented on in the deed of sale. Today many of these, in Finnish investors' opinion axiomatic, issues are also recorded. In addition, new types of purchase conditions have emerged, such as agreements on the limitation of risks. A second, more obvious shift in documentation has been a shift from using the Finnish language in the documents to using English. The same shift in language applies for all communication in the field, giving some young professionals with good language skills the possibility to ascend rapidly in their careers.

In general, the new transaction process puts more emphasis on the liabilities of the parties and on the management of risk. Especially the due diligence process has gained more importance. Due diligence reporting has only been in use in Finland since the beginning of the 2000's. The motivation for getting used to due diligence reporting was on one hand the desire to receive more information on the object of sale, but on the other also to be ready to meet the needs of foreign investors if they would enter the Finnish market. The importance of due diligence reports has grown with the internationalisation of the market, probable reasons for this being international investors' internal requirements for material needed before a transaction, and , as the use of leverage has increased, banks' demands for due diligence reports for their own risk assessments. The emphasis has also shifted towards environmental risk issues and a juridical approach to responsibility issues. The needs of tenants have also gained more emphasis,

which is probably because objects requiring active management or development have entered the investment universe.

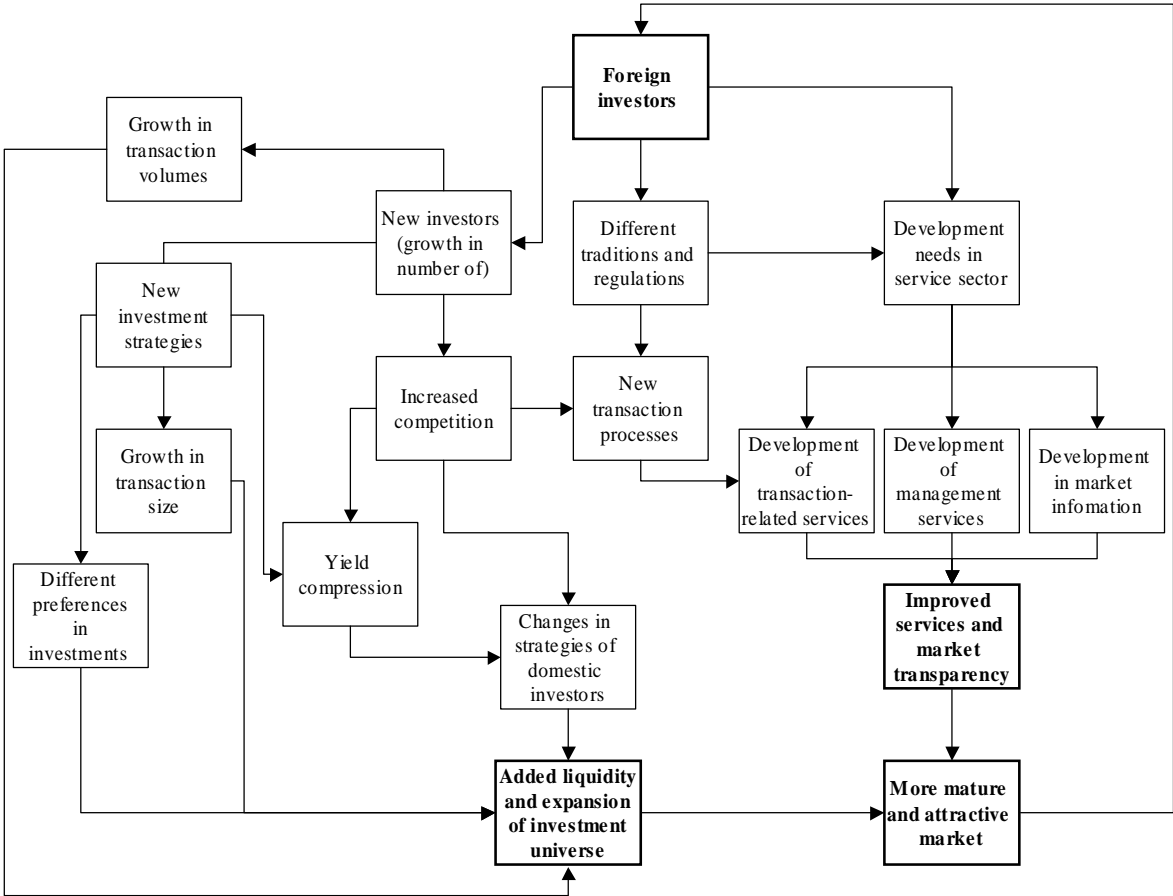
Even if the new ways of action are sometimes regarded as bureaucratic, the domestic investors acknowledge that the change in practises has made the transaction process more systematic, assertive and professional. Today, many transactions done among Finnish investors follow the process and documentation requirements of the foreign investors. Finnish investors also expect that the effect of globalisation will be stronger in the future and that the transaction process as well as property legislation in Finland will become more uniform with the rest of Europe.

## **5 CONSEQUENTIAL EFFECTS OF INTERNATIONALISATION**

The Finnish investors see the internationalisation of the market as a continuing process, where new international actors will enter the market and others will leave. Most of the interviewed domestic investors found the changes and effects of internationalisation positive. This is so even though the internationalisation of the Finnish commercial property market has forced the domestic investors to change their strategies and operate in a more competitive environment.

In this section, the consequential effects of the internationalisation are discussed. Figure 3 illustrates the observed changes in the market and their consequences. The illustration is, of course, a simplification of the effects and their consequences and, instead the effects can also be bidirectional rather than unidirectional, e.g., added liquidity in the market has also affected the strategy changes of domestic investors. The consequential effects are discussed in two sections, the first focusing on increased liquidity and the expansion of the investment universe, and the second on the more developed service market and market transparency. Together, these effects and their consequences have made the market more similar to its European counterparts and lowered the barriers of entry for foreign investors.

**Exhibit 8 Effects of international property investments on the Finnish property market**



**5.1 Increased liquidity and expansion of investment universe**

The increase in the number of potential investors, with the changes in investment strategies it has caused, and the shifted preferences in property investments have had at least two consequential effects. First of all, the liquidity of the property market has increased markedly, as there is more potential investable equity than has already been tied to the property market. The growth in liquidity has increased the confidence of investors in the market and decreased the anticipated exit risk.

The increase in liquidity, together with the changes in investment strategies and preferences, has also led to the expansion of the investment universe for many investors. This effect is visible in, e.g., large objects, where the exit risk used to be so high that the objects were considered as non-investment grade by many investors. As mentioned earlier, the investment



market has also expanded to other growth centres than the Helsinki Metropolitan Area, and different geographical submarkets now have investors with different profiles, i.e., the market has segmented further. A second dimension of the expansion of the investment universe is that properties that require more active management or carry more risk are also considered potential investments. The expansion of the market can be illustrated by the fact that during the internationalisation the professionally owned property investment market has grown from around 20 billion (KTI, 2005) to about €36 billion in 2009 (KTI, 2009), even when the annual average capital growth in the sector between 2002-2009 has been only 0.5 %.

**5.2 More developed service sector and increasing transparency**

The internationalisation of the Finnish commercial property market has contributed to the development of the real estate related service sector through increased demand and quality requirements. As a consequence, existing service provider companies have grown and new service providers have been established. International service providers have also started to operate in the Finnish market. Exhibit 9 gives examples of international service providers operating in Finland. In general, the property investment related service chain has gotten more professional and extensive, which has further contributed to the attractiveness of the market from foreign investors’ point of view, as they typically are more dependent on external service providers.

**Exhibit 9 Examples of global consultants operating in Finland, and their year of entry**

Catella (1997)	Newsec (2001)
CB Richard Ellis (2002/2006)	DTZ (2004)
Jones Lang LaSalle (2007)	Colliers International (2007)

As the number of actors in the market has grown, the market has also grown out from the small circles it used to consist of. Thus, the need for more formal market information has grown, adding to market transparency. A second feature contributing to the transparency of the market have been the changes in the transaction process, which has increased both the demand for and the documentation of information. What is interesting to notice, however, is that even though the interviews suggest an increase in market transparency, the rank of the Finnish markets in the Jones Lang LaSalle Global Real Estate Transparency index (Exhibit 10) has not improved: The Finnish market still lacks timely information on market fundamentals, such as supply, demand and vacancy rate statistics.

### **Exhibit 10 Transparency of Finnish commercial real estate market**

	<b>2002</b>	<b>2004</b>	<b>2006</b>	<b>2008</b>
Rank in Global Real Estate Transparency Index	2 tier	12(2 tier, high)	11(2 tier, high) (1,5-2,0)	13 (2 tier, high)

Source: Jones Lang LaSalle 2002, 2004, 2006, 2008

## **6 CONCLUSIONS**

This paper has examined the effects of international property investments on the Finnish commercial property market based on evidence collected in themed interviews of Finnish real estate investors. The findings of the interview study show that although there are similarities in the market development process between the Finnish market and the previously studied markets of Central and Eastern Europe and Spain, there are also differences, which probably arise from the fact that the Finnish economy and property market were at a more mature stage of development when the internationalisation started than the previously studied markets.

The findings show that internationalisation has had a profound effect on the Finnish commercial real estate market, and confirms the findings of previous case studies suggesting that the globalisation of property markets involves harmonisation of both market structures and practises, but also that the development paths towards maturity are dependent on the local characteristics of the market.

In the Finnish market context, the changes arising from increased competition have increased the heterogeneity of the investors and the different ways of working, as well as the liquidity of the Finnish commercial real estate market, and have led to an expansion of the investment universe. The development has led to increasing interest in the previously undercapitalised property markets outside Helsinki Metropolitan Area, and to further professionalization of the property market. As observed in earlier studies, the adaptation to international market practises has affected the culture and market processes, but the findings of this study stress the role of international investors and their requirements more than the role of international consultants, which has been stressed in the studies of de Magalhães (2001).

The requirements of international investors on market information and property-related services have also influenced the development of these sectors, enabling new strategic decisions also for domestic investors. Even though from the viewpoint of Finnish investors the amount of information on the market has not grown, the information has gained a more formal status, enabling observation and analysis of the market also from outside it. In sum, the

changes that have taken place have made the Finnish commercial real estate market more mature and transparent, and thereby also a more attractive target to invest in.

The effects of internationalisation in Finland have created a virtuous circle, where the effects of the first international investors have triggered further development in the market, which has increased the attractiveness of the Finnish market as an investment target for other investors. For an international audience, the Finnish example provides evidence that the market itself can simulate this virtuous circle by consciously lowering the barriers for foreign investment. In the case of the Finnish market, this stimulus was the provision of market reports in English and the adoption of due diligence procedures.

### **ACKNOWLEDGEMENTS**

The author wishes to acknowledge the Academy of Finland (project 122525) and Tekes - the National Technology Agency of Finland (project 40079/06) for the financial support.

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