



Forces of change shaping the future commercial real estate market in the Helsinki Metropolitan Area in Finland



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ABSTRACT

The built environment as a part of society is facing fast and constant changes occurring in the surrounding environment. This is a challenging situation for real estates because their character does not inherently support fast changes and constant development. Nevertheless there are many reasons why it is essential that also commercial real estates are able to answer to development goals set to them by different market actors. This can be achieved by analyzing forces of change affecting the market at this moment. Identifying the forces is important because they form the future real estate market and related land use. When market actors are aware of the forces appearing in their action environment, they are able to notice any new phenomena emerging and quickly adapt their actions and even steer the development to the desired direction. This competitive advantage can benefit both public and private sectors. This study presents the different forces of change affecting the commercial real estate market in the Helsinki Metropolitan Area (HMA) in Finland. The forces of change are studied with a future research method called environmental scanning (ES). The identified forces form a complicated network with many interconnections. Different actors working with real estate and land use issues can benefit from this knowledge in far reaching planning over these issues. Actors are able to make better decisions and prepare themselves for the future, if familiar with the forces of change shaping future real estates and their land use. Because of the constant changes happening in the action environment, the need to foresee and evaluate future requirements and demand set to real estates will only increase in the future.

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Introduction

The world around us is changing constantly, and the pace of change is accelerating. Temporality has replaced continuity in many different fields and consequences can be seen in technological, economic, social, cultural, political and geopolitical contexts. Due to this development, individuals, organizations and institutions are inevitably facing constant changes in their everyday actions (McBlaine and Vrkic, 2006, p. 1; Heinonen, 1995, p. 19; Heinonen and Heinonen, 2006, p. 95; Hietanen et al., 2002, p. 412; Kasvio, 1999, p. 159; Kirvelä, 1999, p. 309; Mannermaa, 1986, p. 7; Mannermaa, 1999, p. 17 and 187–189; Mannermaa, 2004, p. 128; Metsä, 1999, p. 7). Also the commercial real estate market is facing challenges connected to the constant changes, and the temporality happening in the market environment. Many of the characteristics of real estates do not naturally support fast changes and constant development. Firstly, land and buildings are thought to be very

long-lasting, even eternal by their nature. Secondly, real estates are chained with many fixed elements that, cannot be changed at all, or are at least very expensive or time-consuming to change. Due to these reasons commercial real estates are in danger to age ahead of their time, and not to survive in the new era. Real estate features may stay stable but because the property requirements set to them are constantly changing due to the changing environment, the real estate is not capable to fulfill them. As a result, real estates are abandoned by space-users and investors, and they become unwanted, even though their life-circle is still not complete.

A significant amount of private and public wealth is bound in real estates. The value of the Finnish building stock is around 350 billion euros which is about 45% of the national wealth. It is estimated that as much as 75% of the national wealth is bound to the built environment (Rakennusteollisuus, 2010). Commercial real estate costs are usually the next biggest expense of a company after personnel costs. They are calculated to be around 5–30% of the total costs of a company or a public sector actor (Suomen Rakennusinsinöörien Liitto, 2011, p.11). In Finland about 60% of space users own the space they occupy. Municipalities own up to 90% of the space they use (KTI, 2012, pp. 29–30 and 41). It is evident

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that there should be a strong motivation to ensure the successful future of such significant capital stock.

In addition to the economical aspect, also other motivations to focus on the future of the commercial real estate market can be found. Real estates and the actions related to them affect their surrounding environment remarkably. First of all, the environmental impact caused by real estates is significant. The building and real estate sector is the biggest individual user of fossil fuels (Elfving, 2009, p. 28; Niemi, 2009, p. 56; Noponen and Junnila, 2009, p. 5; Tommila, 2006, p. 2). According to calculations, approximately 40% of the world's primary energy-use is from buildings (UNEP, 2007). In Finland, buildings were estimated to cause circa 32% and construction circa 6% of the total CO₂ emissions in 2010 (Vehviläinen et al., 2010). Real estates are also a significant element when looking at the environmental impact caused by service sector companies (Junnila, 2006; Lehtonen et al., 2009, p. 23). In conclusion, this means that there is a clear possibility to reduce future environmental impact by concentrating on real estate issues.

Real estates are also linked to many political and social consequences. Because commercial real estates are housing many different fields of activities, the resulting effects are multidimensional. For example, a retail premise can offer potential workplaces to citizens and a tax revenue source to the public sector, but also enhance social interaction and the feel of togetherness, and even act as an innovator for the area (Kotisalo et al., 2000, p. 39). In conclusion it can be said that, commercial real estates have many strong direct and indirect effects to their surroundings and to its actors. It is inevitable that the future development of commercial real estates should receive the attention it is entitled to.

Luckily enough our society is becoming more and more future oriented. Different work groups are formed to investigate future developments and several scenarios and goals are set to gain the wanted future. Common for many of these future oriented investigations is that they are often handling the future from a specific point of view by a specific viewer. Future research about the real estate market in Finland can roughly be divided in four groups. First there are quantitative forecasts about future price development and demand and supply figures of land and premises. These investigations are usually serving different investment goals (e.g. Jones Lang Wootton, 1993; Hannonen, 2005, 2006; Hepsen and Vatansever, 2011; McKinnon, 2009; O'Mara, 2000; Rabianski and Gibler, 2007). A second group focused on future oriented research is investigations analyzing development possibilities for certain building groups, land areas or certain land use types. For example in Finland the public sector is conducting these kinds of surveys linked to their economic development or land use policy. These studies can be far reaching especially when focusing on land use planning (e.g. Bendor et al., 2013; Feenan et al., 2003; Gal and Hadas, 2013; Helsingin kaupungin kaupunkisuunnitteluvirasto, 2009; Uudenmaan liitto, 2009; Vuolanto, 2004). The third group of future oriented studies comprises a qualitative approach and they are usually investigating the subjective view of some target group. In these investigations for example the future requirements of land and space users are collected and often some recommendations based on the survey are presented (e.g. Cattell, 2002; Hart and Wang, 2006, pp. 4–5; Heikkilä et al., 2000, p. 7; Sullivan, 1996). The fourth group consists of future oriented research that is not as such analyzing real estates or land use itself, but rather investigating actions that are normally linked to them. For example in Finland there have been many surveys about the future development of work (e.g. Heinonen, 2004; Ilmakunnas et al., 2000; Kasvio, 1999; Kasvio and Nieminen, 1998, 1999; Kasvio and Räikkönen, 2010; Kasvio and Tjäder, 2007; Tulevaisuusvaliokunta, 2000, 2001). Also development of consumption and transportation have been studied (e.g. Helsingin seudun liikenne, 2011; YTV, 2001, p. 78). The environmental aspect is strongly apparent in these studies. The results

of these forecasts give valuable information that can affect the possible future development of the commercial real estate market and its land use, although they do not precisely focus on real estates and land use themselves.

The future commercial real estate market is shaped by different forces acting in the market environment. For example, if the goal is to make a decision about land use that will last in time, it is essential to search, analyze and try to foresee the forces of change that are affecting the commercial real estate market environment at the moment. Current forces shape future development and are therefore the key to the future.

Despite growing interest toward future research in the commercial real estate market, there is still a lack of an interdisciplinary and multidimensional study concerning the future commercial real estate market – a study that would investigate the formation of the future from a holistic point of view. That kind of research would see the market as a whole, and not only serve one specific customer and its personal goals but would give useful information to all interested parties of real estates and future land use. The study would also act as a stepping board for discussions or other extended future studies. This paper is the first and preliminary part of a research that aims at filling the gap and providing said insight.

This paper aims to increase knowledge of the forces of change that affect the commercial real estate market in the HMA. As being the first part of a bigger research entity, the purpose of this paper is to recognize the affecting forces of change and to introduce them at a general level and their main appearance in the commercial real estate market context. In addition the nature and the inter-relations of the forces are analyzed. In the forthcoming part of the research the forces will be analyzed more closely to show their significance and future effects to the real estate market. The research presented in this paper is conducted through a research method used in the future research field called environmental scanning. The forces of change are being identified as megatrends, trends, wild cards, driving forces and weak signals. The approach is comprehensive, multidimensional and interdisciplinary. The data includes 400 literary sources and 170 interviews and questionnaire answers. The study concentrates especially on office and retail premises located in the HMA. The next section presents the data and method used in the research in detail.

Study design

The introduction explained why it is essential to foresee future development in the commercial real estate market. This section introduces how the study was conducted. This study utilizes environmental scanning (ES) as a research method to examine the future forces that shape the commercial real estate market. ES is an information collection method used by future researchers. The method collects information from the environment under examination (Gordon and Glenn, 2009). Environment here refers to the sociocultural, political, ecological and economical entirety where the action of the element under examination is happening. This stage of action consists of scenes, actions done by different actors and interactions between different actors. The scenes are different resources like money and infrastructure. The actors in the environment can for example be citizens, companies, authorities and other organizations (Rubin, 2014). When using ES, the development is examined by trying to follow and understand the changes happening in the different phenomena in the environment by drawing comprehensive attention to the future consequences resulted from different events, decisions and choices. The changes in the environment are examined by searching, identifying and analyzing

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