

# Development of brokerage services for commercial premises in Finland

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## Bakground of the study

- Development of property related services sector from 1980's till today
  - the provision of market information
  - **transaction agency**
  - **rental brokerage**
  - valuation of properties
- Aim in identifying how each service has developed and which events have affected the development




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## Methods: data based content analysis

- Data: Themed interview
  - No/limited literature available on the topic
  - The professionals themselves have views, experiences and conceptions on the topic.
- Two main themes were chosen to examine the past and current development of the brokerage services.
  1. How the service had developed by its nature or content within commercial property market from the end of the 1980's until 2007?
  2. Which events had affected the development of the service, especially from the demand and supply point



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## Methods (cont)

- Altogether 30 interviewees were invited to participate in the study, 28 interviews were conducted
- 45 per cent of the interviewees had been working within the commercial property market for at least 20 years.
- Both service providers as well as their customers were represented in the group: more than half of the interviewees were currently working for some kind of service provider.



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## Methods


- Data analysis: data based content analysis
- The paper is divided in three parts
  1. development of brokerage services in relation to general economic developments
  2. the individual development trends in rental brokerage services
  3. the individual development trends in transaction agency services
  4. development in the field of brokers



## Development in relation to general economy

- Close dependence with the development of the services and general economy
- Rental brokerage dependent on the success, or better said failure, of the transactions market.





## End of 1980's

- Finnish economy was growing rapidly and the commercial real estate market was characterised by active investment.
  - almost no vacant office space available in the rental market
  - new developments were occupied immediately.
  - the rent levels increased constantly.
- Partly because of the active investment market
  - leasing a sort of a side business for brokers at that time
  - the real estate owners did not regard tenants as customers.



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## Recession

- The economic boom came to an end in 1990, and a severe recession followed.
  - The GDP growth from +5.4 % to -6.5 % in 3 years
  - extremely high unemployment rate
- Dramatic decrease in property values, rents and development activities.
  - The transactions during the recession were mainly liquidation sales, in which also the transaction processes were very simple
  - No transactions -> no need for transaction agency services




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# Recession

- Shift of focus to rental brokerage
  - importance of tenants was acknowledged by investors
  - rental brokerage services from the role of a side business to agents' main business from 1992 till the middle of the 1990's.
  - The motivation for this, however, was not the change in broker's will, but rather a constraint: agents did not have much else to do




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# Recovery: end of 1990's

- Financing-led property trade started again
- First transactions of property portfolios
- International investors in Swedish property market
  - the Swedish property market provided Finnish advisors with a window onto a market that was already developing towards the European real estate market.
  - Importance of banks, financing and investment logic would become more important in a new way
- With the high transaction volumes of the 2000's, leasing started again to some extent to lose its appeal among the brokers.



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## Rental brokerage

- Development of rental brokerage service has been quite stable during the reference period
  - has not changed significantly but remained rather constant as regards the basic work
  - some interviewees regarded this even surprising
- the service for rental brokerage has become more systematic and professional
  - some investors, on the other hand still argued that even nowadays the quality of the service varies.
  - some brokers operate within short time spans and are not very effective, whereas it was still agreed that some brokers do their job well.



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## Rental brokerage: effects of internationalisation

- The ways of action of international investors and tenants may differ from the ones of Finnish players, which means that these new ways of working need to be adopted by the Finnish service providers.
- Also rental agreements of commercial premises have undergone some modifications.
  1. Change in language (Finnish -> English)
  2. Grown complexity in rental agreements
    - from one tenancy agreement form with only one appendix - the floor plan to similar to deed of sale



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## Rental brokerage: asset management organisations

- introduction of asset management organisations at the end of the 1990's.
  - chains of parties have become longer and more complicated.
- Process of leasing evolved in stages
  - In the past, the property owner and the tenant found each other by themselves.
  - The second step of development introduced the agent who took care of organising the leasing process (1970's - >)
  - now in the chain between the customer and the owner is first the broker and then the asset management organisation and the chains are even more branched and complicated.



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## Rental brokerage

- development of the service has occurred through some individual features of the service, changing the ways of working and means of doing it.
  - commissions
  - marketing and communications.



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## Rental brokerage: Commissions

- In 1980's commissions of rental brokers in Finland were exclusive
  - the owner of premises assigned only one rental broker, who then had exclusive right to find the tenant and receive the brokerage fee.
  - In addition the owner might do the leasing himself.
- Today owners use several agents simultaneously. Thus agents compete with each other and the one who succeeds in finding the tenant gets the fee.



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## Rental brokerage: commissions

- traditional model for rental brokerage has been that the agent presents the owner's case.
  - no contract between the tenant and the broker, the tenant also has no formal power over the broker or his actions.
  - The globalisation and the entry of foreign tenants have led to the introduction of tenant representation.
- In tenant representation the broker represents and advocates only the tenant's interests
  - in U.S. already in the mid-to-late 1980's
  - Also more common in Sweden
  - not yet widely used in Finland - especially not among Finnish tenants. This is, however, expected to change.



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## Marketing and communication

- Most of the interviewees agreed that the introduction of the Internet has been the most important factor for change in rental brokerage service is concerned.
- effective use of the Internet has been adopted during the six last years – from the year 2002.
- a way of marketing and tenants use it as a way of searching for information and for vacant premises.
  - search services that cover thousands of vacant commercial premises to be sold or leased.
  - enabled the users to start the searching process without the need to contact an agent straight away.



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## Marketing and communication

- Important tool for customers to find a broker
- Marketing methods
  - Traditionally by newspaper advertisements or street advertising, today everything is in the Internet
- Investments in data systems are considered essential by brokers.
- More developed marketing methods also enable mass marketing, which is considered very important.



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## Service providers

- Earlier, the brokerage market was characterised by less specialisation than today. Today specialisation in
  - Selling vs. letting
  - Commercial vs. residential brokerage.
  - Leasing of shopping centre premises vs. other types
- A typical feature of rental brokers is and has been that most of them operate regionally since the rental market is regionally focused as well.
- Rental brokerage still a “secondary business” for those who are not specialised in it
  - Especially rental brokerage for small premises



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## Rental brokers

- the number of brokers in the sector has increased
- However, outsourcing of property ownership and professionalisation of property ownership has increased the in-house letting activities
- Many actors who have been present the whole reference period, but also new brokers enter the markets
- entry of international brokers



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## Rental brokers

- Importance of electronic data-processing systems
  - Includes all data (photos, ground plans etc) of the leased objects (for example 100 clients who have given 1000 objects to be leased)
  - Requires resources in data updating and investments in information technology and mass marketing
- Has resulted in the consolidation of consultant companies.
  - Earlier private individuals or small players, today larger players (expected to continue)
  - Possibilities for niche players or those monopolising some submarket



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## Concluding notes

- The brokerage services in Finnish commercial real estate market have evolved markedly during the past 20 years.
- Overall development highly dependent on the overall economic development of the country.
- development of transaction agency and rental brokerage services has been interdependent
  - traditionally offered by same service providers
  - role of rental brokerage somewhat subordinate



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## Concluding notes

- Recent developments in the brokerage services have included specialisation within the field, which could lead to the weakening of the link between the popularity of transactions and rental brokerage.
- Transaction agency and rental brokerage services have also had their individual development characteristics
- Three predominant development trends affecting the services can be identified



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## Concluding notes

1. Internationalisation
  - Changes in market procedures and as well as content of the both services (esp. increased documentation, English)
2. Complexity of decision-making practises and number of parties involved in the business.
  - exclusivity -> non-exclusivity in commission
  - tenant representation
3. Internet
  - in marketing and communication
  - pressure on small companies and led to some consolidation in the field



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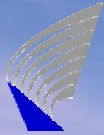
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Thank you!

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