

PATRIZIA Immobilien AG

In mid-2011, German company PATRIZIA Immobilien AG opened an office in Stockholm, and another branch in Copenhagen the next year. Recently, **Sheila Hopkins**, managing director – Europe and infrastructure with Institutional Real Estate, Inc, spoke with **Rikke Lykke**, managing director of PATRIZIA Nordics A/S, about what makes Northern European real estate markets so attractive, and how far the company's plans to expand have advanced. The following is an excerpt of their conversation.

Which countries do you monitor from the Danish and Swedish offices?

Other than the two countries mentioned, we are monitoring Norway and Finland — markets that we find to be highly attractive. Within the next few years, we expect to be locally present with local staff in both of these markets as well.

Why are the Nordic markets interesting enough for PATRIZIA to open offices there?

Historically, the Nordic markets have been stable — and been a safe haven during the financial crisis — and we believe they will continue to serve as such for the near future. All of the four Nordic countries have fairly stable economies. Unemployment is relatively low, and the countries have solid state finances with low national debt. Furthermore, their banking sectors have generally not been affected by the international financial and economic turmoil. Yes, Denmark has taken a different course, but all-in-all the general financial market is doing well. The fact that many investors see the Nordics as safe havens has led to low interest rates. This implies an interesting gradient between yield and interest levels. At the same time, the real estate market in the Nordics is dominated by local players, and you cannot do without a presence on the ground if you wish to engage them on the market.

What are the biggest advantages of the northern real estate markets?

There are very interesting investment opportunities to be exploited outside the specific geographical focus of most of the international investors in the Nordic area. Most international investors tend to focus on the four capitals: Stockholm, Copenhagen, Oslo and Helsinki. By comparison, it is like saying that in Germany only a few cities are of investment interest, for example, Munich, Frankfurt, Berlin and Hamburg. But is it not true that interesting investments can and are made outside these four cities in Germany? We, for one, know it is true — not only for Germany, but for the Nordics, too. Local presence combined with local knowledge and skills are therefore a corner stone for the future growth of PATRIZIA — whether in the Nordic area or elsewhere in Europe.

Can you give examples of cities outside the focus of international investors?

International investors coming to Denmark tend to be aware of Copenhagen only — so this is where



Rikke Lykke is Managing Director of PATRIZIA Nordics A/S since last year. She has held management positions in the Nordic real estate markets (Denmark, Norway, Sweden and Finland) for over 10 years. For example, she was Managing Director of an asset management company and Director of Investments M&A at a real estate firm in Copenhagen. After studying economics, Lykke first worked as a consultant for McKinsey & Co. in New York City and Copenhagen.

everybody invests. A more rewarding approach, however, is to look for alternatives off the beaten track: Cities such as Aarhus, Aalborg and Odense can be just as interesting. These decisions always depend on the property type, the specific location, etc. Take Aarhus, Denmark's second-largest city: Several major multinationals such as Arla Foods have their headquarters in the city or within the greater metro area. At present, a large project with new residential and office buildings is under construction in the city's port. And just like in any of the major Danish campus towns, Aarhus is experiencing a housing shortage. Apartments for students and young people as well as larger apartments for families are in particularly short supply.

So what asset classes are particularly in demand in Denmark?

At the moment, demand is high for residential and retail properties — assuming the location is right. Just a few years ago, investors took a much keener interest in logistics real estate, but times have changed since.

Which cities and regions are interesting in the commercial real estate sector?

As a euro investor, I would focus on Denmark and Finland. The Swedish market also has its attractions when it comes to office investments, and in the Norwegian market retail investments are of particular interest. Regions outside the main cities I would consider for commercial investments are the areas around Vejle, Kolding and Fredericia in Denmark, and around Jönköping and Gothenburg in Sweden.

What are the biggest downsides of the Nordics?

The currency — there are four currencies in the Nordic countries: the euro, the Danish kroner, the Swedish kroner and the Norwegian kroner. The Danish kroner is linked to the euro, but the Norwegian and Swedish kroner are not. It is therefore essential to monitor the currency when considering investing — or divesting. Therefore, it is generally a good idea to hedge your exchange rate risks. The returns that can be achieved in Sweden and Norway are definitely nothing to turn your nose up at. Solid annual yields in the mid-single-digit range are possible.

Are there similarities between the German and the Nordic real estate markets?

The two markets are in general very similar as the real estate market has become more and more professional over the years, though real estate is basically a very local business — and off-market deals are common in either market. Being part of the local real estate scene is therefore key. Both markets also share the geographical aspect of containing interesting investment opportunities off the “beaten path” of international investors.

How transparent are the Nordic markets?

Based on the latest Jones Lang LaSalle Global Transparency Index, Finland is ranked number eight, Sweden nine, and the same index ranks Germany as number 12, so Finland and Sweden actually outrank Germany — with Denmark a close contender to Germany as number 14 and with Norway as number 18.

How many people work in your offices in Copenhagen and Stockholm?

We are currently in a startup phase with a relatively small team, but we expect to expand the team within a short period of time. Currently, we are looking for skilled and experienced people for a number of positions in the two offices — ranging from finance and asset management to investment specialists. We expect the Nordics team to consist of a minimum of 15 people by the end of 2013.

How much has PATRIZIA expanded in the Nordic market during the past year?

Since the opening of the office in Copenhagen in July 2012, we have significantly expanded our business in Northern Europa. Last year, the real estate assets we manage there almost doubled. The current total value of the Nordic asset portfolio is approximately €550 million. PATRIZIA won its bid for an asset management mandate of €175 million. The client is the “European Retail” commercial fund listed at the Copenhagen stock exchange. This fund was launched in 2004, and the majority shareholders are Danish pension funds and life insurance companies.

What kind of assets are those, and where are they located?

The new mandate consists of 10 commercial properties in Sweden, Finland and Denmark. This includes shopping centres and large retail warehouses. Furthermore, we acquired two commercial properties in Oslo and Copenhagen and two residential complexes in Denmark for our own fund investments in 2012. So the portfolio is a mix of commercial and residential assets — in Denmark they are located in the area of Greater Copenhagen; in Norway in Oslo; in Finland in Espoo, Vantaa, Hamina, Turku, Hyvinkää, Tampere and Salo; and in Sweden in Uppsala, Västerås, Sundsvall, Skellefteå, Mora, Sandviken and the area of Greater Stockholm.

What were the reasons for choosing those assets?

The PATRIZIA investment strategy and selection process is always based on a business plan in

which topics such as tenants, location, financials, contracts, technical conditions, exit opportunity and others topics are important elements. For instance, the two commercial buildings we acquired have in common that they are both located in the city’s main shopping street area and have prominent fashion retailers as anchor tenants.

How do you locate new investments for PATRIZIA? What are your search parameters?

PATRIZIA believes in maintaining good relations with all relevant players in the real estate market — be they real estate companies, developers, funds, asset managers, brokers, lawyers, accountants, banks or others. An interesting investment opportunity can arise anywhere. The search parameters depend on the fund’s investment criteria — and so PATRIZIA has opted not to set any generic search parameters. Instead we give each fund its own particular focus.

What do you think makes PATRIZIA special?

I believe PATRIZIA is one of the most interesting real estate companies in Europe at the moment. It has a clear expansion strategy — and a highly skilled, knowledgeable and professional team to back up the strategy. Furthermore, PATRIZIA has understood the value of maintaining a local presence — which is one of the cornerstones of our expansion strategy. It is our philosophy to be on site with our own employees. It is the best way to be close to the market and assets, and so we aspire to keep it this way as we continue to internationalise our business. ❖

CORPORATE OVERVIEW

With around 600 employees in over 10 countries, PATRIZIA Immobilien AG has been active on the real estate market as both an investor and service provider for nearly 30 years. PATRIZIA’s range includes the purchase, management, value increase and sale of residential and commercial real estate. As a recognised business partner of large institutional investors, the Company operates in Germany and other countries and covers the entire value chain in the real estate industry. At present, the company manages real estate assets worth more than €10 billion. A good 90 percent of this is on behalf of third parties, primarily as a holder of a real estate portfolio for insurance companies, pension fund institutions, sovereign wealth funds and savings banks. Via its asset management companies, PATRIZIA GewerbeInvest KAG and PATRIZIA WohnInvest KAG, the company issues special real estate funds in accordance with the German Investment Act, and is now one of Germany’s top names in this area.

CORPORATE CONTACT

PATRIZIA Immobilien AG
 PATRIZIA Bürohaus
 Fuggerstr. 26
 86150 Augsburg
 Deutschland
 +49 821 50910 000
 www.patrizia.ag
 immobilien@patrizia.ag

The PATRIZIA investment strategy and selection process is always based on a business plan in