

PATRIZIA Immobilien AG

Recently, **Sheila Hopkins**, managing director – Europe and infrastructure with Institutional Real Estate, Inc., spoke to **Rikke Lykke**, managing director, PATRIZIA Nordics, about the Nordic investment profile. The following is an excerpt of that conversation.

PATRIZIA is one of the biggest companies within the German real estate business. When and why did you decide to expand internationally?

In 2009 PATRIZIA had a various number of offices within Germany and the company had also established an office in Luxemburg — and the same year a strategy was launched where PATRIZIA was to go from a German national company to a German international company — to become the leading full-service real estate investment company in Europe. Thus it was decided to branch out in selective countries around Europe and have operating offices as an essential part of the international expansion strategy. I joined PATRIZIA in July last year as the managing director of the Nordic region.

How long has PATRIZIA been active in the Nordic region?

PATRIZIA's involvement in the Nordic region really began when I started a year ago in July 2012. By then we had €200 million AUM, and during the past 18 months we have managed to increase this amount to €500 million, and we expect to reach the €600 million mark by the end of this year. A satisfactory result in my opinion. The first six months we — a secretary and I — worked from home. Since then we have managed to build and furnish an office in the city centre of Copenhagen, while increasing our Nordic presence. PATRIZIA currently has eight people employed in the Nordic region — primarily in Denmark — and expect to have 13 employees by the end of this year. Thus we are currently expanding our business by recruiting five more colleagues for our Nordic team.

What services do you offer?

We offer real estate management services including investment services: Our strategy is to cover the full value chain for real estate, meaning investment, fund management, asset management, property management, real estate development and other kinds of real estate management services. We are currently in the midst of building up this range of services within the Nordic region.

Why is it so important to have local offices with local people?

Our philosophy is that the real estate investment market is a global market. Though real estate is a global investment opportunity, one has to act locally. Imagine that I fly from Denmark to



Rikke Lykke is Managing Director of PATRIZIA Nordics A/S. She has held management positions in the Nordic real estate markets (Denmark, Norway, Sweden and Finland) for more than 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, she first worked as a consultant for McKinsey & Co in New York City and Copenhagen.

Paris claiming to be an expert in where to invest in residential and commercial property in Paris. Would it not be better to team up with a Paris expert as he most likely knows his local market better than I? Real estate is about location. Everybody says that. But it is not just location in terms of “today”. Our business is based on a long-term strategy ensuring the quality of location within the next 10 years, as the location of a property is just as important in the selling process as it was during the acquisition. One needs to know the movement of cities, how they are developing, etc. What is the local municipality's plans? Is it to close some streets to make some pedestrian areas? Then maybe we should consider investing there instead of somewhere else. What does the government plan with regard to the overall infrastructure for the country? Does that change our city-specific focus? Thus we always consider a property as a global investment asset that needs to be dealt with on a local basis. You can invest globally, but you should act locally.

And that takes local knowledge?

That takes local knowledge. In every country there is a main capital that everybody finds interesting, for example London or Stockholm. But besides the capitals there is always a top-10 list of cities — in bigger countries even a top-20 list — where if you know the market, you can find really good opportunities. But you need to know the market. Berlin actually has more than one City Centre. So when people tell me they invested in a good property at Berlin's City Centre, the first question is: which City Centre? You need to know where to go. So, again, invest globally but act locally.

What attracted PATRIZIA to the Nordics?

The Nordic countries, compared to the rest of Europe, have during the global financial crisis been fairly stable countries — both in financial and political terms. Everybody is talking about the Nordics being a safe haven because the Nordic countries have been able to weather the storm a little bit better than southern Europe. We have

a population that is fairly wealthy, a fairly good stable national economy, a growing population as well as an urbanisation situation in each country. The region is characterised as stable compared to the rest of Europe. And with PATRIZIA's European strategy combined with the investor interests, it makes sense to focus on this region.

There are four main countries in the Nordic region. How do they differ?

There are different characteristics within each country, so the opportunities differ as well. Though an interesting fact is that all four countries share the same trend, when it comes to the expected population growth of each country's top-10 cities: In contrast to other European countries they all have positive forecasts for the next 10 to 15 years. From an investment perspective the currency aspect is one of our focus points as the Nordic region has four different currencies. Denmark and Finland are from a currency perspective euro countries — Finland because it does have the euro, and Denmark because the Danish Krone is pegged against the euro — which for euro investors generally means that there is no need to hedge the currency. But Sweden and Norway have had fairly volatile currencies within the last few years, which motivates some investors to hedge the currency.

How do you see the growth of population in the Nordics?

The trend with positive population growth in the Nordics is unusual for Europe. For example, Copenhagen has a net influx of population of more than 1,000 people per month at the moment. And the same trend goes for the other Nordic capitals as well as the top-10 cities within each of the Nordic countries. The Nordic region is currently facing massive urbanisation, which means the region has the kind of cities an international investor would want to be in when investing in the residential market. They are experiencing both urbanisation, as people come in from the smaller cities in the countryside, and also immigration, as people move cross borders.

How is PATRIZIA accessing this growth or making use of it?

The more people you have in a city, the more need you have for office and commercial space. It normally goes hand in hand — especially in the larger cities. Another trend within the four capital cities is they are really expanding. Their harbours are now being transformed from industrial harbours into residential and commercial areas. In the Copenhagen harbour the industrial areas are going to be converted into residential and commercial areas. The same trend is seen in Stockholm, Helsinki and Oslo. There is no reason to have industrial areas in the middle of a capital city; it makes more sense to place this kind of industrial areas in the outskirts. So all the heavy industry is moving out, and instead people are now moving in to live and work in the former industrial areas.

How important is sustainable development to PATRIZIA?

For around 30 years, we have been bringing our growth strategy into line with ecological and social criteria as well as economic aspects. In all of its business activities, PATRIZIA tries to simultaneously achieve as many dimensions of sustainability as possible at all times. The issue of sustainability in real estate cannot be confined to purely constructional aspects. We believe that everyone involved in real estate business — that is, both the investors and the tenants, buyers, service providers, the company and the employees — can only benefit if financial criteria are sensibly combined with social awareness and environmental protection.

Where do you see the best opportunities for the next few years?

Our local presence gives us the advantages to be able to enter the secondary cities and recognise good opportunities. We are not limited to operating only within the four main capitals. Basically, it is like claiming that when investing in properties in Europe the only cities of interest would be London, Stockholm and Berlin. Any European would say, "You forgot the other 50 cities that are of interest!" However this limited strategy characterises investors without a local presence or partner: They then only focus on the capitals. To be frank, they fly in at 9 o'clock in the morning, and they buy an office building in, for example, Stockholm, and leave again at 5 o'clock pm. Local presence however gives you the opportunity to invest in top-10 cities within a country, which may be just as interesting from a business plan perspective. This is why PATRIZIA is expanding in Europe strategically with our own people "on-site". ❖

CORPORATE OVERVIEW

With more than 600 employees in over 10 countries, PATRIZIA Immobilien AG has been active within the real estate market as both an investor and service provider for almost 30 years. PATRIZIA's range includes acquisition, 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 European countries and covers the entire value chain of the real estate industry. At present, the company manages real estate assets worth more than €10 billion, primarily as co-investor and portfolio manager for insurance companies, pension fund institutions, sovereign wealth funds and savings banks.

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