SWEDEN TODAY
Continued strong foreign interest

FINANCING
Nordic real estate investments from a tax perspective

TRANSACTIONS
The largest transactions in Sweden

Caroline Arehult takes the helm at Hemfosa
Vacation is over — thank goodness!

August has passed into September and the vast majority has been back in the office chairs for a few weeks. However, it feels like a brief moment ago you were laying on the beach and getting a little more tanned every minute. Just recently that you had two-hour lunches with wine. And just recently that the barbecue evening with family and friends on a cliff was accompanied by waves and seagulls.

But it is not. Which is noticeable by that tanned skin getting paler and paler — autumn is on its way after another wonderful Swedish summer. And thank goodness for that: the waist circumference would probably have increased at the same rate as the average life expectancy had decreased. I belong to those who think the beauty of vacation is precisely that it ends at some point; that’s like the point of the whole concept. Still, I sometimes hear people complaining that the vacation is too short or that “you should have a permanent vacation”. I don’t believe that at all.

Although summer and vacation still feel close, there are only a few weeks left until Expo Real in Munich. As usual, Fastighetssverige will be available at the fair. And don’t miss our international newsletter (and website) with news from the Nordic property world. Should you not yet have your own subscription, please sign up for it here www.nordicpropertynews.com/plus and we will keep you up to speed on what’s going on in the Nordic property market.

Happy reading and have a good real estate fall!

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PUBLISHER
Rolf Andersson, rolf@fastighetssverige.se

PUBLISHING COMPANY
Fastighetssverige AB, Trädgårdsgatan 1, 411 08 Göteborg, Sweden
Phone: +46 31 13 91 16
E-mail: info@fastighetssverige.se

EDITORIAL STAFF
Måns Hagser, måns@fastighetssverige.se
Erika Karlsson, erika@fastighetssverige.se
Victor Flensgård, victor@fastighetssverige.se
 зрения Mäki, suzanna@fastighetssverige.se
Jens Augustinsson, jens@fastighetssverige.se

COPY AND PRODUCTION
Lokalförlaget i Göteborg AB
Eva Mellergårdh Wernersson, eva@fastighetssverige.se

DESIGN
Mårten Nordström, martin@fastighetssverige.se

TRANSLATION
Witalis Real Estate Consulting AB
Katrin Berndt

ADMINISTRATION
info@fastighetssverige.se

ADVERTISING SALES
Rolf Andersson, rolf@fastighetssverige.se

PRINTING
Billes Tryckeri AB

DISTRIBUTION
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COVER
Hemfosa

On the cover: Caroline Arehult
Read the interview on page 22.

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22 Caroline Arehult takes the helm at Hemfosa.
It looks as if we are entering a period of both global and Swedish economic slowdown. Worst case, the interest rate hike that the Riksbank has flagged for could instead result in a reduction in interest rates, writes Robert Boije, Chief Economist at the SBAB Mortgage Institute.

The expected rate hike may instead be a reduction

Global slowdown probable. The global economic upswing after the years of financial crisis and major government financial problems in many countries now seems to have reached its peak and we are entering a period of slowdown in the global economy. The US Federal Reserve recently lowered its key interest rate as a result of the slowdown. In Germany, unemployment is rising for the first time in five years. The forms of the expected UK exit from the EU are still unclear. The political and economic turmoil in Italy also poses risks of significantly worse economic development in Europe. Although the global economy is still relatively strong, the risk of a steeper decline has increased significantly. The continued development of the US-China tariff war represents a significant factor of uncertainty.

High debt but low global interest rates. The world’s total public and private debt has risen sharply in recent years and is larger than ever. From experience, we know that periods of sharply increasing indebtedness may cause setbacks. However, in contrast to this, real interest rates have fallen by several percentage points globally, which is an important explanation for both rising asset prices and lower volatility. Research indicates that the structural factors that have driven down real interest rates around the world over the past 25–30 years will largely continue for many years to come.

Global stabilization policy problems. Should the world enter a new deep recession, there are several things to worry about. Although many countries have taken several measures to reduce the risk of a new financial crisis, or the consequences of it should it still occur, economic policy in other respects is less well-equipped in the face of a new global economic downturn compared to the previous financial crisis. Monetary policy is already very expansive in many countries at the outset. The possibility to make it more expansive is therefore severely limited. In addition, many countries are still struggling with large public debt after the last financial crisis, which also limits the scope for fiscal policy.

Falling housing investment contributes to low Swedish growth. The Swedish economy had a strong development in 2018 due to a high rate of investment and exports, with the help of good global economic trends and a weak SEK. However, GDP is expected to grow by only 1.3 percent this year. An important contributing factor to the decline is the large drop in housing investment. But household consumption also developed weakly during the second quarter. The growth rate is then expected to rise modestly over the next few years and unemployment will rise slightly.

Low underlying inflation in Sweden. Inflation measured by the Riksbank’s target variable CPIF (the consumer price index with a fixed interest rate) has now been close to the inflation target for a long time. This is largely due to the fact that imported inflation has increased as a consequence of the low interest rate effect on the Swedish crown exchange rate. On the other hand, if volatile energy prices are removed, underlying inflation is slightly below the Riksbank’s target. Despite a continued weak underlying inflationary pressure and several signals of an imminent cyclical slowdown, the Riksbank chose to raise the prime rate at the December meeting in 2019. However, the Riksbank at the same time adjusted the prime rate path. And then had to do it again. At their last monetary policy meeting in early July, both the prime rate and the prime rate path were left unchanged. But there is much evidence that the Riksbank will once again be forced to adjust the prime rate path and that it will be a while into next year before the Riksbank raises the prime rate again. In the event of a more significant global economic downturn, the interest rate hike could take considerably longer than that and, in the worst case, instead be an interest rate cut.

Limited stabilization policy room for maneuver also in Sweden. If Sweden were to suffer rapidly from a major global economic downturn, it is worrying that, as in many other countries, monetary policy is already so expansive in its initial state. This means that the opportunity to stimulate the Swedish economy with interest rate cuts is limited. However, the situation in public finances is much better in Sweden compared to many other countries. The Swedish government debt is low, which should indicate that the risk premiums on Swedish government bonds do not increase sharply, even if in the event of a crisis we would have a larger deficit in public finances.

Low Swedish mortgage rates going forward. Short mortgage rates are expected to remain reasonably stable over the next year. Subsequently, both short- and long-term mortgage rates are expected to rise moderately and slowly. Both short and long interest rates are expected to remain historically low for many years to come as a result of the very low global long rate levels.
Sweden today

The Swedish market has for a long time been good for companies that operate and invest in real estate. This strong wave continues even if the rate of rent increase has slowed down. "The market is generally doing very well. The rent increase rate has slowed down somewhat, although there are new top listings. Overall, there are record low vacancies and high demand," says Mikael Lundström.

"The toughest and most insecure sector today is retail. So the real estate companies with a large part retail properties are in an uncertain position, but otherwise things are still very good."

› How are the different segments performing?

"The office segment is a very big and is doing well. Rents are not increasing at the rate we have seen before, but there are still very low vacancies and high demand."

› Do you think this development will continue for offices?

"It does not feel like there are any signs of a cooling down, so we still believe in high transaction volumes. At the beginning of the year, many probably thought it would be somewhat quieter than last year, but there has been an incredible activity in the first half of the year with large transactions."

› How is the situation for other segments?

"A rising star is logistics that has emerged as a new very interesting segment that for foreign and Swedish investors."

"If you look at those who see the toughest times, retail is in the middle segment. Luxury retail, low-price retail and strong retail venues are doing well, but many chains in the middle segments have major challenges."

"We talk a lot about social care properties and logistics today, but both are quite small in relation to offices and housing. Housing is, as usual, the largest segment in terms of transaction volume." said Mikael Lundström.

A segment which has become increasingly hot in recent times is social care property.

"There is a huge interest in social care properties, but if you look at the transaction volume social care properties only account for about ten percent. It is a lot of money, but it is still a small segment. All major institutions have a social care property branch so the interest in the segment will continue to increase," says Mikael Lundström.
“Not much is sold from the public to the private sector. But, on the other hand, with all the new development of social care properties – and there is a giant need for especially schools and elder care – there is a demand for private capital.”

“Will there be more companies that specialize in social care properties?

“For a long time we have seen a trend towards more players coming in, but this has increased recently. In addition to the large companies like Hemsö, SBB and Stenvalvet, there is a herd of players of a more opportunistic character that are focused on social care properties. It will surely increase further.”

“There comes a point when the wheat will be separated from the chaff. If you are to succeed in social care properties, you need to be an active manager, you have to have a good concept and you need to be able to manage risk. If you are to succeed in social care properties, you need to be able to manage risk.”

Mikael Landstrom believes that we will be able to see a transactions volume of up to SEK 200 billion when 2019 is in the books.

“It will certainly be over SEK 160 billion and could be closer to SEK 200 billion if it continues at this rate. The problem is supply, not many companies want to sell but instead keep their stock or volume but reallocate. Meaning that you restrictor or leave a segment or a location. So the supply deficit is a problem for those who want to buy, but these will probably be a volume towards SEK 200 billion.”

One of the factors that has made real estate investments in the Swedish market favorable for the companies is the low interest rate. The question when interest rates will start to rise is a constant conversation topic.

“It is very difficult to say, but I do not think there will be any major changes in the near future. Although inflation is somewhat higher, the GDP development is weaker this year than last year. This means that there is no upward pressure on the interest rate – the US even adjusted downwards during the summer.”

“The yield gap that we often talk about in the industry is still somewhat, but now there is a lot of focus on complements to what the Swedish market favorable for the companies is the low interest rate.”

“The interest has increased. Mainly the investors who were here last time before the financial crisis a little over ten years ago, Black-stone among others, and who already have a network, local partners and who know market who have been quicker to invest. But there will also be new ones and even more of the old ones will be coming back again, so I think the interest will continue or even increase.”

“This interest is obviously affected by various factors. Both a very strong rental market and low vacancies, but also the Swedish crown exchange rate is favorable in this regard.”

“What is the interest like for different parts of Sweden from foreign investors?

“Stockholm is the starting point for almost everyone. At the same time, development in Gothenburg was very good with low vacancies and Malmö has also performed well.”

“Outside the three major cities, there is good rental development in Västra, Jönköping, Linköping, Uppsala. There are fairly good rent levels now and relatively low vacancies, so these cities could also become interesting and we might see transactions there as well.”

“It is not only foreign investors who look toward Sweden. Swedish companies have also begun to look abroad for investments. It seems to be a trend that many of the major players are looking abroad. Most recently, Sagen invested abroad, and Bildner and Wildborg have done the same. It is about diversification and risk management but also that the supply in Sweden is considered a little too expensive.”

“Many feel that it is much more profitable to develop what you own or to start projects than to buy finished investment properties. And then other markets may be attractive if you are looking for completed management properties.”

2019 has not only been a strong year for the Swedish real estate market. The same goes for Svea.

“It has been a good year. Municipalities are our largest customer group and we had thought that we would see a slowdown from the municipality as building rights for housing have slowed down somewhat, but now there is a lot of focus on complements to what has been developed in recent years so there is continued high intensity.”

It will continue to be offices, logistics and to a certain extent retail which the foreign investors focus on.“
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After being forced to leave Rikshem in 2016, Ilija Batljan began realizing his dream of starting his own company. Since the start Samhällsbyggnadsbolaget – whose goal, according to Batljan himself, is to become the Nordic region’s best company for housing and social care properties – have been very transaction-intense.

“Real estate is a question of volume, to have the resources and the functions you need,” said Batljan when the company was at an early stage.

After listing the company on the stock exchange through a reverse acquisition where Effnettplattformen bought all the shares in SBB, the process has continued at the same pace. During the spring, the transaction rate continued at a high level.

In April, Samhällsbyggnadsbolaget sold DNB’s headquarters in central Oslo to DNB Liv at an agreed net property value of SEK 4,897 million.

Since then, the company has presented acquisitions left and right: elderly homes, preschools and care properties in Finland for approximately SEK 1.2 billion, 34,000 square metres in Denmark for MSEK 540, 30 properties in Stockhom and Vreta Götaland for SEK 1.1 billion, 24 community properties from Botrygg for MSEK 135, 451 housing and 35,000 square metres of future building rights in Skåne and a portfolio of social care properties in Finland, Sweden and Norway for MSEK 468.

“We have Sweden’s strongest transaction team with Lars Thagesson, Oscar Lekander, Eva-Lotta Stridh, Joakim Bil, Carl Lundh and Jonny Göthberg. With Lennart Schuss also assisting. There is so much experience, knowledge and commitment in the team. Transactions are our core business,” says Ilija Batljan about the new investment push.

“We can do business between MSEK 5 and SEK 35 billion, nothing is too big and nothing is too small,” says CEO Ilija Batljan.

By: Axel Ohlsson and Victor Friberg

Picture: David Schmidt/Pixprovider

Keeps the transaction pace high

With the aim of creating the best company in the Nordic region for housing and social care properties, Ilija Batljan and Samhällsbyggnadsbolaget kept the pace up in terms of transactions.

“Nothing is too big and nothing is too small,” says CEO Ilija Batljan.
The largest H1 transactions in Sweden

The transaction volume in the Swedish real estate market was strong during the start of 2019, while it was on the decline in many of the other European markets. Here are the largest transactions during H1 2019. 

By: Victor Friberg

Business focus

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Nordic Choice acquires Finnish luxury hotels

Nordic Choice Hotels acquires Finland’s most reputable hotel group, Kämp Collection Hotels.

The acquisition makes Sanen Kenttö the new chairman, replacing Robert Wihlborg. The acquisition is announced as an opportunity to continue growing in Denmark and the Nordic region.

“Kämp Collection Hotels is known for its iconic hotels, culture, and design. Their reputation in the Nordic region is unparalleled, and we are proud to continue their legacy,” says Peter Thorsen, Chairman of the Board.

The transaction price is SEK 2.47 billion (EUR 295 million).

The properties consist of three floors with basement, ground and upper floors and have a total of 30 properties. The objects have a total lettable area of approximately 500,000 square meters, an annual rental value of approximately SEK 309 million and a occupancy rate of 88 percent.

The transaction is made as a company sale with an unsecured promissory note due in 2029.

Savills IM Acquires Shopping Center in Helsinki

NORDIC NEWS

Savills Investment Management (Savills IM) has acquired a shopping centre in Helsinki, Sweden. It is the latest addition to Savills Nordic III – Retail.

The property consists of three floors with basement, ground and upper floors and has a total of 31 shops. There are also 33 apartments and 27 social rooms. Tenants include Åhléns AB (department stores), K-Kraft, and Swedish International AB (sporting goods). The lettable area is approximately 7,800 sqm.

The property is fully let on a long-term basis.

Savills IM acquires in Helsinki.

The Savills IM Nordic portfolio now consists of 19 assets with a total lettable area of approximately 500,000 square meters, an annual rental value of approximately SEK 309 million and an occupancy rate of 88 percent.

The closure of the transaction is subject to the finalization of the purchase agreement and the acquisition of the property.

The transaction is made as a company sale with an unsecured promissory note due in 2029.

The objects have a total lettable area of approximately 500,000 square meters, an annual rental value of approximately SEK 309 million and a occupancy rate of 88 percent.

The Savills IM Nordic portfolio now consists of 19 assets with a total lettable area of approximately 500,000 square meters, an annual rental value of approximately SEK 309 million and an occupancy rate of 88 percent.

The Savills IM Nordic portfolio is currently valued at approximately NOK 1 billion annually in new business projects. The transaction is due to take place in the fourth quarter of 2019.
FINLAND OVER THE OTHER NORDIC COUNTRIES. Property News he tells why they chooses aims for more investments in Finland. For Nordic countries?

1. DNB’s acquisition of DNB’s HQ in Oslo (NOK 24 billion)
2. Arctic and Madison International’s acquisition of a commercial area in Bjørvika in Oslo (NOK 3 billion)
3. MBP and HG Capital’s acquisition of Raoulslunden Industrilokale (NOK 1.8 billion)
4. DNB Scandinavian Property Fund’s acquisition of office property (Västra Malone 4) in Oslo from Sumatra (1.3 billion)
5. Caroleus Eiendom’s acquisition of a commercial area in Bjørvika in Oslo from Arctic and Madison International (NOK 1 billion)

The deal was brokered by Pangea Property Partners. 2019-07-10

Why the Finnish Investor Chooses Finland in the Nordics

Column Asset Management’s Head of Nordic Transactions Philippe Cervesi aims for more investments in Finland. For Nordic Property News he tells why they choose Finland over the other Nordic countries.

“Finnish real estate still shows a combination of new ways and high yield that is rare and more difficult to find in Western Europe, mainly in secondary cities because Helsinki is now quite expensive. Therefore looking for properties in the Nordic countries are famous for their innovative, new-oriented work styles, we are confident about our future development here,” says Cervesi. 2019-07-10

IN THE NORDIC NEWS

SBB (NOK 4.5 billion)
Arctic and Madison International’s acquisition of 160 apartment buildings in Bjørvika in Oslo
Skanska (NOK 1.3 billion)
SES

FINLAND IN THE NORDICS

The NORDIC NEWS

“The Cross-Border Interest Has Grown Rapidly”

OBL-anneounced that the company is streamlining its business in the European Residential investment markets. This is the addition of extra Antilia to the European Residential Capital Markets team. She tells Fastighetsblogg why she sees more international players in Finland ahead.

“After the international investors entered the Finnish residential investment market in 2016, the cross-border flow has grown rapidly. The Finnish residential market is seen extremely attractive to the market is supported by positive economic and demographic development. Now, international investors are looking for investment opportunities in Finland and believe we will have more players entering the market this year,” says Antilla. 2019-05-03

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Almost the same - Nordic real estate investments yet different from a tax perspective

The Nordic real estate markets are in many ways similar. But at the same time, there are clear fiscal differences between our neighboring countries. Different corporate tax rates, rules for calculating taxable profits and deductible financing costs in the Nordic countries require planning to find the structure that best fits the investment. The question of the location of the holding company’s head office can also be of great importance, writes Erik Björkeson and Jaakko Klemettilä at DLA Piper.

In each real estate transaction, a number of decisions will require extensive planning. In our work, we have seen an increased interest among real estate investors for a thorough review of tax issues for real estate investments and their financing. We have especially noticed this in tough procurement processes where questions about taxation can play a crucial role.

The first issue is the location of the holding company’s headquarters for the Nordic investments. What is usually of utmost importance is any reorganization and an exit may be done without tax costs for the company. Sweden is typically popular with investors requiring planning to find the structure that best fits the investment. The question of the location of the holding company’s head office can also be of great importance, writes Erik Björkeson and Jaakko Klemettilä at DLA Piper.

The use of acquisition vehicles can be of great importance to enable an exit without paying capital gains tax. In Finland, a foreign investor typically acquires shares in a real estate company through a holding company and later divests the holding company’s shares. As a result, the location of the holding company’s head office also has a direct impact as mentioned above. However, this is a situation where considerations other than just tax issues should be considered. One reason from a tax perspective to acquire shares in real estate companies instead of a direct real estate acquisition may be that the investment may be made without acquisition tax or at a reduced tax rate, as in Finland.

During current holdings, the various tax laws in the Nordic countries affect as well the overall return on the acquisition. The corporate tax rates are about the same, but for example, there are three percentage points between Finland and Norway, 20 percent and 17 percent, respectively. Property taxes and the basis for this also vary between countries. In Denmark, for example, the property tax may amount to 3.4 percent of the value of the land, in Norway the property tax is between 0.7 and 0.9 percent, on the calculated market value of the property. In Sweden, there are substantial reliefs for property tax on newly built housing estates.

Similarly, deductions for depreciation differ between the Nordic countries. Allowable deductions for depreciation vary between 0-10 percent between countries depending on the type of property and its use. In Sweden, it is possible to make double depreciation for the first six years for a newly constructed building (so-called primary deduction). This, and many other fiscal considerations, should be taken into account when investing in real estate in the Nordic countries. We have seen that tax issues for real estate investments and financing have become of greater interest to investors. In some cases, fiscal considerations play a crucial role in an investment decision. The tax regulations in each country are highly technical and extremely detailed. A carefully considered structure for acquisitions and ownership can ultimately be decisive for the total return from a real estate investment.
At the end of 2017, the news came that Hemfosa was about to be split into two companies. Founder and CEO Jens Engwall took charge of Nyfosa, an opportunistic and transactional company. Caroline Arehult was brought in to lead Hemfosa, which would now be fully focused on social care properties.

“What attracted me with Hemfosa was the possibility to be part of journey where I had a great opportunity to influence both direction and organization. There were many gaps to fill, as several key people retired in connection with the split or went to Nyfosa. Of course it was a tough start with shortage of resources, but it also gave me the opportunity to form my own team. Usually when you change jobs, the puzzle is already completed and you are the missing piece. Here I had to pick out a lot of pieces myself and also help with painting the motif.”

With the step over to Hemfosa, Caroline Arehult left Skanska after almost 20 years. She ended up at Skanska already while she was studying land survey at KTH. She was announced as new CEO in April and officially stepped into the role on September 1. During the transition period, she was involved in recruiting people to the management team at Hemfosa.

“My successor at Skanska was an internal solution that already knew about the company, I was just there for support and finished what I was doing. There was some overlapping and I was involved in starting the recruitment of both the transaction manager and the CFO before taking office.”

“What were your thoughts on the team you wanted to build?

“I try to maintain and strengthen the commitment that already exists in Hemfosa today. Then I want to build a team where we complement each other and work in a sustainable and inclusive corporate culture. Of course, in recruitment I look for the right skillset, but just as important is that you have your heart in the right place, that you have good values.”

“Our managers should be present and coaching, at the same time I strongly believe in a delegated leadership where the employees get their own responsibility and can grow in...”

NEW POSITION. Caroline Arehult took the helm at Hemfosa in September 2018.
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Their roles. That in itself creates a lot of commitment."

The importance of teamwork and team spirit is not only part of Caroline Arhulde’s work at Hemfosa. Outside of her job, she spends a lot of time coaching basketball teams.

“I have been playing basketball since I was in the fourth grade in elementary school and have been playing every since. I stopped playing a number of years ago, now I focus entirely on coaching two basketball teams with 11- and 15 year-old girls that my two daughters play with.”

“It is a lot of fun to develop the players that I have followed since they were six years old and have them discover the great thing about being in a team and working toward a common goal.”

Going forward for Hemfosa is a challenging new venture where the company shall grow their property value from SEK 35 billion to SEK 50 billion within five years.

“Our overall goal is to grow our property value—in a profitable way—to SEK 50 billion within five years. We want to build on everything positive that already exists in Hemfosa; our focus on social service properties, our local presence, low risk and fast organization.”

“We want to add a structured growth where we know the opportunistic part behind us to instead have a pronounced specialization in social service properties and thus a clearer long-term view as a property owner. We also want to strengthen our market position in Finland, increase our project volume and take a new grip on our sustainability work. In addition, we need to add a little more structure, in order to maintain our speed and business sense as we scale up our operations. The structure concerns, among other things, our working methods, how we follow up and manage our business, but also how we design our offering which we will develop clearer concepts for, for example, schools.”

“I like to work towards challenging goals so I find this exciting. Our goal is tough but absolutely reasonable to achieve.”

Where are you going to find this growth?

“70 percent are acquisitions and 30 percent are projects. If you look at social care properties in terms of volume, the rate of acquisition is about the same as before, excluding the opportunistic part. The project volume is slightly increased compared to before, but not by a lot. We have a large property portfolio which we continuously are developing.”

What opportunities are there in social care properties in the future?

“Looking at demographic challenges, it is necessary to build a lot, both schools and elderly care. But there is also a need to invest in the existing property portfolio which is becoming quite old by now.”

“And if you look at the demographic development, the two groups that are growing the most are people under 18 and people over 70, there are also the groups most in need of social care service. As a consequence, the proportion of people of working age is declining, which is the basis for a large part of tax revenue. It will be very costly for the municipalities: the needs will increase and at the same time you will receive relatively less tax revenue.”

“Although, I do not think Hemfosa will suffer, but more players will be needed to help the municipalities with this challenge. On the one hand, it will be built new and on the other, the municipalities often have large property portfolios where they need to invest an appropriate amount of money. Here, Hemfosa can help take over responsibility for both the administration and also the investments.”

Looking ahead: Hemfosa are looking to grow their property value to SEK 50 billion.
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Number 4 2019 is distributed in the beginning of November. The magazine will also be available at the Mapic fair.