

## **Think pool / economics**

### **Title:**

**Is there any chance for temporary uses in an overheated estate market situation?**

### **Case Helsinki**

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### **Abstract:**

Usually gaps for temporary uses open up in a context where the estate market is weak and there is no demand for new exploitations, like in Berlin. What happens in a situation where the estate market and demand of new premises is overheated? Is there any chance for temporary uses to occur? This text discusses the temporary uses scene in Helsinki where the vacancy rate has been extremely low during the last five years. It describes the crucial role of estate owners as initiators of temporary use in this situation, as well as discusses their motivations for allowing temporary uses. The text is based on the analysis on the temporary uses in Helsinki that was made as part of the Urban Catalyst project in 2001. The analysis included interviews of various stakeholders in the processes of temporary uses, including the representatives of major estate owners.

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### **Case Helsinki**

#### **The Helsinki scene: Rapid growth and urban renewal**

The growth of the information technology business has made Helsinki (0,55 million inhabitants) the fastest growing metropolitan area within the European Union during last couple of years. The population growth both in form of newcomers and inborn inhabitants has caused lack of housing and pressure for the whole Helsinki region to plan and build new housing areas. There have also in recent years been extremely few vacant commercial and office lots and premises in the Helsinki city centre or even in the metropolitan region (1,2 million inhabitants).

In the Helsinki metropolitan area the vacancy rate for business premises (office space, retail space and production & storage space) dropped in 2001 from 1.7% to 1.4% in spite of numerous new constructions. In year 2002 the vacancy rate reached the level that is considered to be normal (5%). As a comparison could be mentioned that when in 2001 the prime office vacancy rate in the central business district area was in Helsinki below 1%, it was in Berlin 8 %, in Vienna 3,5% and in Amsterdam below 2 %.<sup>1</sup> So for the tenants in Helsinki it has been a hard task to find any kind of premises. For those searching for temporary spaces it has been even a more difficult task since the estate owners have preferred longer contracts when ever possible.

The demand from the market has caused dramatic explosion of the land prices as well a pressure to realize new exploitations quickly. The demand has focused especially on the centrally located former harbour and industrial areas of which many have been or are planned to be renewed for housing and office purposes. From the estate owners perspective the high land prices have meant that it is profitable to move the old functions away from the central location and to let the area to be rezoned. When ever possible, the new constructions have started immediately after the former

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<sup>1</sup> *Prime Office Vacancy Rate in European Cities*, Catella Property Consultants, autumn 2001.

industrial uses have ended, and there has not been a time gap between the former permanent uses and the new ones.

There are though some exceptions: in couple of the old industrial areas clusters of temporary uses could be identified. It could be stated that the reason for these exceptions are delays in the planning process. When planning becomes slow due to contamination research, conflicts or political changes, it is more profitable for the estate owner to wait till the property's land use has been rezoned for something more valuable (like housing, commercial or offices) than to sell the estate as an industrial area. Some estate owners choose to keep the premises vacant, but some of them start to rent temporarily.

### **The estate owners' perspective towards temporary uses**

In this overheated situation the estate owners have the key role as initiator of temporary uses. The interviewed estate owners see temporary renting possible only when it is profitable. Temporary rent incomes should cover at least the cost of guarding and maintaining of an empty building, the manpower used in making the rental contracts and "taking care of the worries of temporary users", like one of the interviewed put it.

The aim of all the interviewed owners was to run "normal renting business with long term contracts". Temporary renting was seen in Helsinki as a secondary solution mainly in order to maintain a vacant or half-vacant estate and to get some rent incomes. An important pre-condition were the low maintenance and repair costs of the estate i.e. the owners did not want to make any extra repair investments for a short-term use. If the building would need costly repairs or the rent income would be very low or irregular, the estate owners keep rather the buildings empty.

The estate owners' pointed also out, that there is a demand of smaller premises (under 100 sq. meters) they can't really match. The old industrial estates with large floor areas and spans are according to them almost impossible to rebuild for smaller offices with so low costs temporary users would be willing to pay. Renting locales for temporary basis needs relatively lot of staff to keep the renting business running, to secure that the rents are paid and to maintain the estate. To be profitable, the properties of an estate owner should be large enough to cover the costs of employing staff for the temporary renting business. For small estate owners it might be far too costly to run such a business. If the owner owns other estates as well the manpower operating with temporary renting can be allocated also to maintenance and management of other estates.

An interesting point of view was opened in the answers related to sub-contracting. It means that a company rents a large space and further rents it to companies often networking with it. Sub-contracting was considered to be an easy and secure solution from the estate owners' point of view. It seems that various sub-contracting models could provide useful tools in making the temporary renting business attractive for the owners.

In the Helsinki estate market situation the estate owners can select the tenants among many applicants. This leads to a controlled use of the estates. The identified temporary uses in Helsinki had all a formal relationship with the owner (a contract). The premises were also used in accordance of the use mentioned in the contract. Sub-contracting was also controlled. The tenants selected were able to pay regular rent. Majority of them were small legal enterprises and so the preconception of temporary users consisting of citizens associations and private persons was wrong. For example the various events and activities in Makasiinit revealed to be results of event producers' businesses (they in turn being contractors or sub-contractors in the sites). Number of occupancies and other illegal informal uses of vacant buildings have been extremely limited in the history of Helsinki.

A general impression was that if it would not be possible to rezone and to reuse the estate for new primary uses, both the owners and the tenants would like to have more permanent contracts. This is also very evident looking the length of the contracts in the Helsinki case: the longest “temporary” contracts had lasted almost ten years.