

Property Market Review Q4 / 2023

FINLAND



RESIDENTIAL

Last three years residential properties have been the most active property sector when measured by transaction volume. It tells a lot of the current situation though that the number of new housing starts was very low throughout 2023, less than half of the level in previous year (investing new residential construction in the biggest cities of Finland used to be extremely popular among property investors). Because of their great attractiveness from property investors point of view residential multifamily properties' prime yields used to be very low in Helsinki, at around 3 % (the lowest of all property segments) in the beginning of year 2022. Since then, due to the impact of increased financing costs during the last 18 months or so their yield surge has been huge, roughly 50 %.

OFFICE

Traditionally office has been the most active commercial property sector when thinking of property transactions but last year their share of total transaction volume collapsed to little less than 500 million euros ^[1]. This is significant and represents the change of perception of office properties in the eyes of property investors and their financiers since the start of corona pandemic. The change of perception is due to working from home becoming very popular during corona pandemic and remaining that way to the present day in Finland.

Buyers at the office sector are very careful these days and many of them, especially core investors, do not make bids in this insecure situation and just follow how things turn out. The gap between views of correct price level is great between those sellers and buyers who still are active in the office market. Thus, opinions regarding Helsinki city centre office prime yield vary heavily between both sides of 5 % nowadays.

SOCIAL INFRASTRUCTURE / PUBLIC USE PROPERTIES

Public use properties have become a significant part of Finnish property investment landscape during the last five years or so. They consist of for example assisted living, supported housing, and early childhood education units. Especially properties that provide elderly care and housing are seen as an attractive investment opportunity as, according to studies, Finland has the third oldest population in the world (only Japan and Italy have a higher percentage of older residents). And due to low birth rates and longer lifespans, the population of Finland is ageing faster than in other EU countries.

Last year public use properties' share of total property transaction volume was almost 600 million euros ^[1]. Their current prime yield in Helsinki can be seen to be a little above 5 %.

RETAIL

Investor demand of retail properties is extremely low in the current situation. Last year retail properties' share of total property transaction volume was ca. 250 million euros ^[*].

Especially shopping centres have not been an option for majority of property investors, that operate in Finland, for quite some time. Those retail properties, which have a strong emphasis of grocery store and/or discount store tenants in their rental income, can still be seen as relatively liquid investments. Currently prime level grocery store and big box retail properties are seen to yield at both sides of 6 % in Helsinki.

NEAR FUTURE

The lack of transactions has been evident since the summer 2022 in Finnish property market. Last year total transaction volume reached around 2,6 billion euros ^[*], its lowest level in ten years, when in year 2021 it was in total around 7 billion euros ^[*]. Current demand for investment properties in general is low as many investors are waiting for better days that hopefully would arrive already in 2024.

Withdrawal of funds from Finnish open-ended property funds increased significantly last year. This has already made some residential and commercial property portfolio transactions to take place and there is a concern of those withdrawals to increase in 2024. The fear is that a snowball effect of decreasing property prices would evolve in case of selling pressure, caused by fund withdrawals in open-ended property funds, would grow to an uncontrollable level.

Inflation is finally beginning to normalize. According to Statistics Finland it stood at 3,6 % in December. Together with predictions of ECB's rate cuts in 2024, this gives hope for property investor sentiment to improve during this year. Key figures ^[**] and latest estimates ^[***] of the Finnish economy can be seen from the schedule below.

	2022	2023	2024	2025
GDP	1,6%	-0,3%	0,0%	1,2%
Inflation	7,1%	6,3%	2,2%	1,9%
Unemployment	6,8%	7,2%	7,5%	7,5%
Exports	3,7%	-2,0%	-1,5%	1,3%

[*] KTI Finland

[**] Statistics Finland

[***] OP Group

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