

### **Economic uncertainty reflected on the Finnish property market**

*Market sentiment remains rather gloomy in the Finnish property market. Transaction volume remains low for the fifth consecutive year. Demand is concentrated on the prime properties both in the investment and rental markets. Office vacancy rates are increasing through the completions of new office projects. Construction volumes are expected to decrease as the currently ongoing projects will be completed. In the rental residential markets, rental demand remains stable and rents continue increasing.*

Property transactions volume amounted to some €340 million in the first quartile of 2013. Transfer tax of property transactions carried out as mutual real estate company shares was increased to 2.0 percent in the beginning of March, but even this did not boost the transactions market before the change. However, by number of deals, a major share of all transactions were completed in the last half of February. The volumes are currently restricted mainly by the economic uncertainty, which tends to limit investor demand to the very best properties. According to the RAKLI KTI Property Barometer, transactions volume is likely to remain low also in the future. Less than 30 percent of the respondents believe in the growth of domestic investor demand within the next year. Modest growth in foreign demand is expected by some 35 percent of the respondents.

### **Prime yields increasing slightly**

Investor demand is still mainly targeted at prime properties with stable cash flow. However, the supply of this kind of assets is very limited. Despite of the healthy demand, yields for even the prime assets have increased slightly during the past months. According to the RAKLI KTI barometer, the prime office yields in Helsinki CBD currently stand at some 5.6 percent. On the other hand, the availability of bank financing, which has recently been one of the main obstacles for transactions, has improved slightly. In the current situation, the imbalance between supply and demand is thus the main obstacle preventing transactions from happening.

### **New property funds launched**

In the first quartile of 2013, several new property funds for different investor groups have been launched. Ålandsbanken's and OP Fund Management's new funds, both operating under the Finnish Property Fund Act, are mainly targeted at private investors. LocalTapiola Real Estate Asset Management, CapMan Real Estate, as well as Pohjola Property Management have all established new vehicles for institutional investors. Out of the five new funds, three invest all or part of their assets into residential properties, which reflects the strong position of the residential sector in the investment market.

### **Helsinki CBD continues strong performance**

The position of Helsinki CBD remains strong in the commercial property market. The KTI rental index for Helsinki CBD offices increased by some two percent during the past year - at the same time when rents in old office buildings continue decreasing in most other areas. In the RAKLI KTI Property barometer, the market rent for Helsinki CBD offices stands at some €29 per sqm per month. Strong rental and investment demand supports the capital growth, which, according to KTI Index, amounted to some six percent in 2012. In most other office submarkets in Helsinki metropolitan area, capital growth was negative.



### **Space demand hampered by economic uncertainty**

High volumes of new construction are reflected upon the rental market volumes and occupation rates. Some large lettings, mainly in newly completed buildings, increase the volumes of gross take-up. At the same time, the amount of vacant office space continues to increase driven by new completions and weakening demand. Over supply remains an issue in Espoo in particular, where, according to the KTI rental database, occupancy rate has decreased to 73 percent. In the RAKLI KTI Property Barometer, vacancy rates are expected to increase further within the next year. After the completion of the some 135,000 sqm of new office space currently underway, construction volumes are likely to decrease, and new starts will be postponed until better economic conditions and improvement in the tenant confidence.

### **Residential properties continue strong performance**

As uncertainty continues in the commercial property markets, residential investment is increasing its relative attractiveness. In the KTI Index, residential outperformed all commercial sectors for the fifth consecutive year, supported by positive capital growth. Rental demand continues to be strong in all major cities. According to the KTI Rental indices, residential rents increased by some 3-4 percent in all major cities during the past year.

#### *Graphs:*

- *Transactions volume*
- *Commercial properties under construction, HMA*
- *Prime office yields in major cities*
- *Residential rent index, HMA*
- *Office rent index, Helsinki CBD*
- *Outlook for office rents, balance figures*
- *Occupancy rates of offices*
- *Outlook for vacancy rate, offices*

*The release is based on the KTI Market review, published on May 10, as well as on RAKLI KTI Property Barometer survey, carried out in April. 57 property professionals responded to the survey, which is carried out twice a year.*

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