

CBRE RESEARCH | EMEA | NORDICS

REAL ESTATE MARKET OUTLOOK 2020 FINLAND





Global trading conditions continue to weigh on European growth, including Finland. We at CBRE, see a two speed European economy becoming more pronounced in 2020, with weaker manufacturing being off-set by a stronger services sector and resilient consumer demand. We expect long- term interest rates to remain low for at least another three years and further fiscal policy will be used to drive growth. Meanwhile, the well documented geopolitical risks remain the key downside to the outlook going forward.

Property markets still remain buoyant in Finland, for Helsinki in particular. Economic stability and Eurozone membership means that Finland remains an extraordinarily predictable and reliable investment location, in general. The Bank of Finland is predicting GDP growth to be in the order of 1% in 2020 which takes into account of slowing export growth and capital investment rates. Nonetheless, unemployment is now at a low of 6.7% which compares favourably with the 10 year average rate of 8.2%. This is helping to maintain occupier demand and rental levels, particularly in the office and industrial & logistics sectors in the greater Helsinki Metropolitan Area. Overall, Finland is in very good shape and we see 2020 being another prosperous year.

Investment volumes in 2019 were €6.86 billion, reflecting a 26% decrease from the previous year but still above the 10-year average of €5.1 billion. Offices again comprise the largest share of commercial real estate investment at 35%, followed by Residential and Retail. Office take-up in Helsinki reached 374,000 sq m which compares well to the 12-year average of 354,000 sq m. One highlight to note is the large number of office projects under construction providing a further 196,000 sq m - which compares to the recent average of circa 90,000 sq m per year.

Hotels and Hospitality comprise 1.2% of the total but we expect this sector to grow as a percentage of the overall investment volume as

business and tourism demand helps develop investible product. Over 9,000 rooms are in the pipeline with 2,500 rooms scheduled for completion in the next two years. International/global brand operator interest is intensifying and this may result in a structural shift towards management contracts, but we are seeing more and more institutional investors elsewhere in Europe now becoming more comfortable with the sector as they search for yield.

At CBRE, we are investing heavily into diversifying our business lines so that we can continue to help our clients capture more market opportunities. We have nine business lines that will increase to eleven by the end of 2020.

We will once again host our client conference on 6 February in Helsinki – branded ‘CBRE Spark’. The event is supported by some of our international speakers and will primarily focus on the hotel and hospitality market. It is also a chance to provide our opinion on the market outlook for this year and beyond. The event will be attended by many of our investment clients. Due to popular demand, we will be hosting a similar event next year and we envisage that CBRE Spark will become a recognised Nordic annual event.

I would like to wish our current and potential clients all the best for 2020 and hope the content of the following CBRE Finland Market Outlook 2020 is insightful. As always, please reach out to me or one of our professional members of staff if you feel we can support in any way.

Colin Waddell
Managing Director
CBRE Finland



- 04 ECONOMICS
- 10 CAPITAL MARKETS
- 16 OFFICE
- 24 RETAIL
- 30 INDUSTRIAL AND LOGISTICS
- 34 MULTI-FAMILY
- 40 HOTEL
- 44 CARE
- 48 CONTACTS AND OTHER REPORTS

ECONOMICS

ECONOMICS

Economic growth in Finland is slowing down in 2020, reflecting the low growth both in the Eurozone and globally. Decreasing net exports and private investments are driving growth in Finland downward but low unemployment and steadily increasing consumer consumption will support moderate growth of Finland's gross domestic product this year.

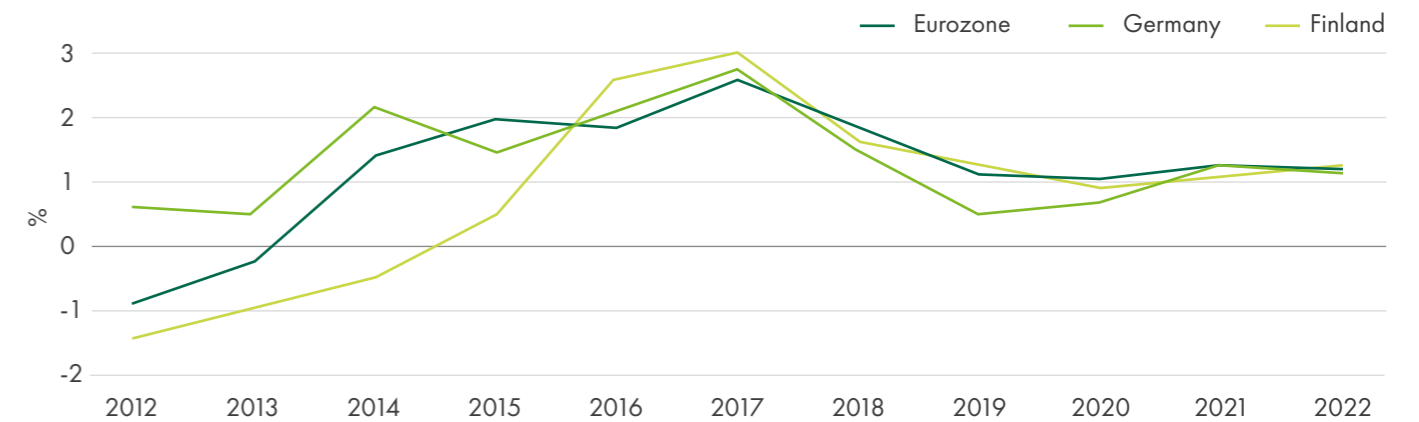
In 2021 and 2022, however, Finland's economic growth is forecasted to pick up pace because of improving global economic conditions and growing domestic investments and consumption. The near-term economic development of Finland is forecasted to follow the GDP growth of the Eurozone and Germany, as shown in Figure 1.

TABLE 1. KEY ECONOMIC INDICATORS OF FINLAND

INDICATOR	2017	2018	F2019	F2020	F2021	F2022
GDP, change %	3.1	1.7	1.3	0.9	1.1	1.3
Imports, change %	4.1	5.0	0.7	1.3	1.8	2.5
Exports, change %	8.8	2.2	4.0	0.9	2.2	2.6
Private investments, change %	4.1	2.8	1.1	-0.3	0.8	2.1
Private consumption, change %	1.0	1.8	0.7	1.3	1.2	1.2
Unemployment rate	8.6	7.4	6.7	6.7	6.6	6.4
CPI, change %	0.7	1.2	1.2	1.2	1.3	1.6

Source: Statistics Finland, Bank of Finland. 2019-2022 are forecasts of Bank of Finland

FIGURE 1. ANNUAL CHANGE OF GDP

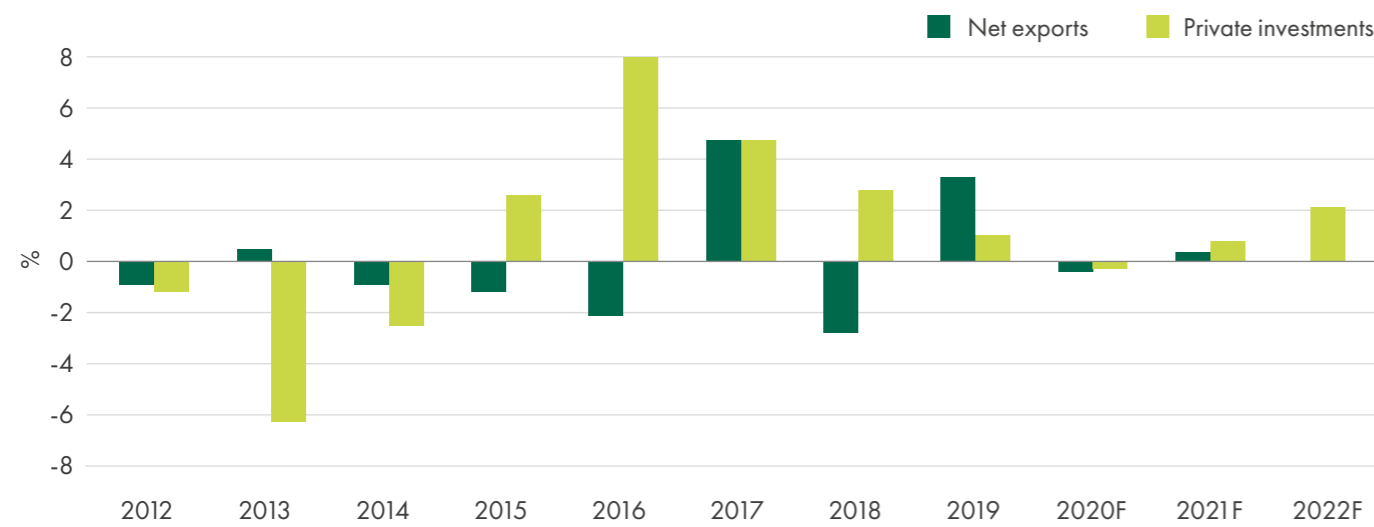


Source: Statistics Finland, Bank of Finland, Oxford economics

Finnish exports are forecasted to decrease in 2020 due to increased uncertainty and weakened outlook relating to the global economy and slowing economic growth of the most important export markets. Moreover, economic uncertainty and the already established downturn in the residential development cycle of Finland will have a negative impact on the investments of Finnish companies during this year. The

decline in exports is however expected to be temporary and exports of Finland are forecasted to grow at an increased pace in 2021 and 2022, reflecting the improving economic conditions of export markets. Moreover, driven by the decreasing uncertainty regarding economic development both at a global and national level, private investments are expected to increase after 2020.

FIGURE 2. ANNUAL CHANGE OF NET EXPORTS AND PRIVATE INVESTMENTS



Source: Statistics Finland, Bank of Finland

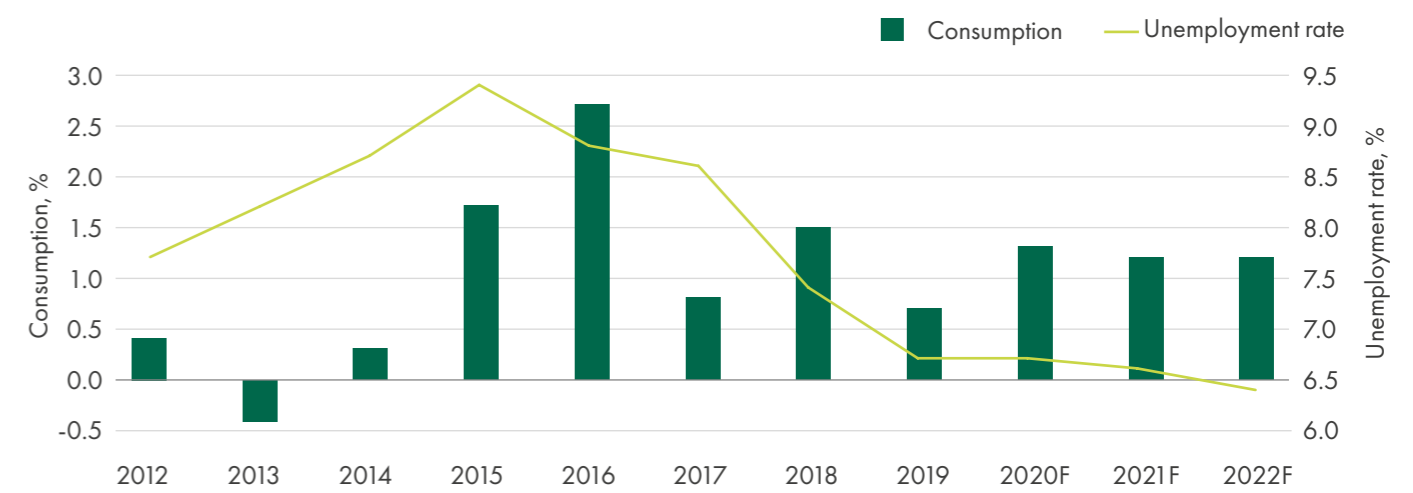


As individual consumer confidence and Finland's economic situation have both decreased in recent years and because consumers are more cautious with their consumption than in 2019, consumer consumption growth is forecasted to slow down in 2020. Furthermore, as a result of slowing economic growth and decreasing demand for new labour, labour markets are expected to cool during this year. However, the unemployment rate is forecasted to remain at the current level of 6.7% and wages are expected to increase by the rate of inflation and

productivity growth, supporting a positive change in consumption in 2020. In 2021 and 2022, the unemployment rate is forecasted to decline to around 6.5% whilst consumer consumption is anticipated to grow steadily because of increasing household income and the strengthening purchasing power of consumers.

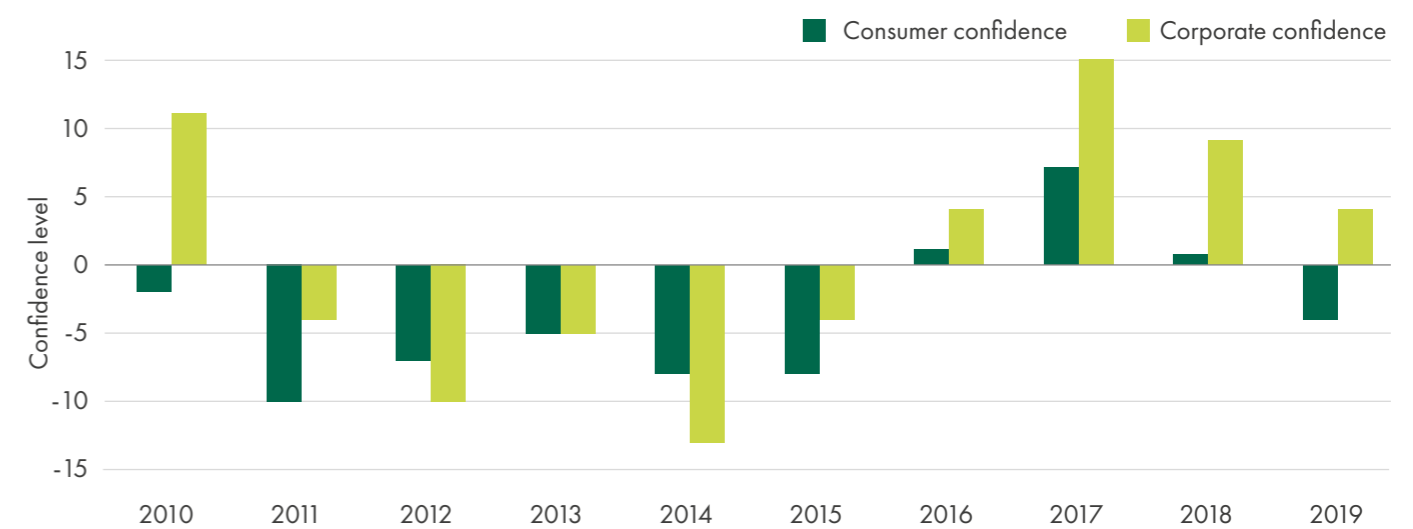
Source: Bank of Finland, December 2019

FIGURE 3. UNEMPLOYMENT RATE AND ANNUAL CHANGE OF PRIVATE CONSUMER CONSUMPTION

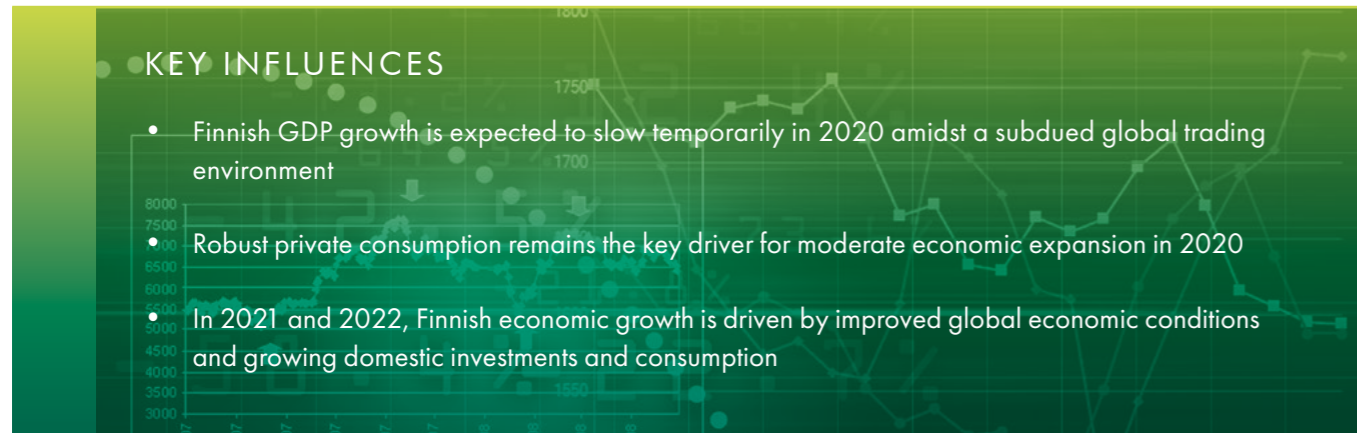


Source: Statistics Finland, Bank of Finland

FIGURE 4. CONSUMER CONFIDENCE AND CORPORATE CONFIDENCE



Source: Statistics Finland, Confederation of Finnish Industries

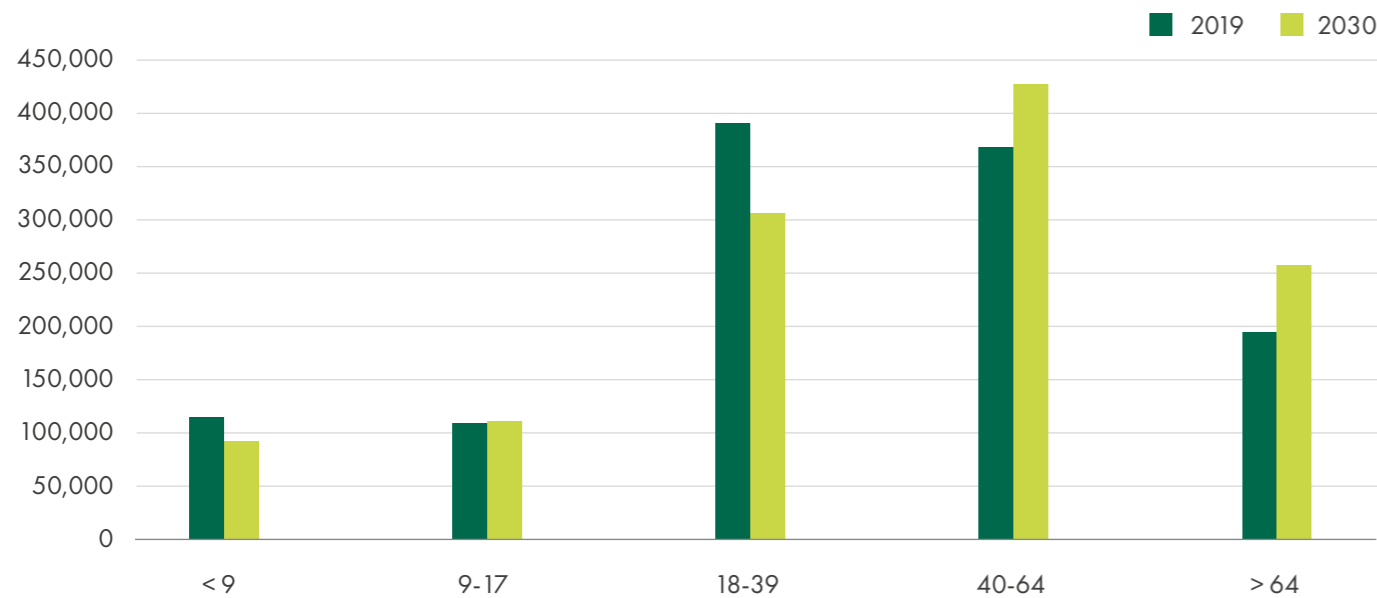


GROWING HELSINKI METROPOLITAN AREA

The population of the Helsinki Metropolitan Area is forecasted to increase by 17,000 people before 2030¹. Age groups of 40-64 and 65+ are forecasted to record the highest growth during the 10-year period, as shown in figure 5, highlighting the on-going trend of an ageing population for Finland and for the Helsinki Metropolitan Area ("HMA"). At the same time, however, the under-age population is forecasted to decrease in the HMA because of the decreasing birth

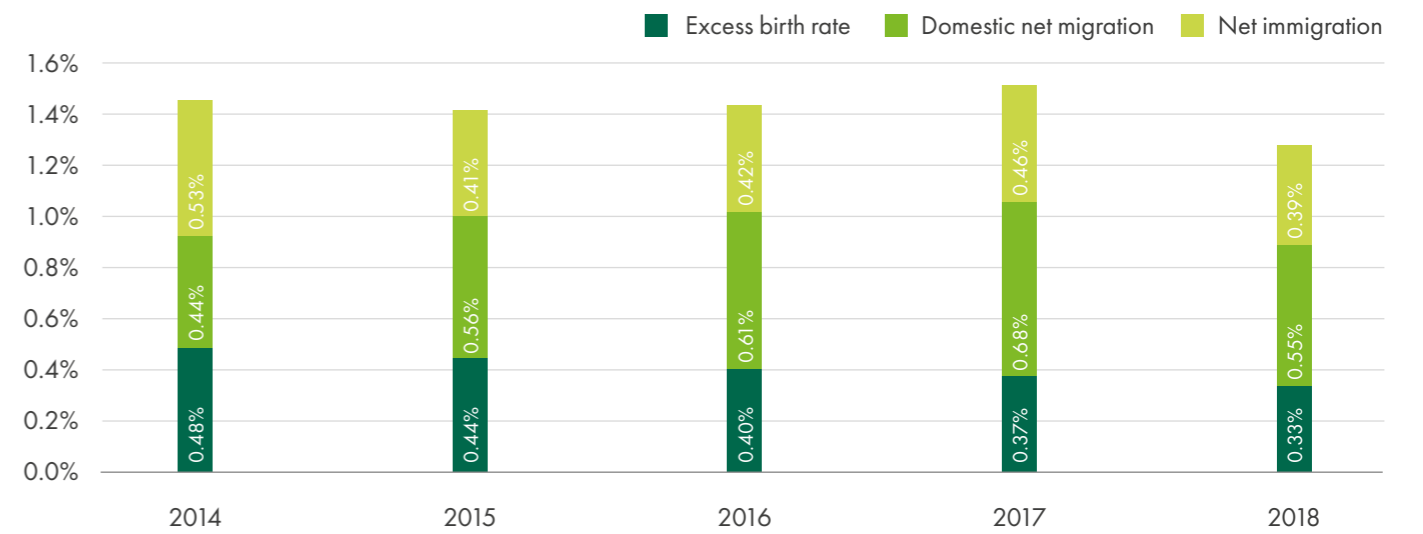
rate. Indeed, as Figure 6 shows, any excess in the birth rate has been decreasing gradually for the past few years, and City of Helsinki forecasts the main driver for population growth of the city from 2019 to 2030 to be domestic net migration². Thus, we anticipate that population growth in the Helsinki Metropolitan Area will largely account for the net migration during the next 10 years.

FIGURE 5. POPULATION PER AGE GROUP IN HELSINKI METROPOLITAN AREA IN 2019 AND 2030



Source: Statistics Finland

FIGURE 6. COMPONENTS OF POPULATION GROWTH IN HELSINKI METROPOLITAN AREA



Source: Statistics Finland



There are two main infrastructure projects currently under development in the Helsinki Metropolitan Area: extension of the western metro line in Southern Espoo and construction of a transverse Jokeri Light Rail line between Itäkeskus in Helsinki and Keilaniemi in Espoo. The metro extension is estimated to be totally completed by 2023 after which Helsinki Region Transport can commence passenger traffic, whereas the Jokeri Light Rail is forecasted to be ready for passenger traffic in 2024. Approximately 40,000 and 91,000³ passengers are estimated to be using the metro extension and Jokeri Light Rail, respectively, by 2030 as future residential development focuses along these rail lines. Due to this planned residential development and the inherent population growth along these rail lines, we expect occupier and thus investor demand for retail and office premises along the metro and the Jokeri Light Rail lines to increase during the next decade.

Source: ¹Statistics Finland, January 2020; ²City of Helsinki, December 2019; ³raidejokeri alliance, January 2020

CAPITAL MARKETS



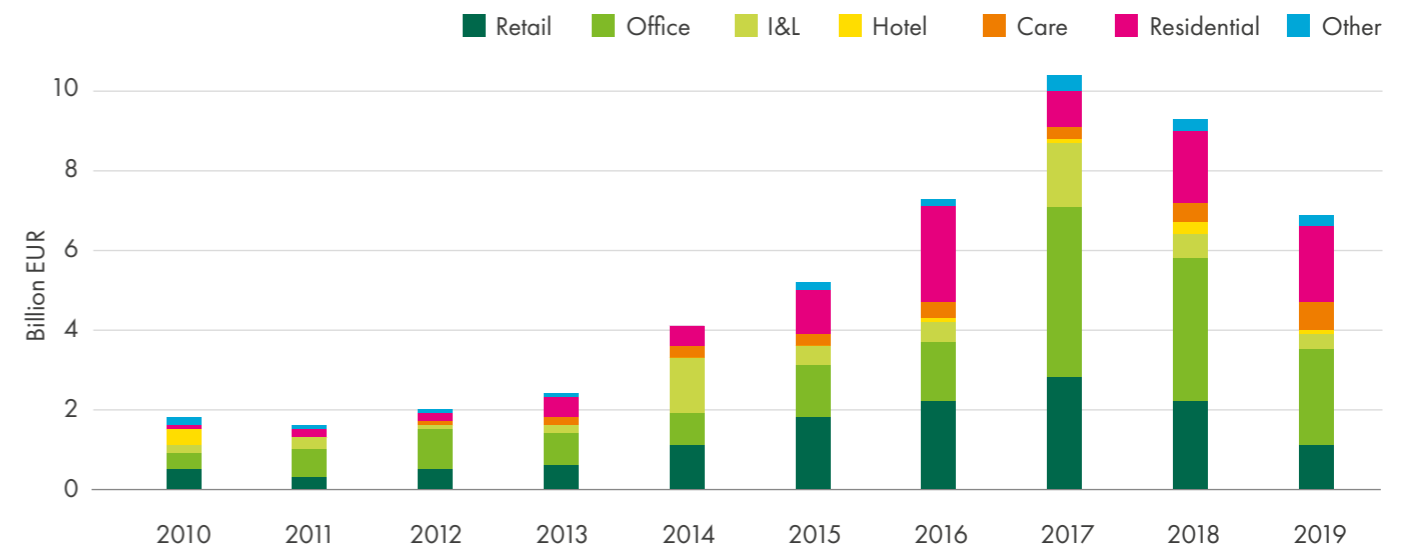
CAPITAL MARKETS



2019 was another active year in the Finnish real estate capital markets, with a total transaction volume of €6.9 billion. The decrease in total volume is partly explained by the absence of large portfolio transactions and M&A's of the scale recorded during the previous

record years of 2017 and 2018. The core investment activity remains high, with 16 transactions exceeding the €100 million threshold. The Helsinki Metropolitan Area continued to attract investments across all real estate sectors representing a 62% share of total investments.

FIGURE 7. ANNUAL TRANSACTION VOLUME BY SECTOR



Source: CBRE Research

The volumes in the residential sector continue to grow rapidly, following the larger European trend and surpassing retail as the second most attractive sector in Finland, after offices. Furthermore, due to the growing interest of institutional investors who are seeking to expand

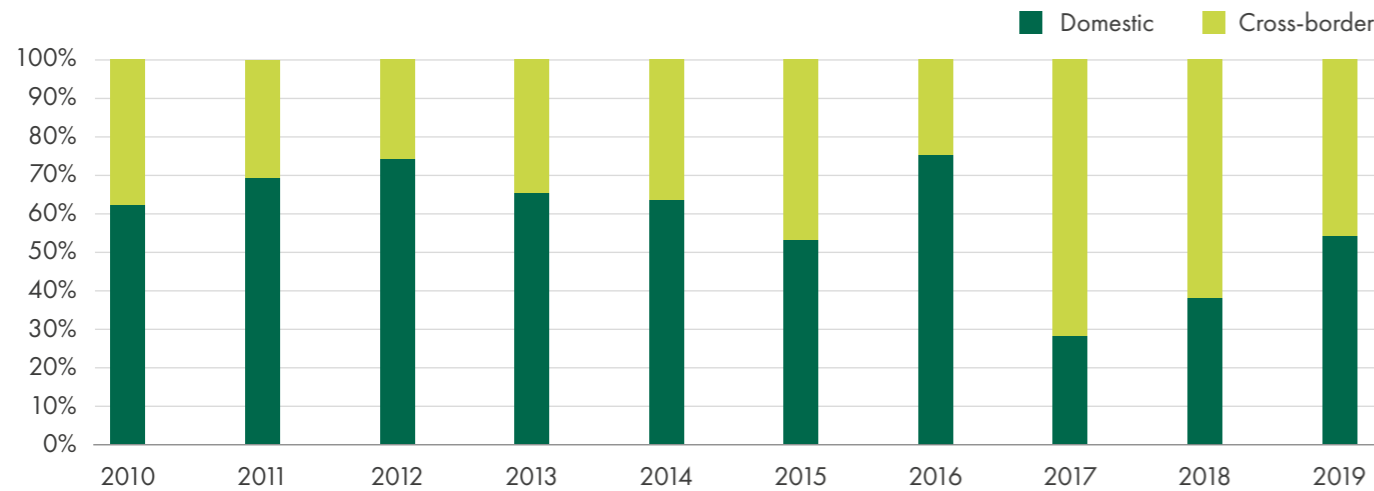
their real estate portfolios towards health care and communal properties with steady cash flows, the care properties' segment has continued to see an increasing number of investments.



The share of domestic capital in the markets has continued to increase during the year in line with increases of institutional capital allocations to real estate as well as the activity in the domestic retail fund market. Based on the positive investment activity during the second half of 2019, this trend is expected to continue in 2020. Although there is a

tangible increase in domestic activity, a significant number of international investors are targeting the market. As such, the overall supply of capital will continue to be significant and market liquidity is expected to stay strong in the year ahead.

FIGURE 8. ANNUAL TRANSACTION VOLUME BY NATIONALITY



Source: CBRE Research

The strong investment activity is also supported by favourable financing markets providing real estate investors with access to competitively priced, flexible and well-structured debt that is capable of significantly enhancing investor returns. The Finnish financing market for core properties is currently very strong and furthermore there is a solid influx

of international lenders across all segments. From a European perspective, the Finnish market is favoured amongst lenders due to the positive economic and property market dynamics combined with a strong legal framework.

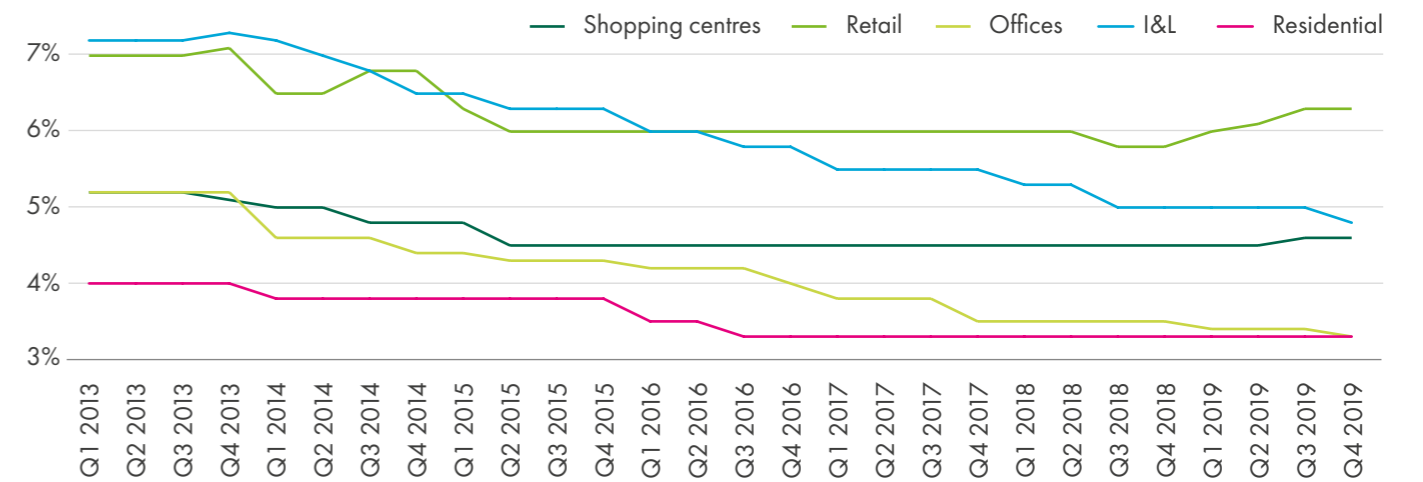


Further yield compression can be expected especially in the office, residential and industrial sectors, where rental growth prospects enable sharper entry yields for short to mid-term lease length products. The greatest development in office yields is expected in strong sub-markets with efficient transport links. This is supported by the fact that numerous investment strategies target primer locations for sharper yields rather than accept declining locations in exchange for higher returns. Limited supply of high-quality assets and competitive

financing is expected to maintain strong competition and thus drive yields further down in the coming years.

The low-yield environment is putting pressure on the requirement for value creation elements and return driving actions even amongst the most core products. Investor appetite for early-phase investments in development projects and forward purchases can also be expected to increase due to the tightening competition for assets in prime locations.

FIGURE 9. SECTOR PRIME YIELDS

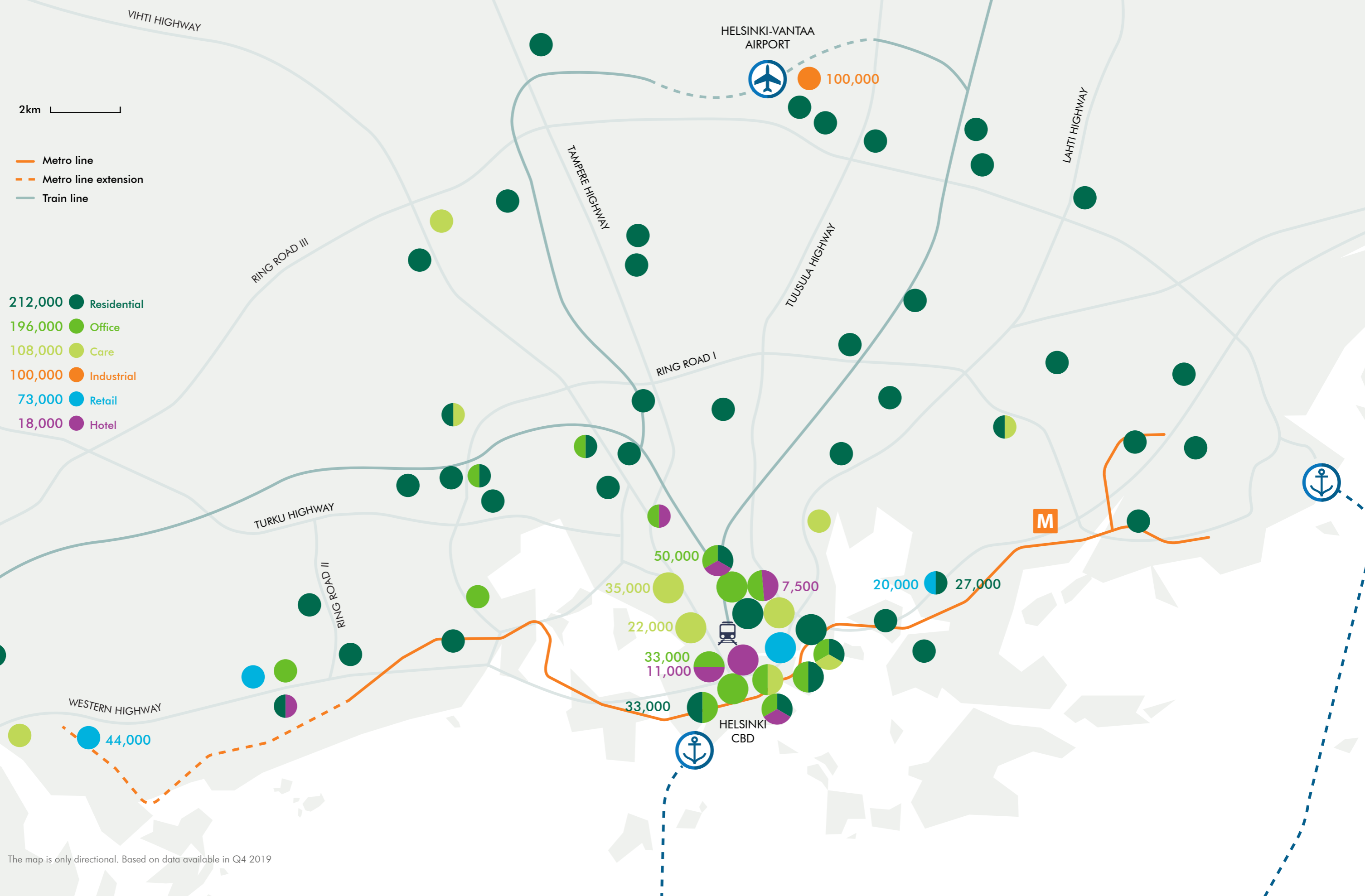


Source: CBRE Research

KEY INFLUENCES

- 2019 was another active year for the Finnish real estate market with total investment value of €6.9 billion
- Helsinki Metropolitan Area contributed ca. €4.3 billion, representing 62% of the total transaction volume in 2019
- International investors' interest towards Finland holds strong as the share of international buyers remains high (46% of the total volume)
- 'Lower for longer' scenario now the consensus, but spread over bonds supporting high levels of real estate investment
- Still some yield compression for the very best assets and locations in Finland

CURRENT REAL ESTATE DEVELOPMENT IN HELSINKI METROPOLITAN AREA



The map is only directional. Based on data available in Q4 2019

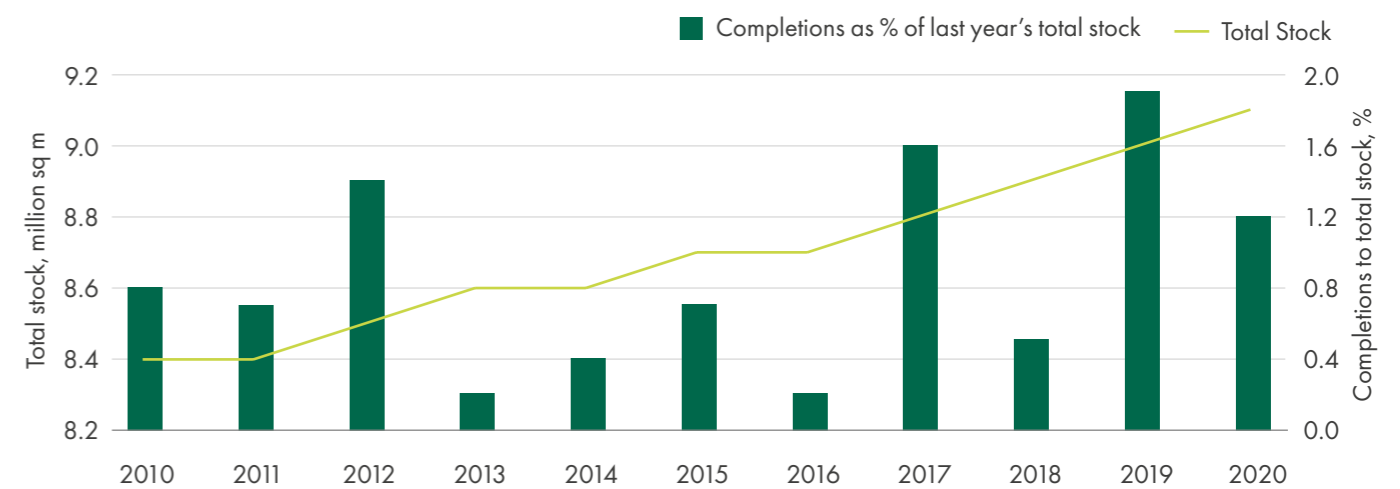
OFFICE

OFFICE

The Helsinki Metropolitan Area ("HMA") is witnessing a surge in office construction in 2020, which will significantly increase the supply of modern office space in the future. By the end of 2020, total office stock is expected to grow by 107,000 sq m, a 1.2% increase on the current stock of 9.0 million sq m. However, according to the occupier market sentiments of HMA and the results of the CBRE European Occupier

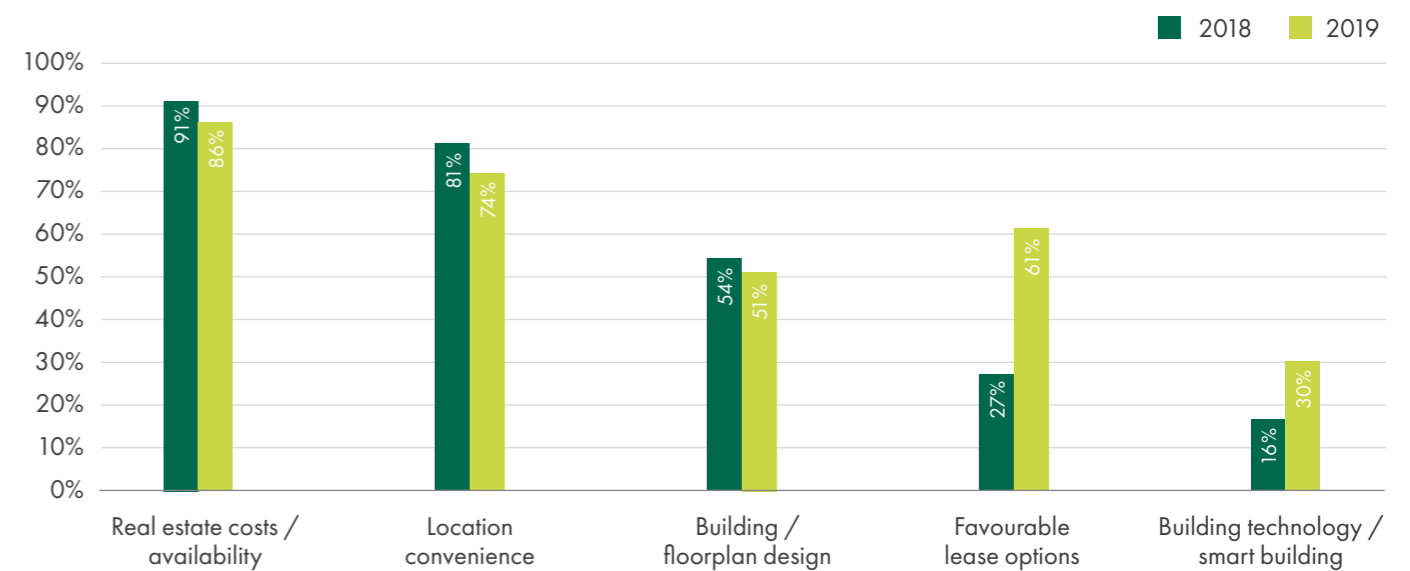
Survey 2019, the location of an office matters greatly for occupiers, with the result that some of the new stock will be in higher demand than rest of the new development. For example, Keilaniemi, Kalasatama, Pasila and Hakaniemi are areas of increasing interest as a result of the high demand from occupiers seeking proximity to a train or metro station.

FIGURE 10. TOTAL OFFICE STOCK AND DEVELOPMENT COMPLETIONS AS % OF PREVIOUS YEAR'S TOTAL STOCK



Source: CBRE Research, KTI Property Information Ltd, Statistics Finland

FIGURE 11. MOST IMPORTANT FACTORS DRIVING BUILDINGS SELECTION OF OCCUPIERS WITHIN THE MARKET



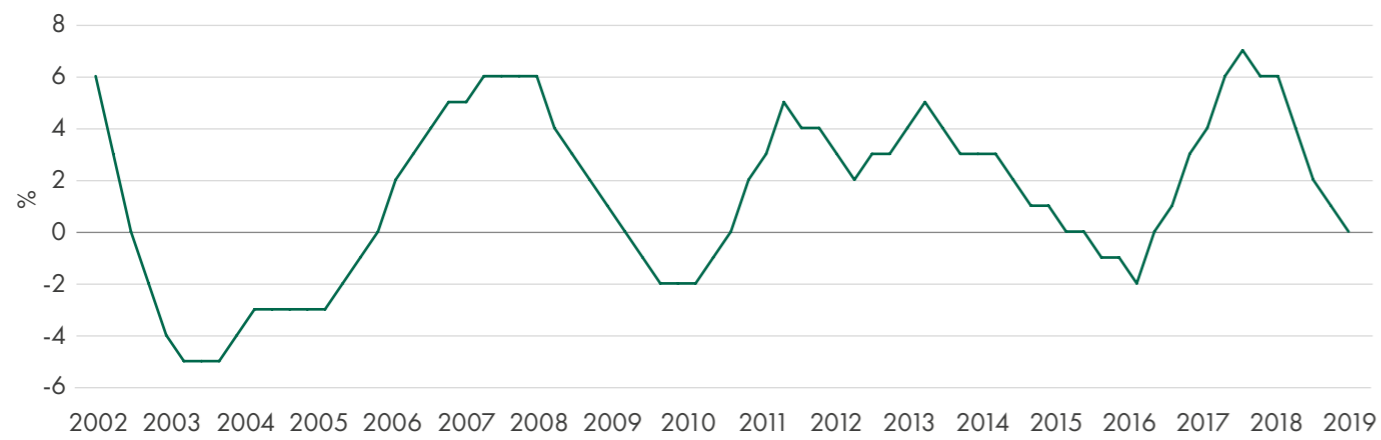
Source: CBRE European Occupier Survey Report 2019



Because occupiers are competing for a better user experience and more productive workforce, they are demanding prime offices in excellent locations. As a result, prime offices in Helsinki CBD are fully occupied, meaning a near-zero prime office vacancy rate, and property owners can determine the terms of lease agreements more freely than before in the area. However, according to our observation in the occupier market, occupiers find new lease agreements to be

expensive compared to the rental costs of their current agreements and consequently the growth potential of new lease agreements is limited in Helsinki CBD. In 2020, we expect prime office rents to grow from the current level of €42 per sq m per month in Helsinki CBD as the occupier demand still exceeds the supply in the area but at a near-zero growth rate because the prime rent cycle is currently at its late phase, as shown in Figure 12.

FIGURE 12. ANNUAL CHANGE OF KTI HELSINKI CBD RENT INDEX



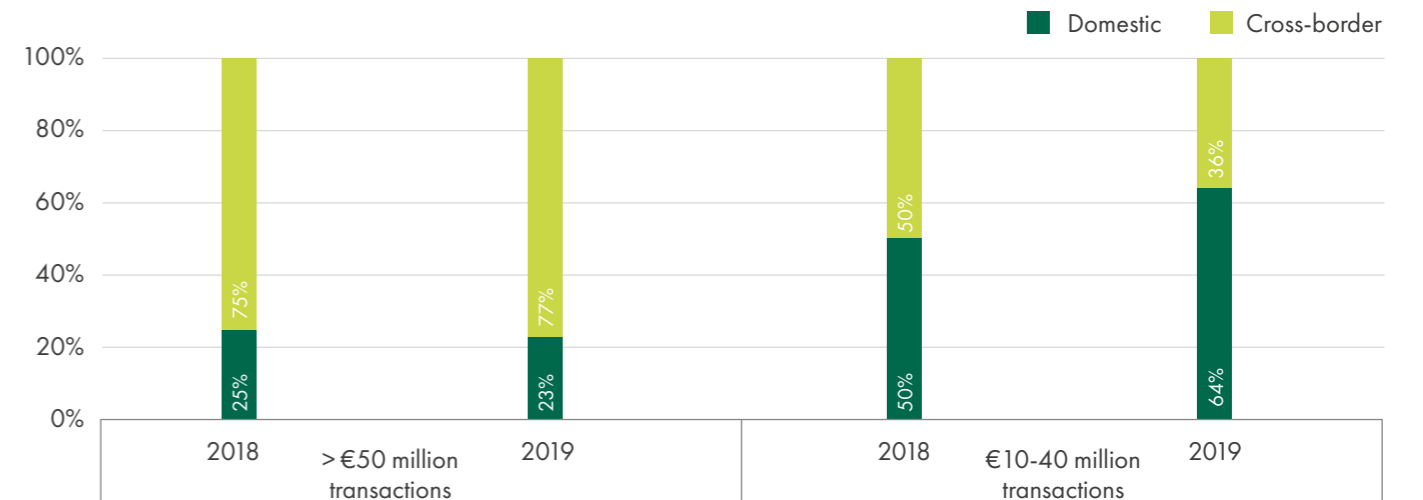
Source: KTI Property Information Ltd



Offices continue to be the preferred investment sector in Finland representing 35 % of total transaction volume. The share of international capital in the sector remains significant as more than half of all office transactions were completed by international capital. In larger, in excess of €50 million deals, the portion of international

buyers is even higher, at approximately 77%. In the €10-40 million range there is a notable pick-up of domestic activity, which is partially explained by the increased interest of domestic special investment funds. As such, liquidity for the sector is anticipated to remain high throughout 2020.

FIGURE 13. SHARE OF TRANSACTION VOLUMES BY NATIONALITY FROM TOTAL VOLUME OF OVER €50 AND €10-40 MILLION DEALS IN FINLAND

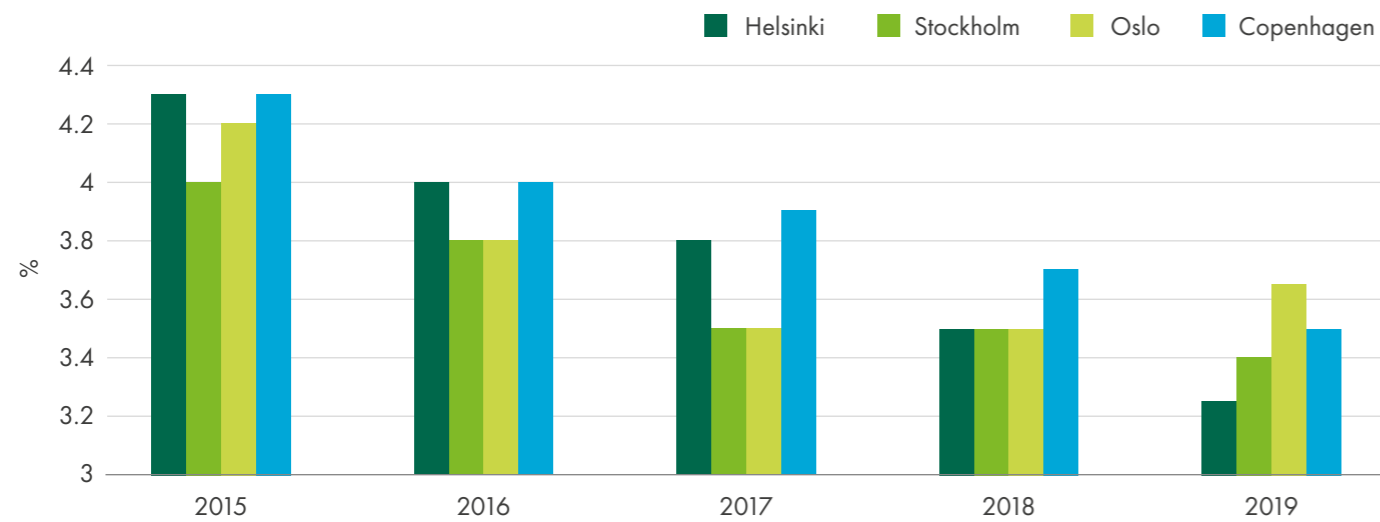


Source: CBRE Research

The prime office yield in Helsinki has followed the downward trend of prime yields in other Nordic capital cities. In Q4 2019, however, Helsinki's prime yield fell below the other Nordic capitals, reflecting the recently diverged levels of investor demand and supply between

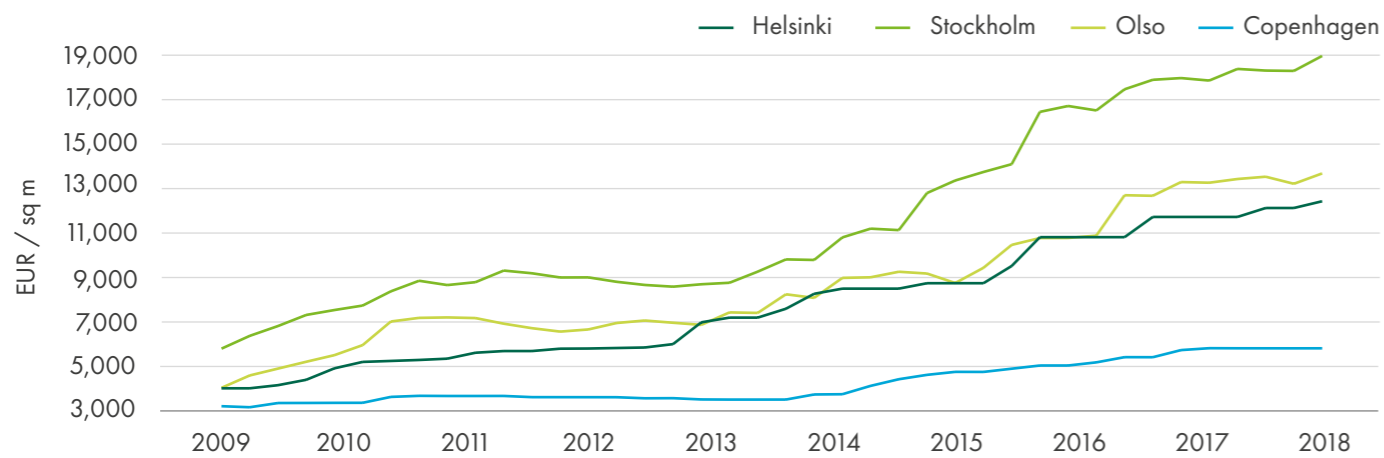
the cities. Nevertheless, the differences between capital values of prime offices in different Nordic capitals are wide due to significant rent differences and in comparison, Helsinki remains relatively attractively priced.

FIGURE 14. PRIME OFFICE YIELDS IN DIFFERENT NORDIC CAPITALS



Source: CBRE Research

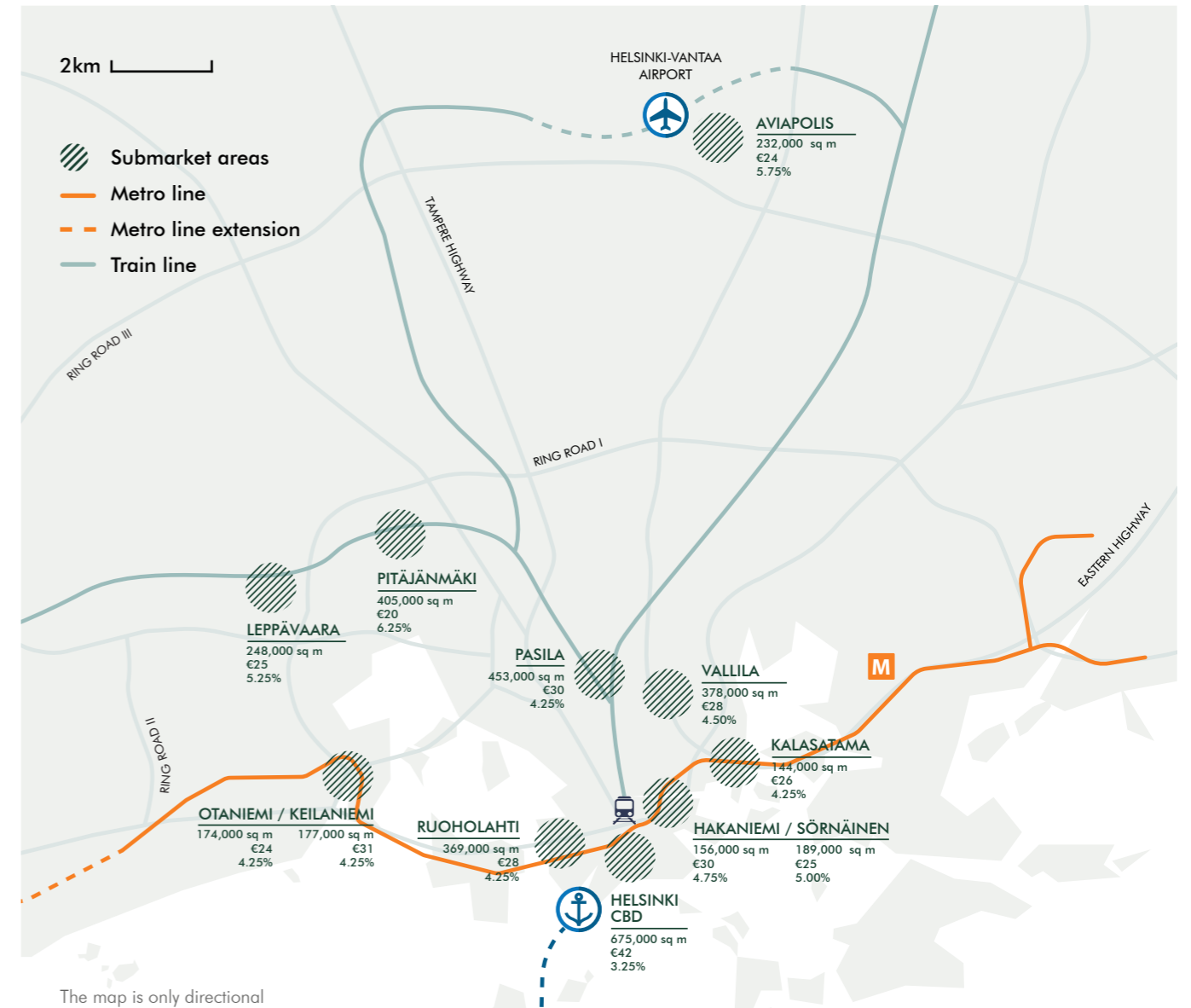
FIGURE 15. PRIME CAPITAL VALUES IN DIFFERENT NORDIC CAPITALS



Source: CBRE Research

We expect office yields, especially in submarket areas other than Helsinki CBD, to continue to decrease during 2020. The sharpening of yields is anticipated to concentrate on submarkets with new office development and good public transport – train or metro –

connections as new grade A product will likely be brought to the market from these submarkets and the differential over CBD yields remains relatively high at around 100bps.



The map is only directional

KEY INFLUENCES

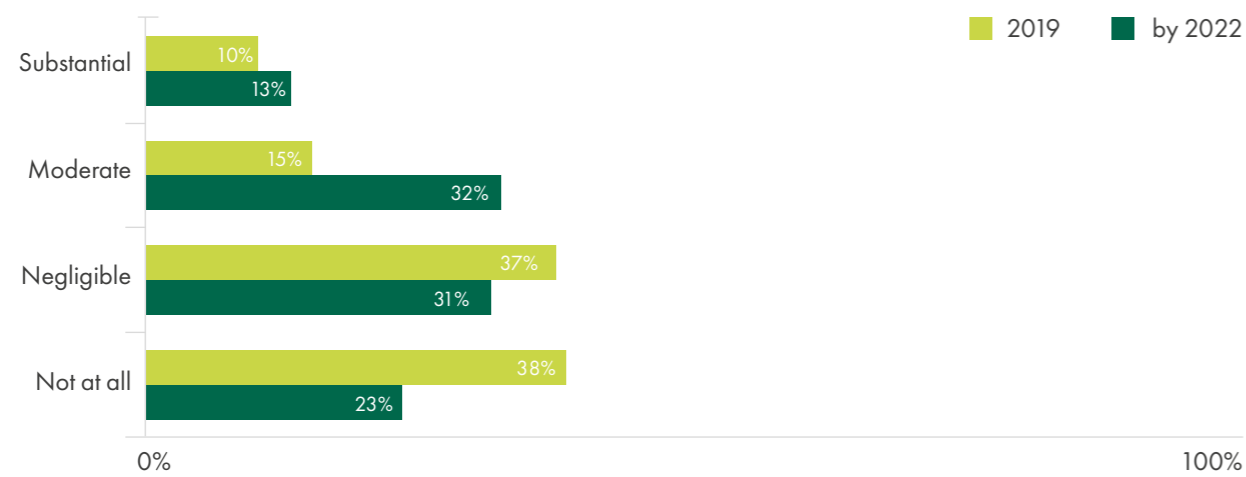
- Occupier and investor demand is focused on prime offices with excellent public transport connections
- Modern office supply increases by 107,000 sq m during this year
- Prime office rents expected to grow in 2020 but at a near-zero rate
- Prime yields in submarket areas other than Helsinki CBD are expected to decrease during this year

FLEXIBLE OFFICE

For some time, corporates have identified a role for flexible office space as part of a range of solutions to their space needs. As shown in Figure 16, 45% of companies in the CBRE European Occupier Survey 2019 indicated that they intend to make significant use of flexible office space by 2022, and that their reasons for doing so focus on talent retention and innovation; while cost reduction and accommodating short-term demand increases are

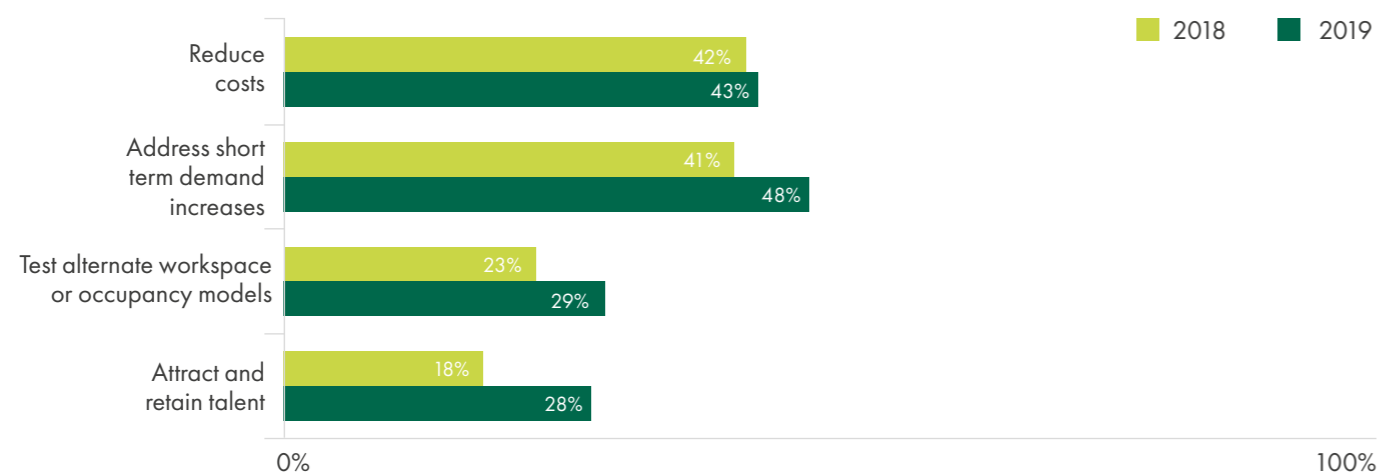
still the main motives of occupiers that participated in the survey, the use of flexible space as a way of attracting and retaining talent is ten percentage points higher in 2019 than in 2018. Furthermore, nearly a third of respondents to the 2019 survey see flexible offices as a way of testing alternate workspace models, up by six percentage points from 2018. As a result, we expect the contribution of flexible space providers to total office take-up, already rising strongly in several western European cities, to continue to grow in 2020.

FIGURE 16. USE OF FLEXIBLE OFFICE SPACE OF OCCUPIERS IN 2019 AND BY 2022



Source: CBRE European Occupier Survey Report 2019

FIGURE 17. REASONS CITED FOR USING FLEXIBLE OFFICE SPACE IN 2018 AND 2019

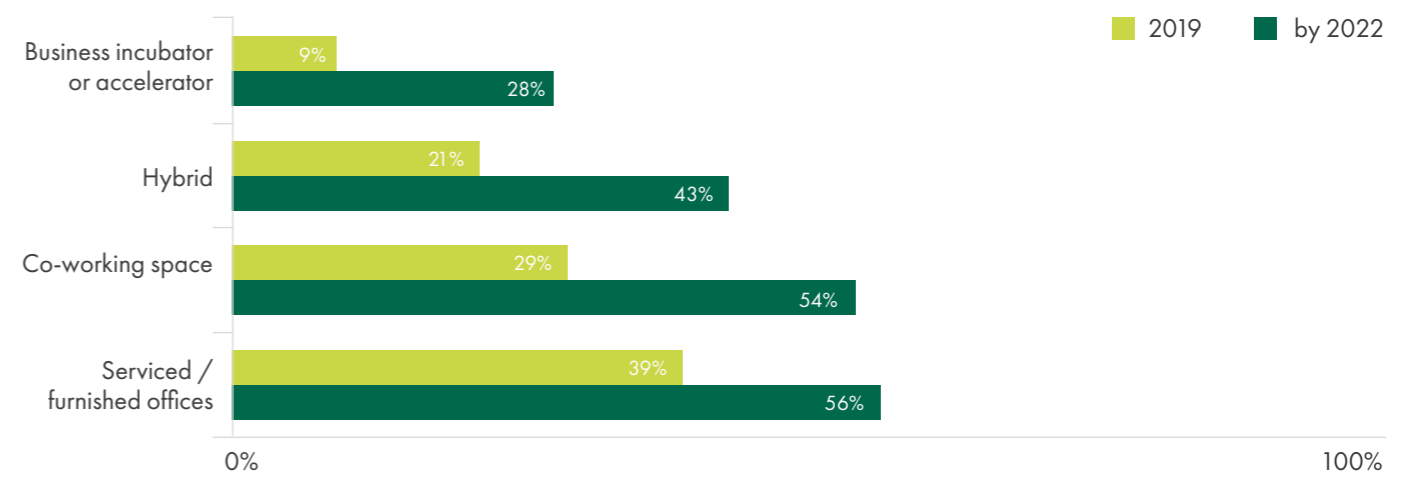


Source: CBRE European Occupier Survey Report 2019

Occupiers are increasingly aware that there is a spectrum of possibilities across different types of flexible office space, and they intend to expand their use of flexible space by 2022 across all space types. By 2022, serviced / furnished offices are a slightly more popular option than co-working space for the respondents of the occupier survey of 2019, perhaps indicating that the supposed benefits of “community” for large corporates are overdone, or that

they can be satisfied in other ways such as selection of central, amenity-rich locations. Furthermore, respondents’ intentions indicate that the use of hybrid office space will increase by 22 percent points by 2022, pointing towards a growing segmentation of function and space and perhaps a willingness to adapt occupancy patterns rapidly across different office formats.

FIGURE 18. SIGNIFICANT USE OF DIFFERENT TYPES OF FLEXIBLE OFFICE SPACE IN 2019 AND BY 2022



Source: CBRE European Occupier Survey Report 2019

Establishing the optimal mix of formats in a new building, and the returns available from repositioning legacy space, is a key challenge for landlords and developers. We see a strong future trend for the evolution of highly-adaptable hybrid space that can evolve with occupiers’ skills and service needs. In part this is because more mature corporate occupiers are beginning to recognise that many

co-working environments fall short of their internal requirements in relation to information security, privacy, IT resilience, acoustic or design standards, and so see more dedicated ‘serviced’ suites as better meeting their needs. We anticipate that hybrid solutions offering a balance of dedicated offices, meeting spaces and small co-working areas will prove increasingly popular.

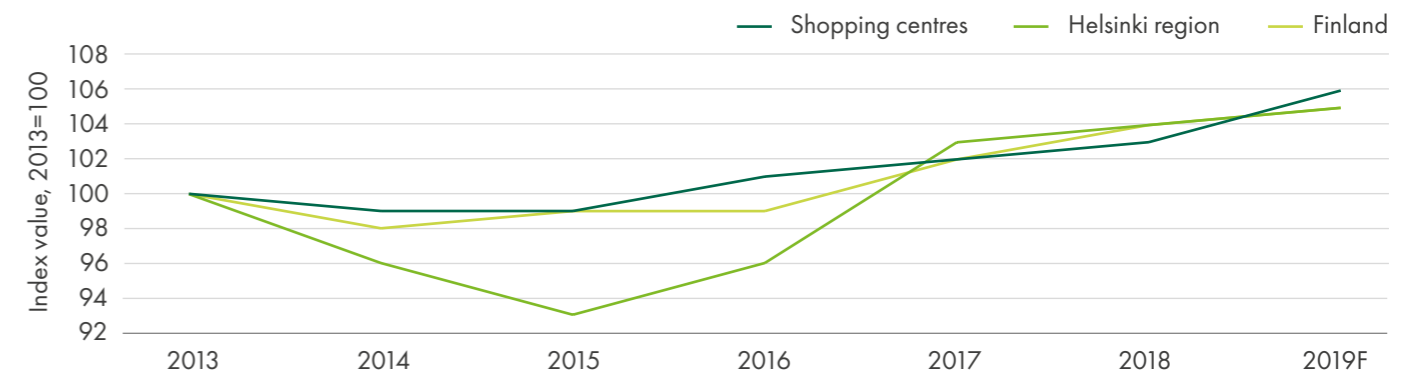
RETAIL

RETAIL

Retail, excluding hypermarkets, is heavily focused on shopping centres in Finland. According to the results from CBRE Calibrate, primary catchment areas of centres are usually smaller than expected, to some extent reflecting Finnish weather and climate conditions and the whims of convenience and efficiency driven consumers. For example, in the light of the results of Calibrate, most

consumers of shopping centres in the Helsinki Metropolitan Area come from less than three kilometres away whereas in smaller, regional centres, the catchment area is below two kilometres. Based on our observation, the most notable effect of the small catchment area is the imminent success and good performance of hybrid-centres in the Finnish retail market.

FIGURE 19. SALES OF SHOPPING CENTRES AND TOTAL RETAIL SALES IN HELSINKI REGION AND FINLAND

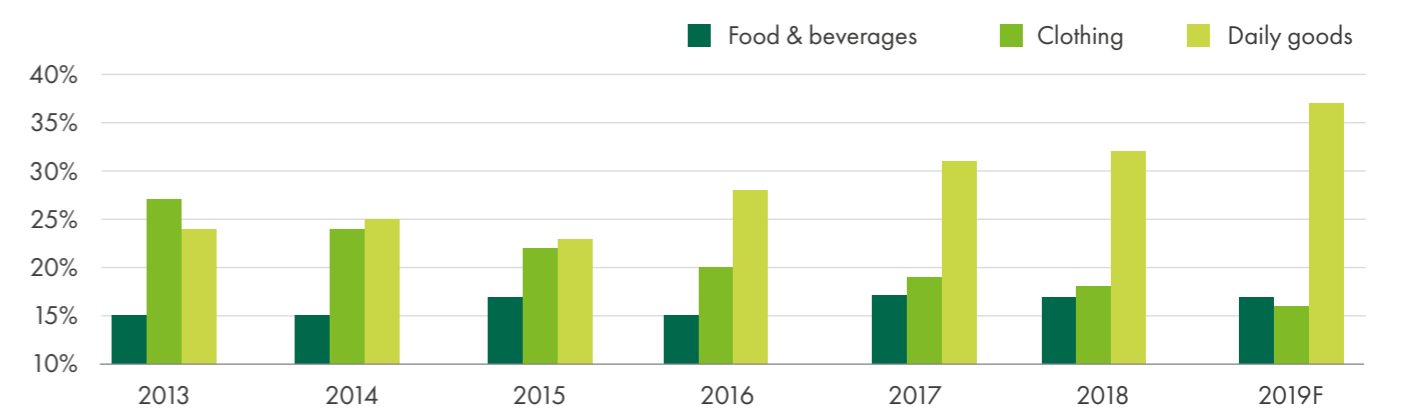


Source: CBRE Research, Helsinki Region Trends, Statistics Finland. Sales of shopping centres is based on data of CBRE Research with an exclusion of e-commerce sales

With moderately increasing real wages and private consumption, we expect shopping centre sales to grow at a moderate rate during this year. We also expect the retail disruption to hold strong in 2020 as the retail market remains polarized with a clear and still increasing division between the successful and the non-successful stores. The main difference between the relative performance of retail stores is caused by the convenience and customers' experience in shopping.

Specifically, we find factors such as accessibility, customer service with curated product selection and a sustainable brand to support positive retail performance, whereas difficult access, tedious customer experience and a poor selection of products undermine the underperformance of the retailer. One example of successfully combining Finnish consumers' priority needs are hypermarkets that offer everything under the same roof at budget prices.

FIGURE 20. SHARE OF SECTOR SALES FROM TOTAL SALES IN SHOPPING CENTRES

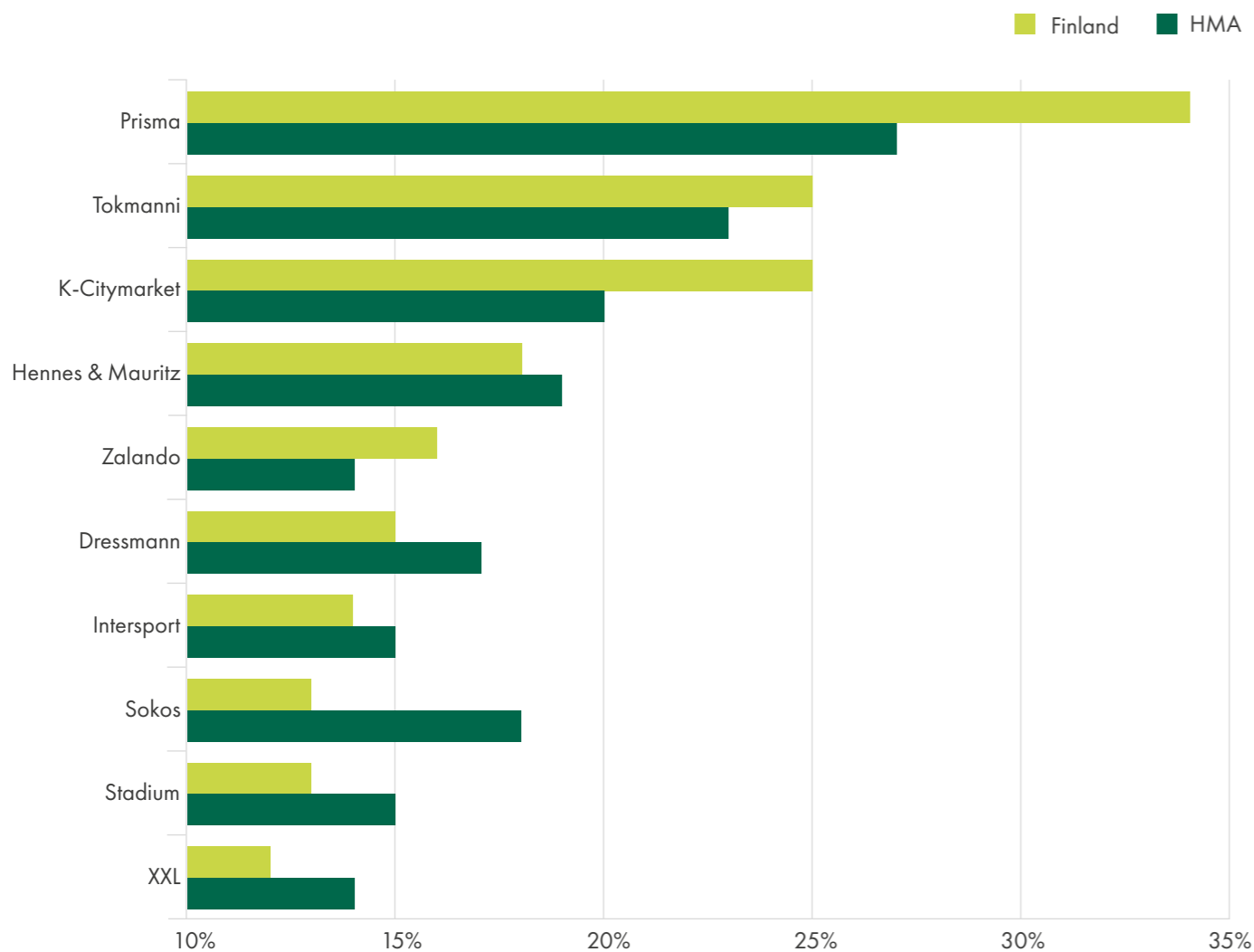


Source: CBRE Research

Shopping centres with a hypermarket as an anchor have been a priority choice in the Finnish investment market as the hypermarket feeds the centre with solid footfall and turnover figures. As shown in Figure 20, the share of daily goods from the total sales of shopping centres has increased gradually in the past few years as the absolute sales of hypermarkets have increased. Some of this growth in the share of total sales of hypermarkets has been caused by hypermarkets offering decent brands in several

categories – especially in fashion – at attractive prices. Indeed, Figure 21 shows how Finnish consumers purchase most of their clothing from hypermarkets (Prisma, Tokmanni and K-Citymarket) rather than clothing (H&M, Zalando or Dressmann) or sport (Intersport, Stadium or XXL) stores. This “convenience at budget prices” together with ecommerce is expected to have a further negative effect on the share of clothing and sport stores from the total sales of shopping centres in 2020 and forward.

FIGURE 21. TOP 10 CLOTHING STORES IN FINLAND IN Q1 2019

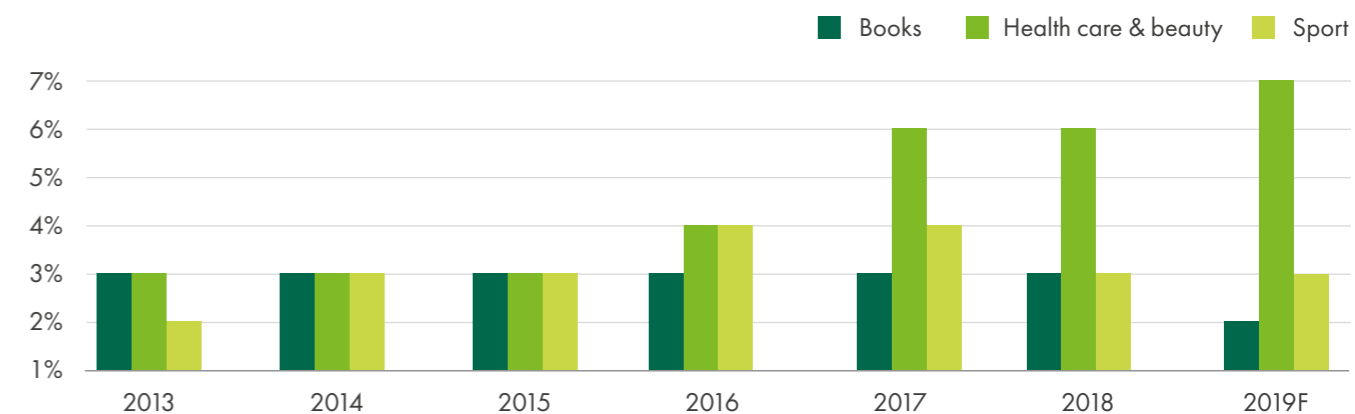


Source: Finnish Commerce Federation

Despite the past retail disruption on book sales, for example, bookstores have lost only a marginal share of their total share from the sales of shopping centres during the past few years. One reason for this may be that, while there is convenient, cheap and quick-delivery online shopping available for customers, the brick and mortar stores are keeping up by expanding and changing their concepts. For example, in more mature markets, we have already

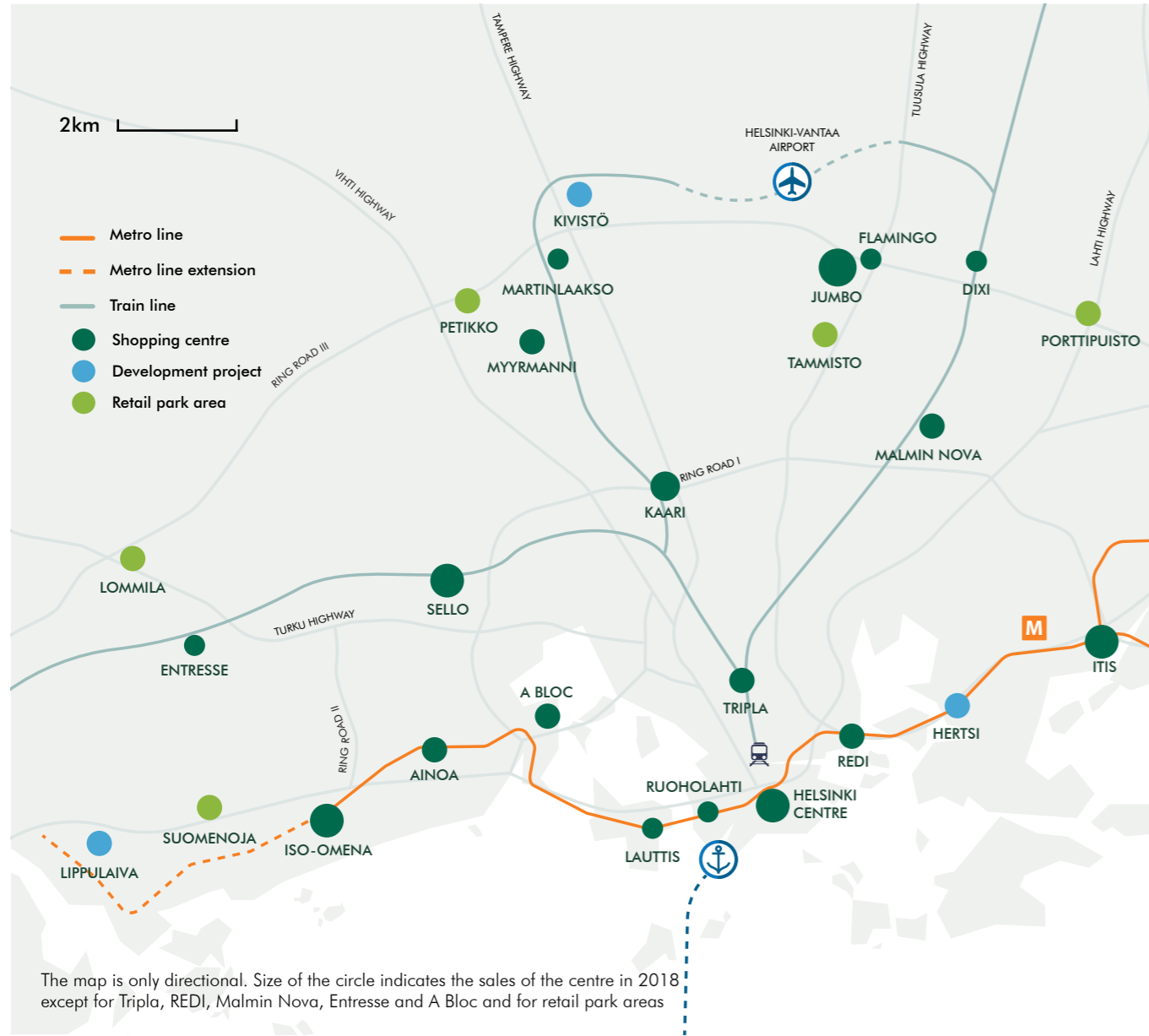
witnessed the reinvention of the modern bookstore where the gigantic volumes and unit sizes are downscaled to small, very curated and trendy bookshops. These omnichannel shops offer a positive brand experience around carefully selected themes while having an online sales channel as well, which represents our estimate for the future of bookstores, and bricks and mortar in general, in Finland.

FIGURE 22. SHARE OF SECTOR SALES FROM TOTAL SALES IN SHOPPING CENTRES



Source: CBRE Research





KEY INFLUENCES

- Shopping centre sales are expected to grow moderately in 2020 despite some retail disruption
- Convenience and customer experience are the main drivers of performance for retail stores
- Hypermarkets have increased their share of total sales of shopping centres to some extent because of convenience, decent brand offering and budget prices

HELSINKI METROPOLITAN AREA RETAIL MARKET

HELSINKI CENTRE	NLA (SQ M)	SALES (€ MILLION, 2018)	VISITORS (MILLION, 2018)
High street	192,000	n/a	n/a
Forum	40,000	217.7	13.9
Kamppi	32,000	241.0	32.7
Citycenter	20,000	109.3	15.3
Kluuvi	10,000	33.5	4.2
Total	294,000	601.5	66.1

10 LARGEST SHOPPING CENTRES IN HMA (EXCL. HELSINKI CENTRE)

Sello	92,000	393.0	24.0
Jumbo	85,000	411.6	11.7
Tripla	85,000	opened in 10/2019	
Iso Omena	84,000	371.0	20.0
Itis	79,000	319.0	17.1
REDI	59,000	opened in 9/2018	
Kaari	45,000	229.0	7.4
Flamingo	45,000	72.6	4.5
Myyrmanni	31,000	154.4	8.2
AINOA	29,000	133.2	6.1
Total	634,000	2083.8	99.0

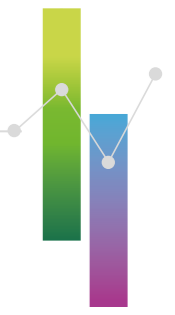
REST OF THE SHOPPING CENTRES IN THE MAP

Ruoholahti	25,000	79.5	3.3
Malmin nova	21,000	n/a	6.5
Dixi	9,000	43.3	9.3
Martinlaakso	7,000	35.3	2.3
Lauttis	N/A	32.5	3.0
Total	62,000	190.6	24.4

CBRE CALIBRATE

Calibrate is an unrivalled CBRE consumer analytics product for retailers. Its proprietary technology analyses the digital footprints of over 15 million mobile phone users. Coupled with CBRE's in depth retail real estate sector knowledge, Calibrate delivers outputs to build a sustainable competitive advantage.

Calibrate provides occupiers, landlords and investors with unique access to consumer profiling and retail spending behaviour covering type of purchase, location by store and time. Calibrate brings clients' brand and location strategies to life, helping them to make more accurate investment decisions and maximizing the potential of a location.



INDUSTRIAL & LOGISTICS

The industrial and logistics sector recorded an investment volume of €384 million in 2019, which was 35% less than the 10-year average of €585 million. The long-term average is a result of the comparatively low supply of industrial and logistics space together with minimal speculative development in the Helsinki Metropolitan Area (HMA), off-set by the record-high investment volumes in 2014 and 2017 at €1.45 billion and €1.55 billion, respectively. In 2019, the industrial and logistics' share of the total investment volume of Finland was only 6% which is significantly

below the 10-year average of 11%. Top transactions of the year were Onvest's sale of their 40,000 sq m logistics centre in Hyvinkää for €68 million to NRP and Wilfast, and Isku Invest's €25 million sale of their 43,600 sq m asset in Lahti to Ilmarinen. In 2019, there were a couple transactions of core production space, including G.W Sohlberg's 54,000 sq m sale to JM Suomi for €34 million in Q3, which highlight the decrease in capital value for production space as opposed to modern logistics in and around the HMA.

TABLE 2. SELECTED TRANSACTIONS IN FINLAND IN 2019

QUARTER	LOCATION	USE	SIZE (SQ M)	PRICE (MEUR)	PURCHASER	SELLER
Q3	Helsinki	Production	54,700	34.0	JM Suomi	G.W Sohlberg AB
Q2	Lahti	Distribution & Logistics	43,700	25.0	Ilmarinen	Isku Invest Oy
Q2	Hyvinkää	Distribution & Logistics	40,000	68.5	NRP, Wilfast	Onvest
Q2	Hamina	Distribution & Logistics	20,500	conf.	Oy Hacklin Ltd	Patrizia Immobilien AG
Q1	Mäntsälä	Distribution & Logistics	19,700	conf.	NRP, Wilfast	Masku

Source: CBRE Research

As prime locations for new industrial and logistics properties in the HMA are limited, the supply of vacant space in prime properties will continue to lag demand for modern accommodation for the foreseeable future. At the moment, the HMA industrial and logistics stock is closing 9.2 million sq m, with over 100,000 sq m of new industrial and logistics space under

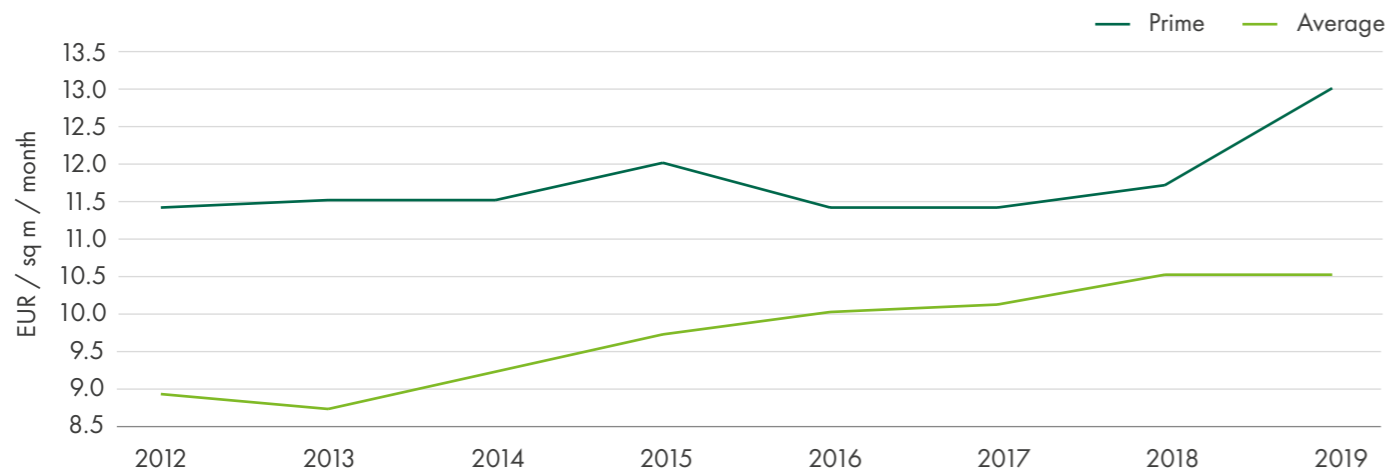
construction, representing approximately one third of the pipeline in the whole country. Most of the HMA developments are situated in the vicinity of Helsinki-Vantaa airport, which is the most recognised logistics area with the highest prime rents in the region.



Prime gross rents in the Helsinki-Vantaa airport area are at €13 per sq m per month, whereas the average gross rents in the HMA are notably lower at approximately €10.5 per sq m per month. In Finland, the market rents are typically quoted in gross levels,

including service and operation charges. The level of these charges typically varies between €2.5-3.5 per sq m per month, resulting in a prime net rent level of €9.5-10.5 per sq m per month in Helsinki Metropolitan Area.

FIGURE 23. PRIME AND AVERAGE RENT IN HELSINKI METROPOLITAN AREA



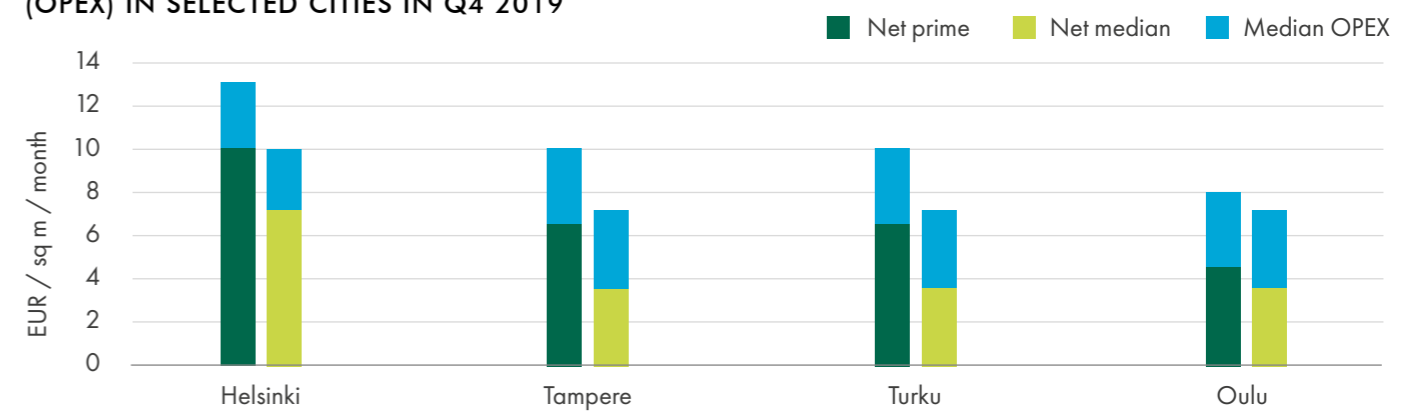
Source: CBRE Finland, KTI Property Information Ltd



Outside the HMA prime areas near the airport and the Ring Road III, the gross rents for prime industrial and logistics properties fall to a range of €7.0-10.0 per sq m per month, notably lower than the prime gross rent level in the airport area. Indeed, as Figure 24 shows, gross and net rents

and prime and median rents differ quite notably from the HMA prime and median rents. In addition, the gap between prime and average rents has been historically around €1.0 and €3.5 per sq m per month and this gap is expected to hold or widen also in 2020.

FIGURE 24. PRIME AND MEDIAN NET RENTS AND MEDIAN SERVICE AND OPERATION CHARGES (OPEX) IN SELECTED CITIES IN Q4 2019



Source: CBRE Research, Datcha, KTI Property Information Ltd

Despite the weakening economic situation within the industrial sector, we expect e-commerce and general internal demand to further propel modern stock levels over the coming years – particularly within and close to the Helsinki Metropolitan Area. The constant growth of e-commerce sales opposed to traditional bricks and mortar shops has had a major impact on the retail space market, but also in respect of the market for logistic and warehouse space. In particular,

we have noticed an increasing interest in premises suitable for cold chain logistics and warehousing, and last mile logistics, reflecting wider changes in supply and delivery chains, perhaps dissolving the traditional division between logistics and retail real estate in the future. On the investor side, we see that the interest in the industrial and logistic sector will increase as investors focus their real estate allocations in search of yield and asset diversity.

KEY INFLUENCES

- One third of the current pipeline of Finland and all the development of Helsinki Metropolitan Area locates in the vicinity of Helsinki-Vantaa airport which is the most recognised logistics area in the Helsinki Metropolitan Area
- The gap between the prime rent of the airport and the average rent of the Helsinki Metropolitan Area, or the difference in demand for prime and secondary I&L properties, is expected to remain wide in 2020
- E-commerce and internal demand will increase the modern stock levels near Helsinki Metropolitan Area in the coming year

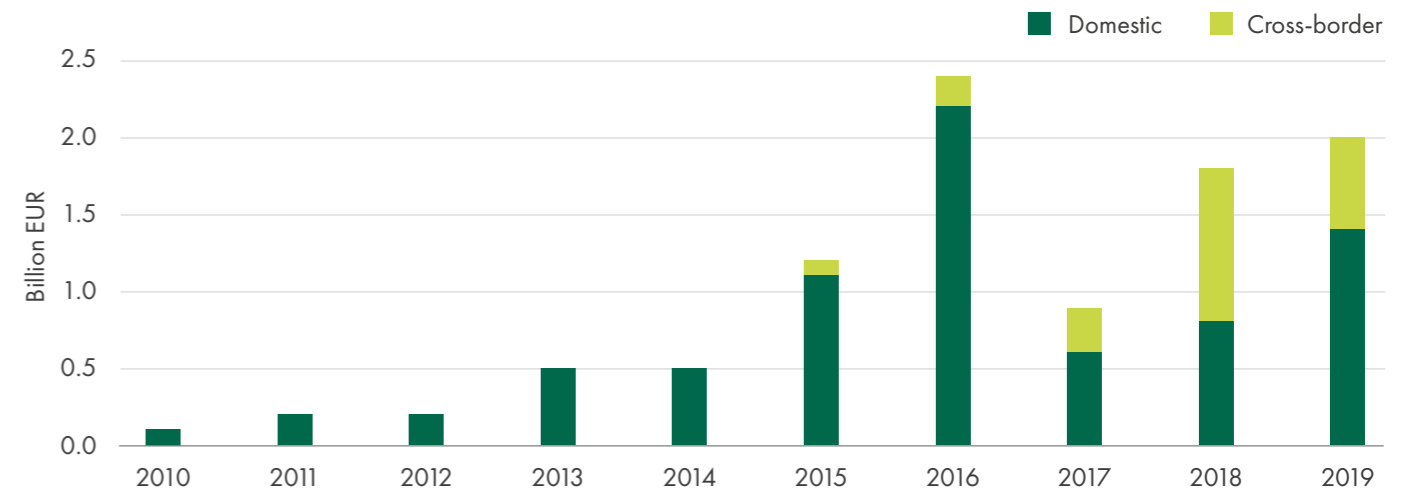
MULTI-FAMILY

MULTI-FAMILY

Multi-family residential property is continuing to gain popularity amongst real estate investors across Europe, surpassing retail as the second largest market in Finland this year. In addition to traditional domestic investors, the amount of cross-border investment directed towards multi-family real

estate has grown significantly over the last few years as the markets have become increasingly internationalized, with new cross-border investors entering the markets every year since 2015.

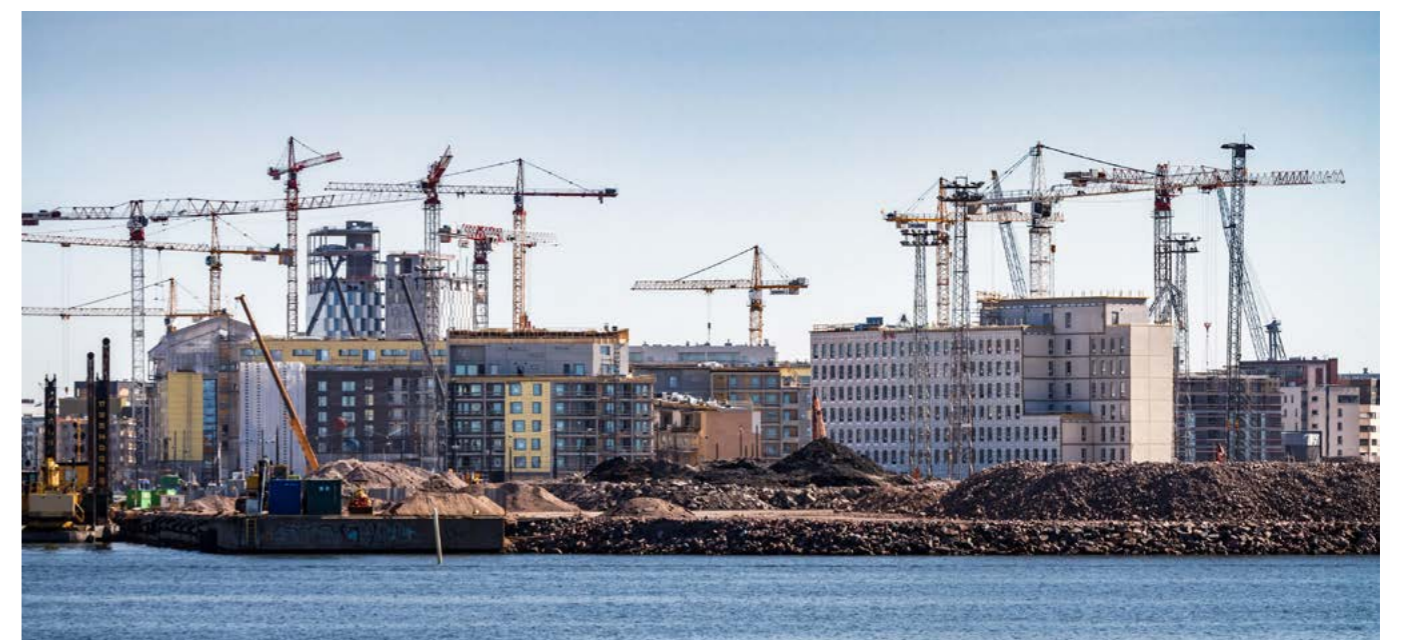
FIGURE 25. MULTI-FAMILY TRANSACTION VOLUME BY NATIONALITY



Source: CBRE Research

In addition to portfolio and single-asset transactions, many local investors and institutions are currently increasing their portfolio size through active development in residential construction. Cross border investors have typically a strong preference for acquiring portfolios of standing assets,

however, the number of forward deals or interest in engaging in development opportunities is anticipated to increase in the future as international investors are investigating alternative ways to gain higher returns and to increase their presence in the market.

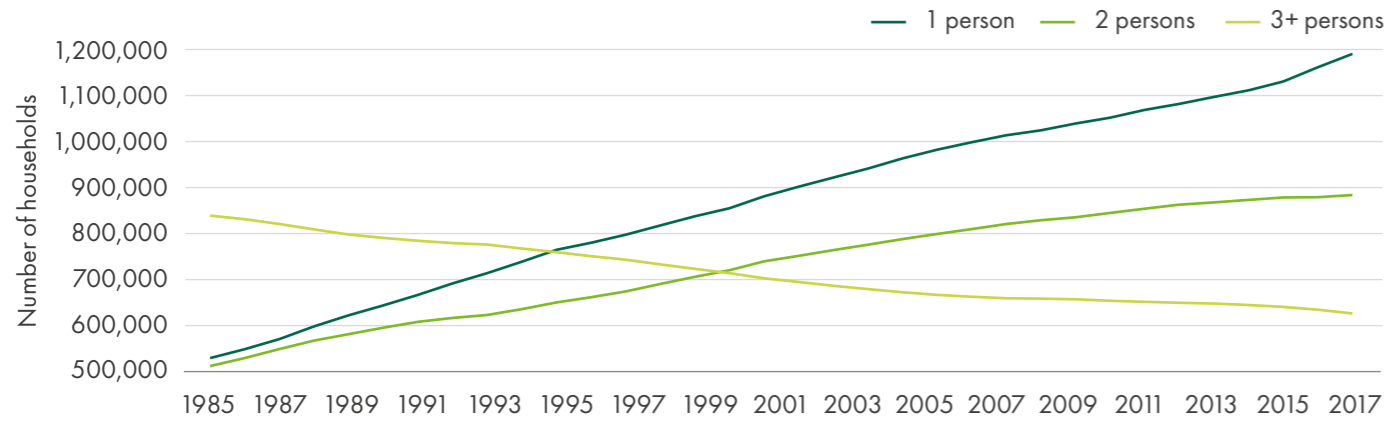


MULTI-FAMILY

The multi-family market is driven by population growth and urbanization, which is why the majority of investors focus on increasing their exposure in growing city regions and university cities. The most sought after and liquid multi-family assets benefit from the vicinity of public transportation connections and daily services as well as small

average dwelling size as the average household size in Finland is decreasing. The number of 1-2 person households has doubled since the year 1985 causing the average household size to fall below the two-person threshold for the first time in Finnish history.

FIGURE 26. NUMBER OF FINNISH HOUSEHOLDS BY SIZE



Source: Statistics Finland

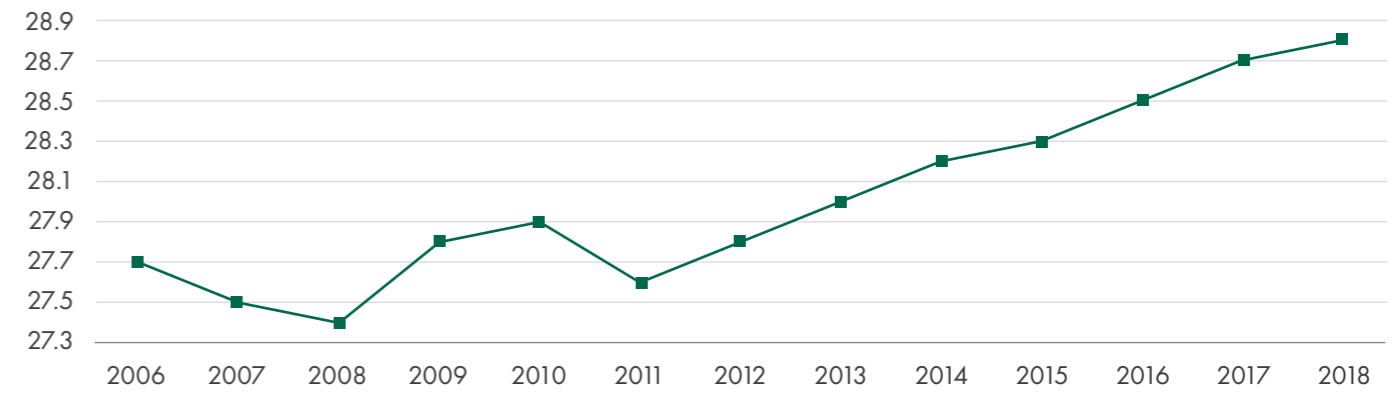


MULTI-FAMILY

Even though owner-occupied living is still the most popular form of living in Finland, the rental housing market has surpassed it as the preferred form of living in the largest cities. The growth in popularity has been especially fast among the younger population, where the

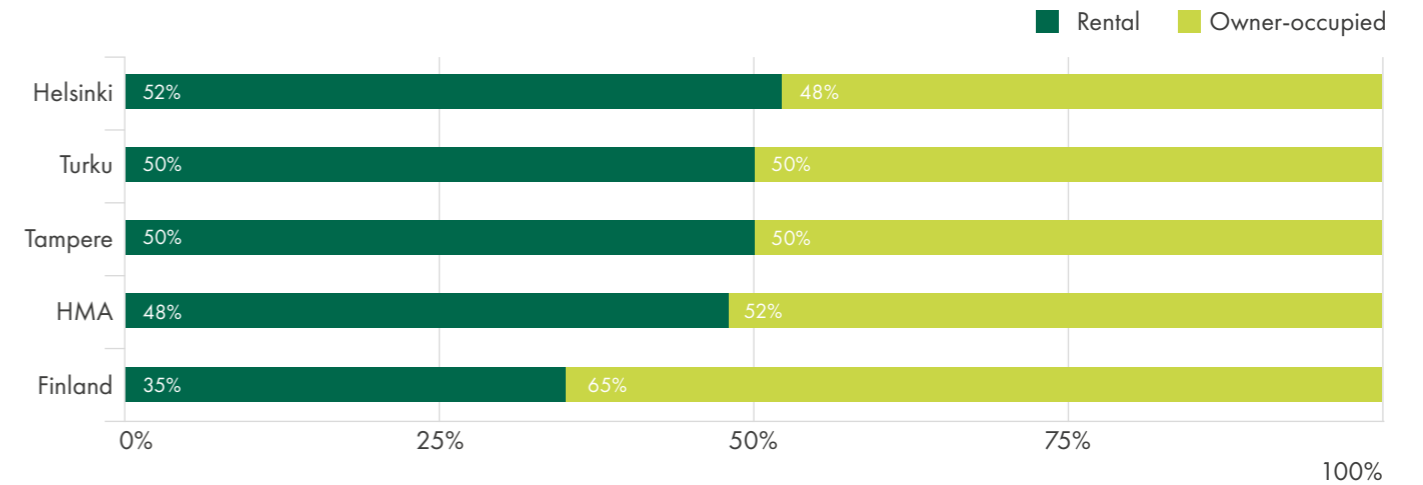
age of first home acquisition is continuing to rise every year due to the preference of financial flexibility and rising costs of housing ownership in the growth centres.

FIGURE 27. AVERAGE AGE OF FIRST-HOME BUYERS IN FINLAND



Source: Statistics Finland.

FIGURE 28. SHARE OF HOUSEHOLDS BY FORM OF LIVING IN MAJOR CITIES, HELSINKI METROPOLITAN AREA AND FINLAND IN 2018



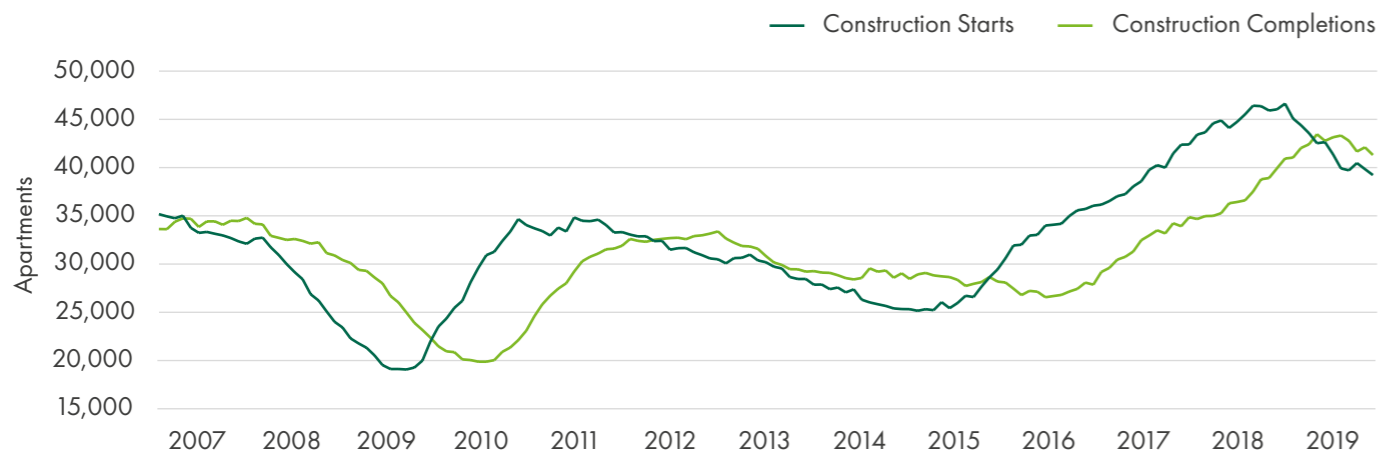
Source: Statistics Finland

MULTI-FAMILY

Despite the slowing population growth forecasts in greater Finland, domestic migration towards the largest cities and especially towards the Helsinki Metropolitan Area is rapidly growing. Fast paced urbanization continues to create a demand for residential options in the growth centre cities, but also increases the vacancy rates of the existing housing stock located in the rural municipalities. The new construction starts of

apartments seem to have reached their current peak levels and the annual number of new units entering the residential markets is expected to decrease in the future. The numbers of expected housing starts are still anticipated to remain above long-term average levels to answer the growing demand for small apartments especially in the Helsinki Metropolitan Area.

FIGURE 29. APARTMENT CONSTRUCTION STARTS AND COMPLETIONS IN FINLAND, (TTM)



Source: Statistics Finland

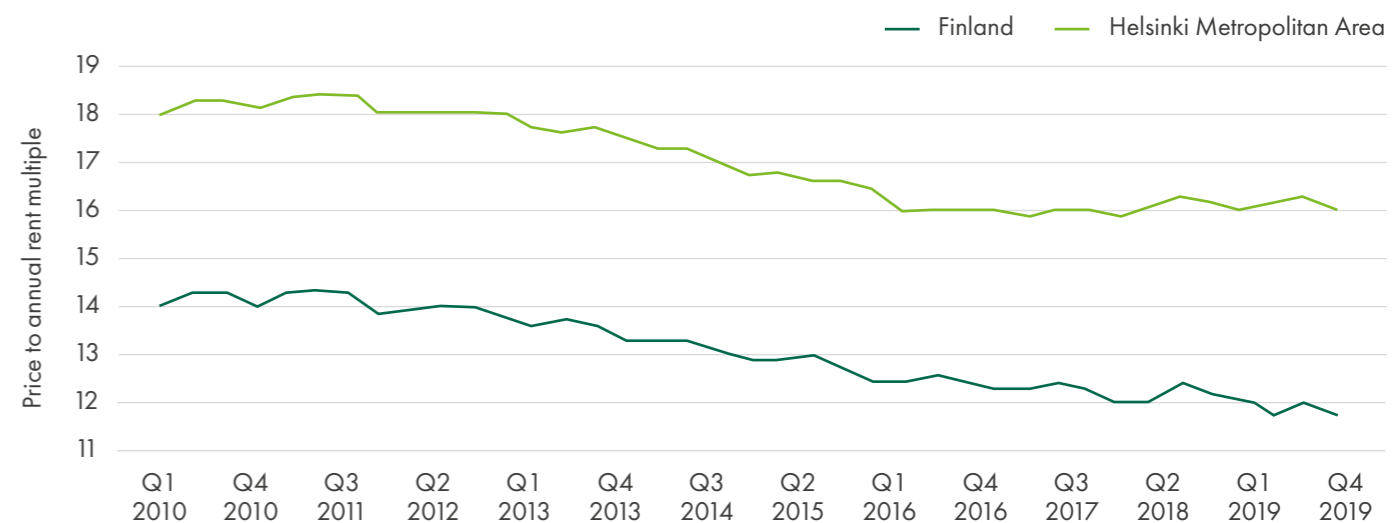


MULTI-FAMILY

The increased demand for rental apartments supports the growth of rents. In the Helsinki Metropolitan Area, residential rents have increased, on average, by 3.1% per annum since 2010. Rental growth slightly exceeded the sales' price growth in the period

2010–2015. The growth rates of rents and sales prices have remained roughly equal in the period 2016–2019, with the price to rent multiple now at ca. 11.7 and 16.1 for the Helsinki Metropolitan Area and Finland, respectively.

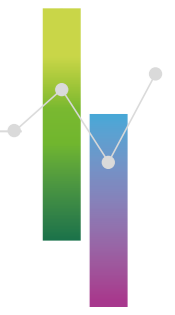
FIGURE 30. RESIDENTIAL PRICE TO ANNUAL RENT DEVELOPMENT



Source: Statistics Finland

KEY INFLUENCES

- Multi-Family sector offers comparatively attractive returns and is becoming increasingly mainstream through its growing appeal to domestic and international institutional investors globally
- Local investors are growing their portfolios through active residential development in addition to single-asset and portfolio transactions
- Fast paced urbanization continues to create a demand for residential options in the growth centres



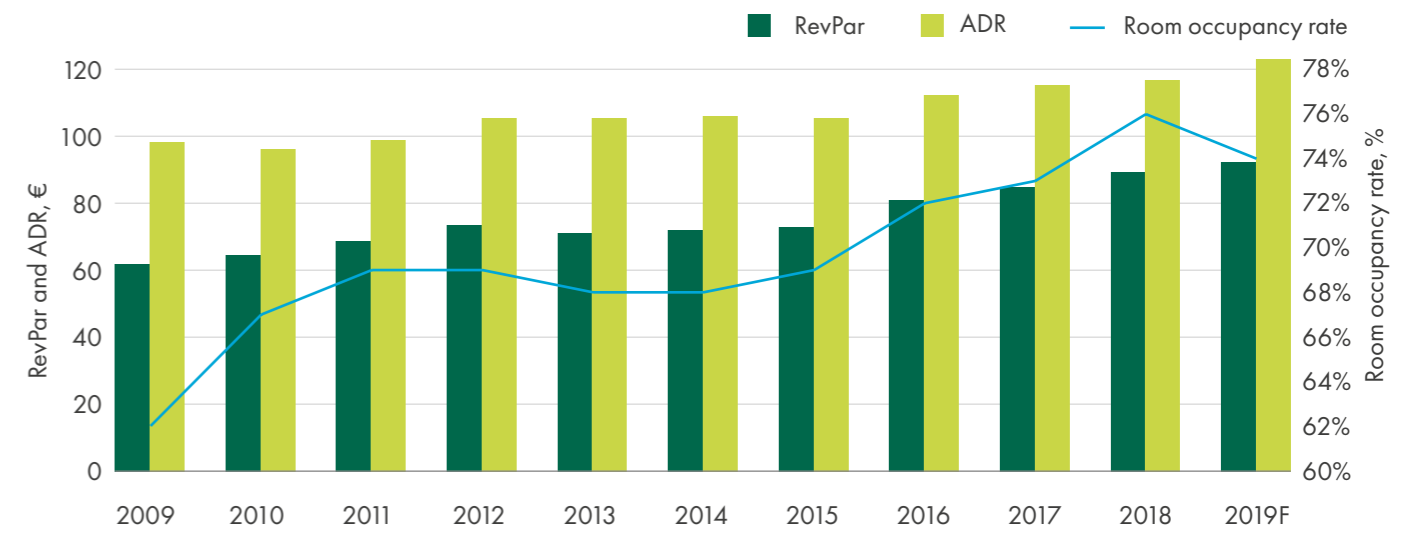
HOTEL



Helsinki Metropolitan Area is currently experiencing a large influx of new hotel developments, with over 20 new hotel developments currently under construction (several of these are in central Helsinki). The new hotel stock coming to the market will increase the number of acquisition

opportunities for the growing number of investors considering hotel investments in Finland. This will support growth of the hotel transaction volume in 2020 and in the future, which has been on shallow levels in the recent years due to the lack of available assets in the markets.

FIGURE 31. REVPAR, ADR AND ROOM OCCUPANCY RATES IN HELSINKI, (TTM)



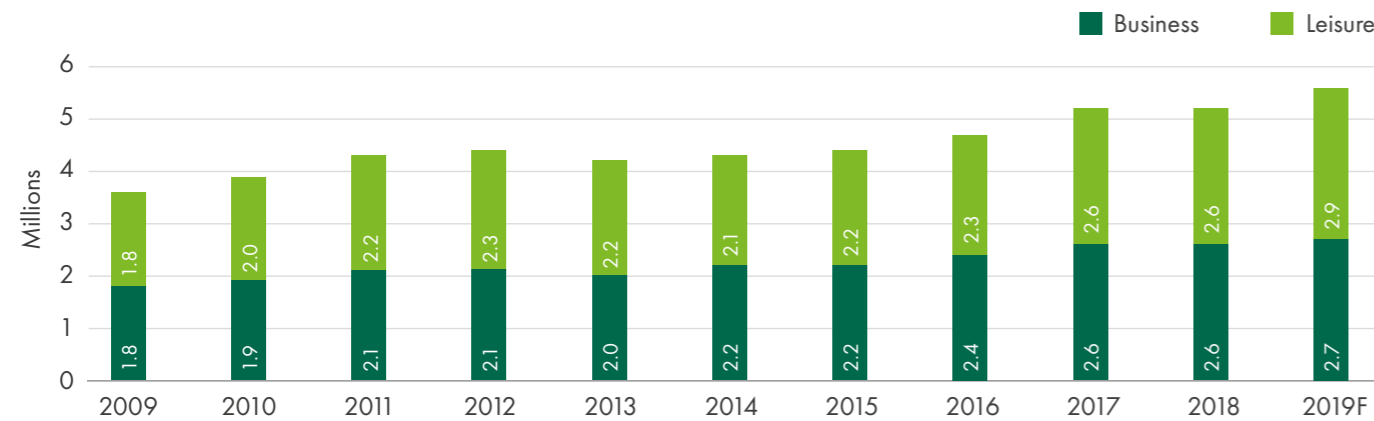
Source: Statistics Finland



Hotel performance figures in the Helsinki Metropolitan Area have witnessed positive development during recent years, with accommodation sales growing at the average annual rate 6.6%. The amount of domestic and foreign overnight stays has also seen significant growth especially since the year 2015, both in respect of leisure and business-related travel. One of the drivers behind this has been an increased number of visitors from Asian countries, supported by new direct flight routes to Helsinki-Vantaa Airport providing one of the fastest passageways to Europe from the Far East. In addition to the positive trend of tourism, Helsinki's attraction as a potential venue for large scale conferences is one of the main pull factors that are expected to absorb the growing supply in the hotel markets in the coming years. The success of this will partially depend on the marketing of Helsinki as a conference destination and collaboration between different parties to ensure organization of multi-day seminars on a large scale.

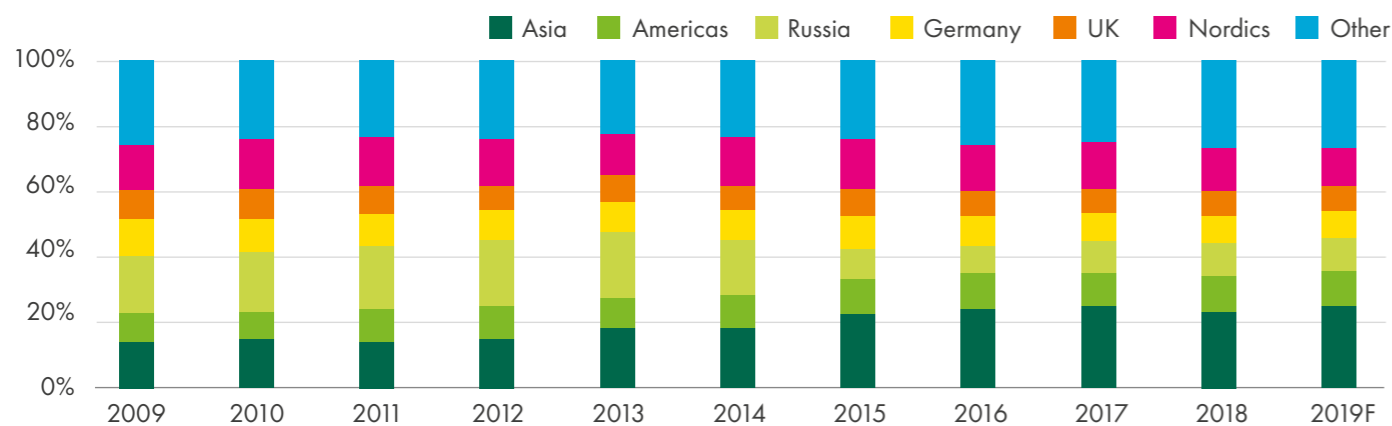


FIGURE 32. OVERNIGHT HOTEL STAYS BY PURPOSE IN HELSINKI METROPOLITAN AREA



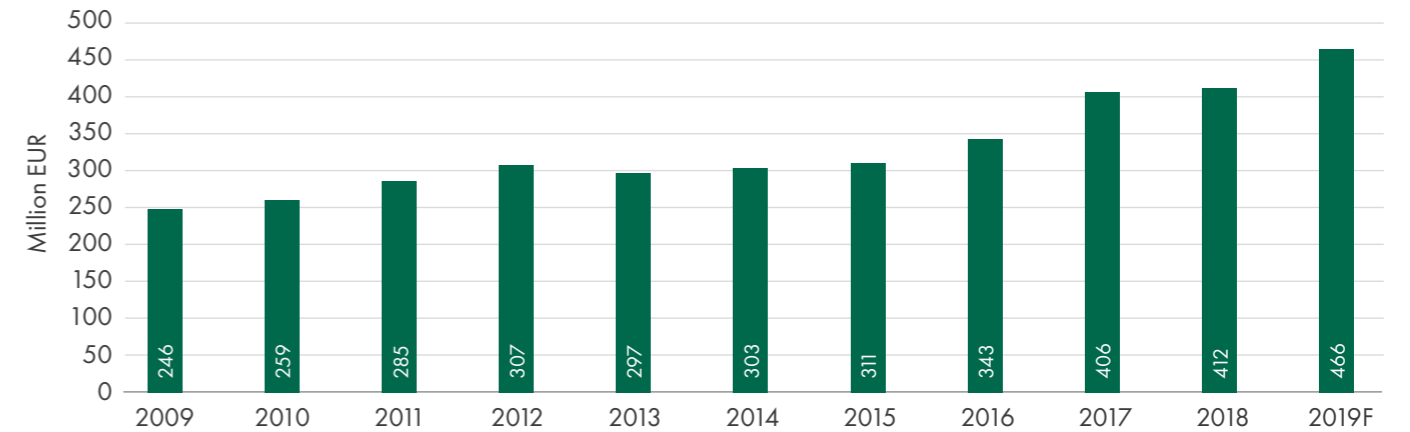
Source: Statistics Finland

FIGURE 33. FOREIGN OVERNIGHT HOTEL STAYS BY GEOGRAPHY IN HELSINKI METROPOLITAN AREA



Source: Statistics Finland

FIGURE 34. ACCOMODATION SALES IN HELSINKI METROPOLITAN AREA



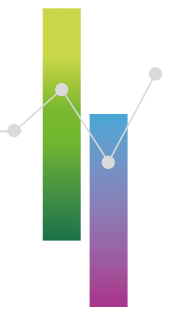
Source: Statistics Finland

There is a wide spread of hotel operators, from budget scale to luxury, interested in gaining a position in the hotel market. The Finnish hotel market is dominated by clear market leaders operating under traditional lease agreement contracts such as Scandic, Sokos Hotels and Nordic Choice hotels. New lease models including hotel management agreements and other hybrid models are continuing to become more popular and will be common in the coming years, resulting in the Finnish hotel market becoming more attractive to new hotel operators and brands. New hotel brands that have entered the market are Marriott, Hyatt and Prime hotels. Another format looking to compete in the accommodation market comprises of operators that offer an Airbnb-type professional service and hotels that aim to attract the local community through a "sustainable culture club"-concept while offering accommodation.

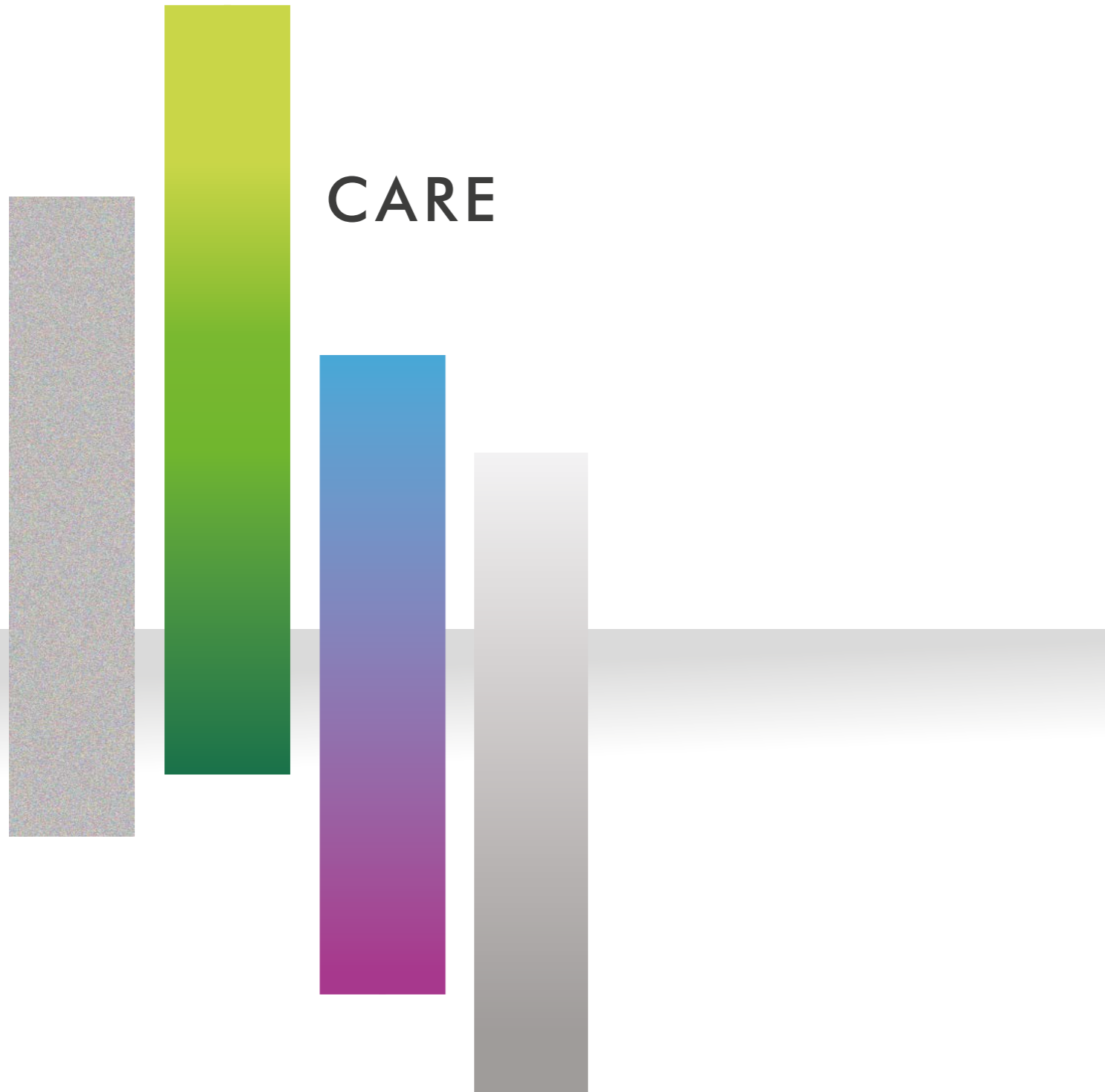
Hotel operators are – like many other sectors– wanting to focus on what they do best, i.e. hotel operations, and are looking to share the risk and reward with the property owners resulting in hybrid leases becoming more popular in the future. Hotel investors need to be open to new creative types of lease structures instead of traditional fixed and hybrid leases with a revenue-based component. Lease agreement terms are expected to be more diverse and tailored according to each hotel deal and the structures may contain elements of management agreements, but they will still be separated from them. A greater mix between lease and management agreements can potentially lead to better balanced agreements and thus be more favoured by hotel investors. These changes are expected to emerge over a longer period of time, since the market and its participants are slow to adapt.

KEY INFLUENCES

- Helsinki Metropolitan Area is experiencing a large influx of new hotel developments that is expected to increase the investor demand for hotel investments in the future
- Helsinki Metropolitan Area accommodation sales have been growing at the average annual rate of 6.6% and positive outlook is expected to continue due increased number of tourism
- Finnish hotel market is becoming more and more attractive to international hotel operators and brands



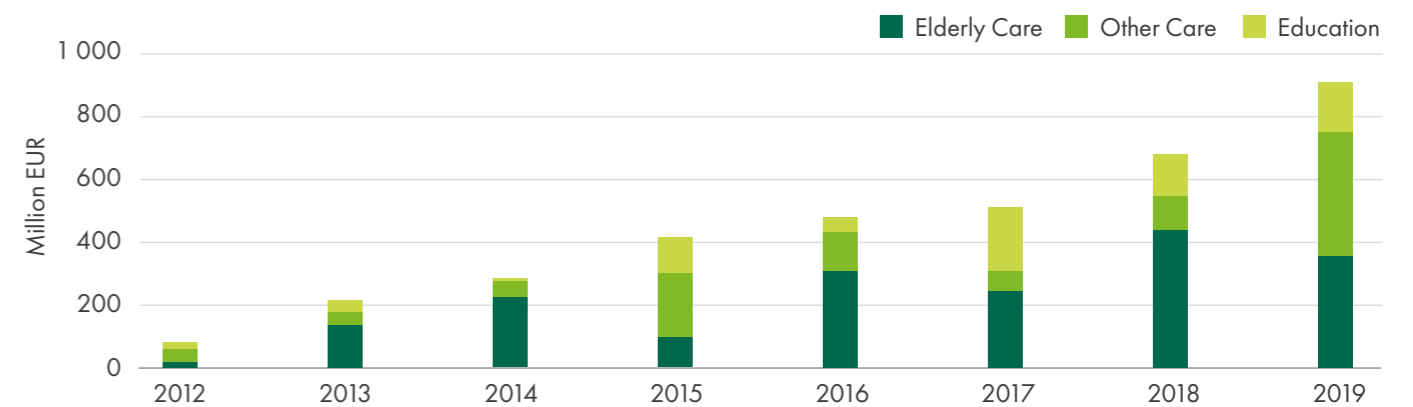
CARE



The care and educational property investment market has grown into one of the mainstream investment sectors in Finland over the last couple of years. The real estate investment volume directed toward the sectors amounted to €0.9 billion in 2019, of which 82% was care¹ and 18% was educational² investments. Large investment size has been the main driver behind the growth seen in the elderly care home transactions since 2013. According to a CBRE global investors survey 2019, healthcare and

age-specific care properties, in general, are seen as one of the fastest growing areas of interest among the global investors seeking to increase their investments in the alternative sectors of real estate. In addition to domestic capital sources, a number of Nordic investors have also discovered the growth potential in the Finnish care property market as evidenced by several large acquisitions of the healthcare and communal properties during the past couple of years.

FIGURE 35. CARE AND EDUCATION TRANSACTION VOLUMES IN FINLAND



Source: CBRE Research

Prime yields in the sector have seen compressions during recent years due to the growing investor interest in high quality properties with central locations integrated among the local communities and, long single tenant leases with typically double net terms. Due to the yield pressure, some specialist investors in the care sector are willing to take more leasing risk in the right locations in order to tackle competition.

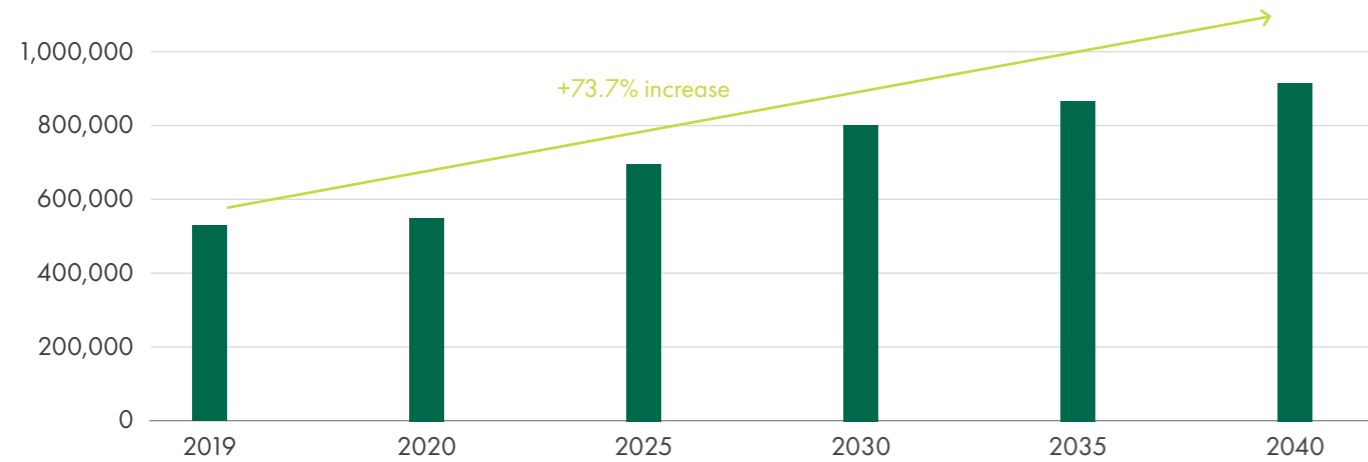
Typical lease agreements in care and education properties in Finland are double- or triple-net lease agreements with long lengths from 10 to 20 years. Since the operator is usually also responsible for the maintenance and operation expenses of the property, this makes care properties an attractive target for investors searching for steady cash flows that are

somewhat immune to the market cyclicality. However, the single-tenant model also puts an emphasis on the operator's quality both in the terms of a solid financial situation and the quality of the care that is provided. The role of private care operators has increased during the last decade as many municipalities are struggling under financial limits, which results in many of them outsourcing their care services. This growing role is expected to increase with the uncertainty concerning the postponed social and welfare reform that has caused many of the public sector investments to be put on hold while the largest private care providers have increased their investments during the recent years.

The current degree of privatization differs heavily between the different subsectors of the care industry. In the occupational health services, the private for-profit firms have a market share of around 70%³ while in the day care sector the number is estimated to be around 20%³ of the markets, driven by the day care service voucher system introduced in the 2005. In the elderly residential living the private for- and non-profit

operators have a market share of around 50% (THL). The demographic trend of an aging population in Finland provides strong fundamentals for growth in the demand for elderly care services and living accommodation, with the number of senior citizens over 75 years being expected to rise by 400,000 in the year 2040.

FIGURE 36. POPULATION FORECAST OF AGED +75 SENIOR CITIZENS



Source: Statistics Finland



The private sector has witnessed a number of takeovers during the last few years and many of the largest operators are focusing their operations on specific subsectors. Although further consolidation can be expected in some of the markets such as children's day care, the growth speed of the largest companies is starting to reach limits from

the competition regulation perspective. Aggressive growth and numerous takeovers have also led to neglect in the quality of care provided in the elderly care sector, a fact which was made evident to the public in 2019.

TABLE 3. LARGEST PRIVATE CARE OPERATORS IN FINLAND

OPERATOR	2019 REVENUE FORECAST, MILLION €	2018 REVENUE, MILLION €	EMPLOYEES
Mehiläinen ¹⁾	1,000	916	7,310
Terveystalo ²⁾	1,021	745	3,498
Attendo Finland ²⁾	-	676	8,000
Pihlajalinna ¹⁾	516	488	4,868
Esperi Care Group	-	265	4,738
Cor Group ³⁾	-	204	2,213

Source: Talouselämä Terveystalvys September 2019

¹⁾ Mehiläinen is in the process of acquiring the Pihlajalinna
²⁾ Terveystalo acquired the health care functions of Attendo
³⁾ Sold the elderly care functions to the Humana AB

¹⁾ Includes elderly care homes, children's day care, speciality care and health care real properties

²⁾ Includes primary schools, upper secondary schools, university campuses and other communal education properties

³⁾ Yle, Kela and National Institute for Health and Welfare (THL) Statistics

KEY INFLUENCES

- Healthcare and age-specific care properties are one of the fastest growing areas of interest among the global investors searching for steady cash flows
- The investment volume directed toward the sectors during 2019 amounted to €0.9 billion, of which 82% was care and 18% was educational investments
- The demographic trend of an aging population in Finland provides strong fundamentals for growth in the demand for elderly care services and living accommodations in the near future

FOR MORE INFORMATION ABOUT PARTICULAR SECTIONS OF THIS REPORT, PLEASE CONTACT:

Jussi Niemistö
Economics and Growing Helsinki
Metropolitan Area Outlook
+358 (0)40 5375 760
jussi.niemisto@cbre.com

Jussi Järvinen
Retail Outlook
+358 (0)40 0421 464
jussi.jarvinen@cbre.com

Elina Purmonen
Hotel Outlook
+358 (0)40 7356 357
elina.purmonen@cbre.com

Henrik Calton
Capital Markets and Office Outlook
+358 (0)40 8208 235
henrik.calton@cbre.com

Aleksi Kohonen
Industrial and Logistics Outlook
+358 (0)50 4724 942
aleksi.kohonen@cbre.com

Krista Ruigendijk
Hotel and Office Outlook
+358 (0)40 6531 835
krista.ruigendijk@cbre.com

Juhani Hiippavuori
Retail Outlook
+358 (0)40 8690 938
juhani.hiippavuori@cbre.com

Linda Anttila
Multi-family Outlook
+358 (0)40 5356 490
linda.anttila@cbre.com

Emma Kaksonen
Care Outlook
+358 (0)40 5174 599
emma.kaksonen@cbre.com

FOR MORE INFORMATION REGARDING FINLAND RESEARCH AND REPORT IN GENERAL, PLEASE CONTACT:

Jussi Niemistö
Head of Research, Finland
+358 (0)40 5375 760
jussi.niemisto@cbre.com

Toni Liimo
Research Analyst
+358 (0)44 2175 687
toni.liimo@cbre.com

CBRE RESEARCH

This report was prepared by CBRE Finland Research which forms part of CBRE Research, a network of pre-eminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate investors and occupiers around the globe.

All materials presented in this report, unless specifically indicated otherwise, is under copyright and proprietary to CBRE. Information contained herein, including projections, has been obtained from materials and sources believed to be reliable at the date of publication. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. Readers are responsible for independently assessing the relevance, accuracy, completeness and currency of the information of this publication. This report is presented for information purposes only exclusively for CBRE clients and professionals, and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. All rights to the material are reserved and none of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without prior express written permission of CBRE. Any unauthorized publication or redistribution of CBRE research reports is prohibited. CBRE will not be liable for any loss, damage, cost or expense incurred or arising by reason of any person using or relying on information in this publication.

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at cbre.com/research or our blog at aboutrealstate.cbre.eu.

LOOKING FOR WIDER VIEW? DOWNLOAD THESE RELATED OUTLOOK REPORTS FROM CBRE'S RESEARCH TEAMS:



Global Real Estate Outlook 2020
The bird's eye view of the big global trends affecting real estate.
Available in February



EMEA Real Estate Outlook 2020
A comprehensive look at the prospects for EMEA real estate in the year ahead.
Published in January



Sweden Real Estate Outlook 2020
Insight into the key trends affecting the Sweden property market over the coming year.
Published in January



Norway Real Estate Outlook 2020
Insight into the key trends affecting the Norway property market over the coming year.
Published in January



Denmark Real Estate Outlook 2020
Insight into the key trends affecting the Denmark property market over the coming year.
Published in January





