

Finland: Housing Market Review Q1 2025 – Separating the wheat from the chaff

Marketing communication

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Housing sales have continued to pick up since last summer, and the decline in housing prices has levelled off. The upcoming changes in student housing allowance will weaken the demand for small apartments.

Key points:

- Housing sales have continued to pick up since last summer, and in some cities sales are already taking place at a normal pace. However, there is still a lot of supply on the market, which keeps sales times longer than normal.
- At the moment, apartments in better than average condition in good locations are being sold. Buyers are now looking for good quality at an affordable price.
- The fall in house prices came to a halt last year. This year, prices are expected to rise moderately by 1.5 per cent.
- The development of rents has remained subdued, and there are still empty rental properties around the country. In the rental market, the differences between cities are widening. There is still a clear oversupply in the Helsinki Metropolitan Area, but in many medium-sized cities, the rental market is starting to tighten.
- Changes in student housing allowance and the large share of immigration in population growth have led to an increase in the average size of household-dwelling units. The growth in the size of household-dwelling units means a smaller need for housing and a shift in demand from small apartments to locations suitable for shared housing.

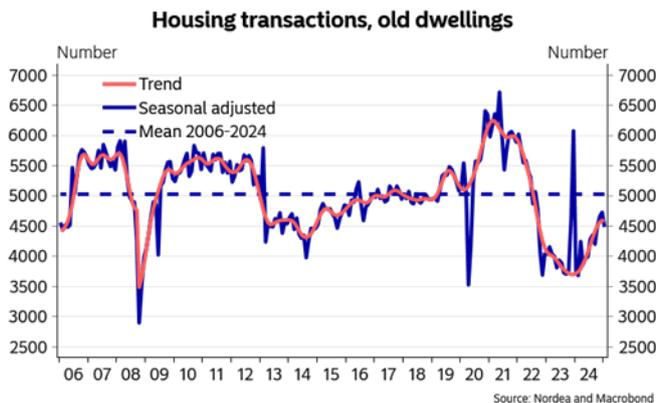
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- The slowdown in the growth of the number of household-dwelling units will postpone the dismantling of the surplus supply in the rental market further than previously anticipated, even though residential construction has contracted by half from previous years.
- Nearly one billion euros of investments flowed into real estate funds annually between 2015 and 2022. Now investments have started to flow in the other direction. However, the significance of open-ended funds in the housing market is quite limited.

The situation in the housing market is picking up gradually

Housing sales began to recover in the second half of last year, but sales are still weaker than normal.

While a year ago in January, the sales volumes of old apartments were more than 30% lower than the long-term average, now in January they were only about 10% behind normal levels. In Oulu and Rovaniemi, housing sales have already picked up above normal levels.



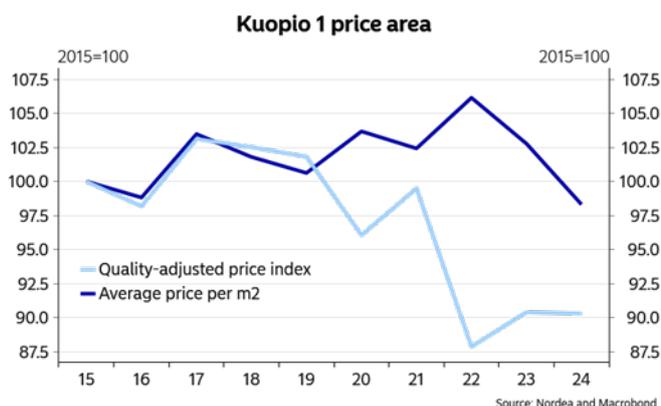
The selling times of apartments have remained long despite the pick-up in the number of transactions. In the largest cities, the sales times are just over a hundred days. There is still a clear oversupply in the sales market.



In recent years, housing sales have taken place with apartments in better than average condition in good locations. This can be seen from the fact that quality-adjusted price indices for second-hand dwellings have developed weaker than average prices over the past three years. This means that on average, the sale has been made of apartments in better condition, newer or better locations. In this case, the average price develops more favourably than the price index.

For example, in the Kuopio 1 price area, the price index has fallen by 11% over the past three years, but average prices have fallen by only 4%. The same phenomenon applies to almost all cities. **The price indices of two-room flats have fallen by an average of 10 per cent over the past three years, while prices per square metre have only fallen by 6 per cent.**

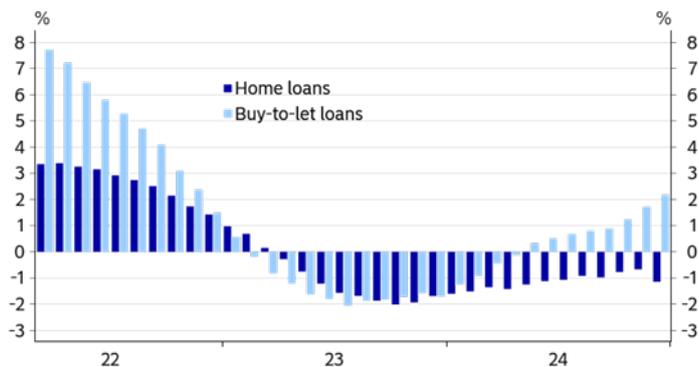
The housing market is now looking for good quality at a reasonable price. The well-known phenomenon of "flight to quality" in a weak market is now also visible in the housing market. Increased interest rates and maintenance charges have not made buyers or investors who are on the verge of buying their own homes look at the cheapest properties.



The decline in interest rates has been a significant driver of housing sales. The European Central Bank's key interest rate has fallen from 4 per cent to 2.75 per cent in just over six months. We expect the ECB to cut interest rates two more times this spring, as inflation in the euro area has slowed and economic growth remains slow. Short-term Euribor rates are expected to settle at just over two per cent during the spring.

Despite the decline in interest rates, many households are still adjusting their balance sheets, which have deteriorated as a result of rising interest rates, inflation and falling house prices. This is reflected in the contraction of the housing loan stock, as more loans are repaid than new ones are drawn. Only the stock of buy-to-let housing loans has started to rise over the past year.

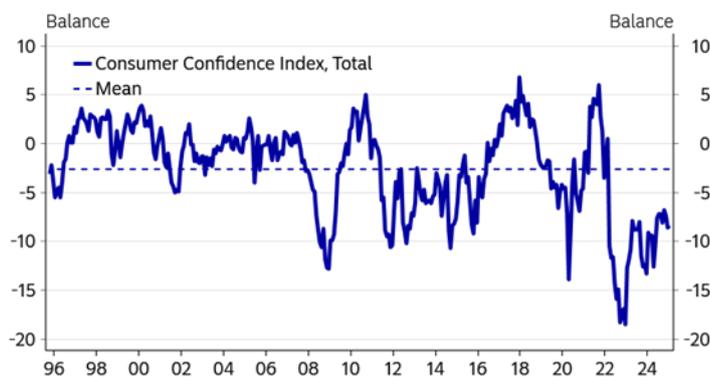
Stock of housing loans, annual change



Source: Bank of Finland, Nordea and Macrobond

Rising unemployment and weak consumer confidence continue to weigh on housing sales. The unemployment rate rose to 8.9 per cent last year, which has been reflected in weak consumer confidence. In addition to the weak employment situation, negative news about both the Finnish and European economies, the war in Ukraine and, most recently, the fast-paced US policy with its tariff threats have maintained uncertainty among households, which is reflected in the postponement of major purchase decisions.

Consumer Confidence



Source: Nordea and Macrobond

The recovery of housing sales is expected to continue this year. Housing sales are supported by both the continued decline in interest rates and the recovery of the Finnish economy. Consumers' purchasing power will continue to improve this year, as inflation will remain clearly slower than wage increases. Unemployment is also expected to begin to decline this year.

The decline in house prices levelled off last year. In December, prices of dwellings in the whole country were on level with January one year ago. On an annual level, however, house prices fell by 3.3 per cent year-on-year in the whole country. In the Helsinki Metropolitan Area, the decrease was 4.2% and in the rest of Finland 2.5%.

The prices of small dwellings continued to fall both in the whole country and in the Helsinki metropolitan area, despite the fact that private investors were already clearly on the buying side. **In larger dwellings in housing companies, prices have seen a cautious upturn within a year.**

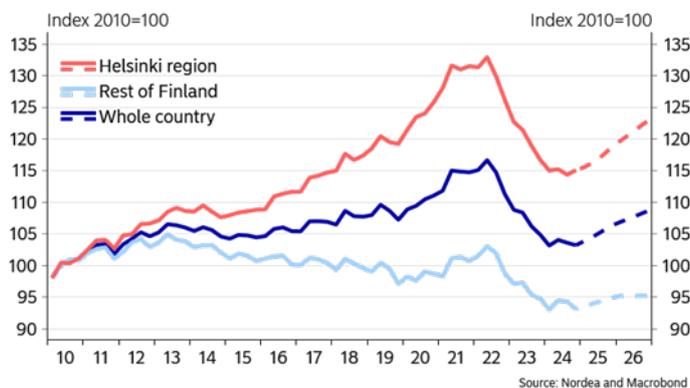
Greater Helsinki, Real Estate Prices



We expect housing prices to rise by 1.5% this year at the level of the whole country. This year's price forecast has been lowered slightly. This is due to the marginally weaker-than-expected price development at the end of last year and the slightly slower-than-expected decline in the oversupply of apartments, especially for small apartments.

However, the recovery of the housing market is expected to continue this year. The oversupply situation in the housing market will continue this year, which will keep price rises quite moderate despite the decline in interest rates and improved purchasing power. In 2026, prices are expected to rise by 2.5%, as the low level of construction, which has continued for the third year, is finally starting to be reflected in a contraction in housing supply.

Apartment prices



The sale of new apartments continues to be difficult. Sales of new apartments have remained very subdued, although sales of second-hand apartments have picked up. The prices of new apartments have not fallen as much as those of old apartments, so the price premium of new buildings has increased. In addition, housing company loans are currently on the minds of many buyers, even though they have caused very few problems. Buyers of new buildings are also concerned about the problems of construction companies and the fate of possible unsold apartments in housing companies.

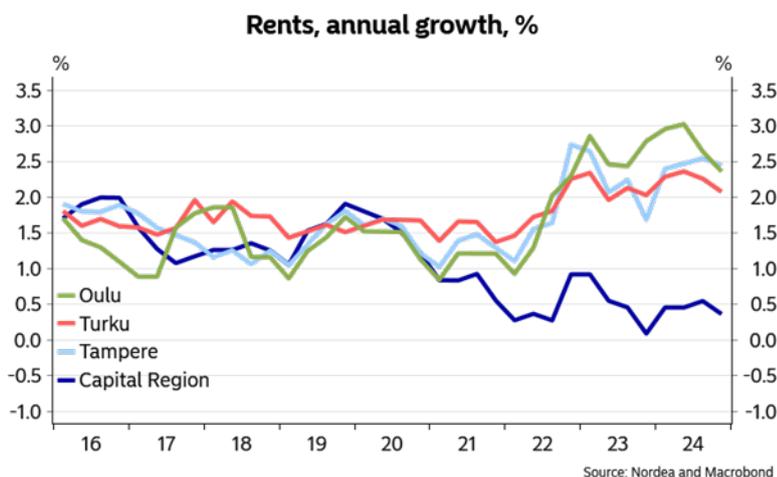
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Oversupply in the rental market is slowly melting

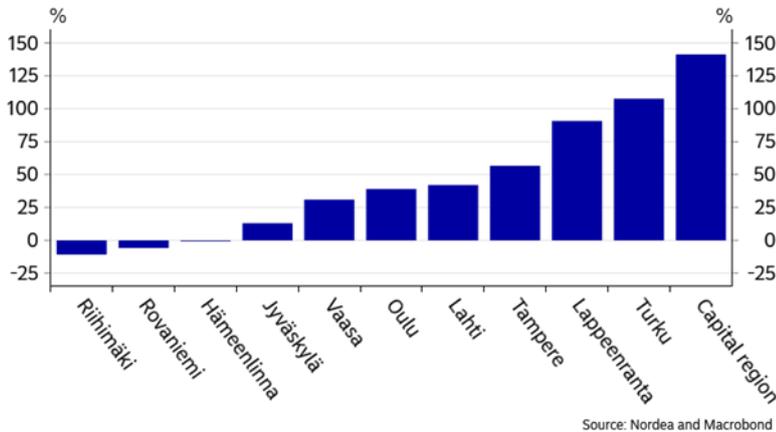
The development of rents has been subdued. In the Helsinki Metropolitan Area, the increase in rents is almost non-existent, and in other large cities, the annual growth in rents is between 2 and 3 per cent.

At the end of last year, the number of rental advertisements decreased by 8 per cent year-on-year, which indicates that the oversupply situation is slowly starting to unwind. On the other hand, the number of rental advertisements is still almost double (+93%) compared to 2019. Compared to 2019, there were fewer rental advertisements in Rovaniemi and Hämeenlinna at the end of last year. In these cities, rents have risen in recent years clearly faster than the rent development in the whole country.



Compared to the previous year, the rental supply has decreased most in Vaasa (-33%), Jyväskylä (-30%) and Riihimäki (-36%). In the Helsinki metropolitan area, the supply decreased by 5% year-on-year, but compared to five years ago, the supply is 141% higher.

Rent advertisement in 2024 vs. 2019 level

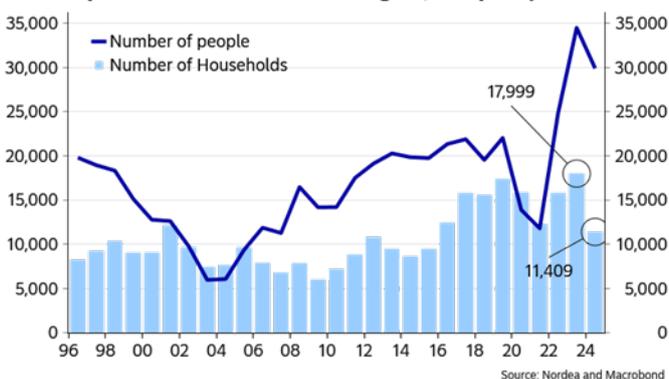


Growth in the number of household-dwelling units slows down

The oversupply of the housing market has continued for several years, as construction has exceeded the growth in housing demand. Over the past two years, population growth has been very strong in the largest cities and the number of completed apartments halved last year, but despite this, the oversupply of rental markets has decreased only slightly.

In 2024, the population grew by a total of 30,000 people in the Helsinki Metropolitan Area, Turku and Tampere. However, a more important indicator of housing demand is the growth in the number of household-dwelling units. The number of household-dwelling units has grown significantly less than in the previous year by only 11,400.

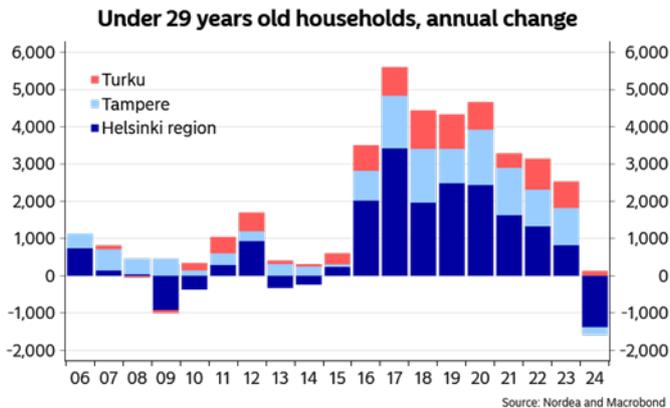
Population Growth: Helsinki region, Tampere ja Turku



The moderate growth in household-dwelling units is mainly due to the decrease in the number of household-dwelling units aged under 29 in growth centres. The number of young household-dwelling units grew rapidly from 2016 onwards when students were transferred to the general housing allowance, and thus living alone became more common. As of August this year, students will be transferred back to the student housing allowance, which is clearly lower than the general housing allowance. This began to be visible already in 2024 as a decrease in the number of young household-dwelling units, as students have

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sought shared housing more than before. Some young people may also have postponed moving away from home due to the support reform. This trend is expected to continue strongly this year as well.



In recent years, the majority of population growth in growth centres has come from immigration.

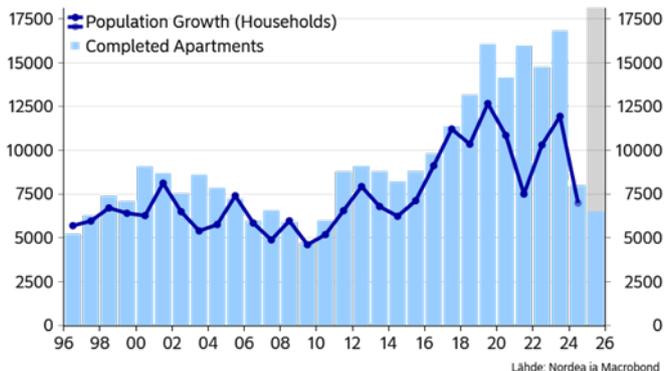
Immigrants live in much more cramped housing than the native population. For example, in Helsinki, the average size of a household-dwelling unit in the native population is 1.7 persons, while it is 2.2 persons for immigrants. On average, immigrants live 10 square metres more cramped than the native population.

The size of the average household-dwelling unit began to grow in all large cities in 2024 as the share of immigrants increased and students moved into shared flats. A possible peace in Ukraine could potentially shake immigration in the next few years, which is also reflected in the demand for housing.

The densification of housing, and thus the slowdown in the growth of household-dwelling units, means a slowdown in the growth of the need for housing. The oversupply of housing will unravel more slowly than previously expected. At the same time, housing demand is increasingly directed towards slightly larger apartments with more people, while demand for small apartments remains relatively subdued.

Last year, more than 8,000 apartments were completed in the Helsinki Metropolitan Area, which is about half of the number in 2023 (16,800). Despite this, the volume of construction exceeded the growth in the number of household-dwelling units, which fell by 5,000 from the previous year. In other words, the oversupply of dwellings did not decrease last year, as new construction exceeded the growth in the number of household-dwelling units. The number of apartments completed this year will continue to decrease.

Completed Apartments and Population Growth, Capital Region



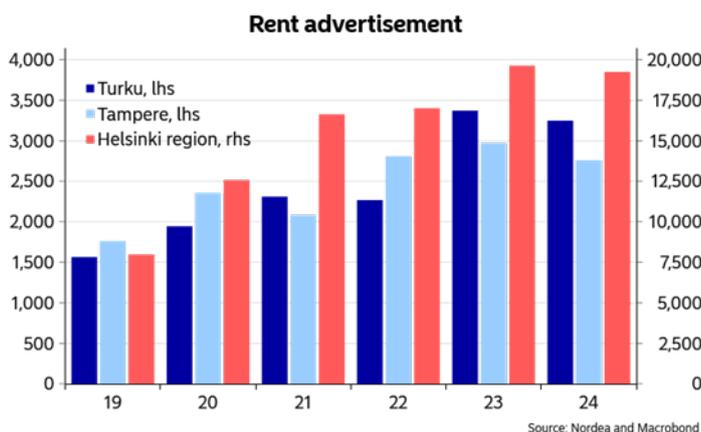
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The same analysis applies to Tampere, where housing production dropped to 2,000 apartments, which corresponded to the increase in the number of household-dwelling units. Therefore, the oversupply of housing has not yet started to decrease significantly in Tampere either.



An examination of the number of rental advertisements gives the same picture of the persistence of the oversupply situation. The decrease in the number of completed dwellings by half and the fact that population growth measured in the number of employees remained high last year did not turn the number of rental advertisements into a significant decline on an annual basis. In the last quarter of the year, however, the number of rental advertisements was already slightly lower in larger towns than in the previous year. The oversupply of the housing market has begun to unwind, but the surprises of demographic developments seem to be slowing it down significantly from previously assumed.

Especially for small apartments, the surplus supply in the rental market is expected to remain this year and next, which will also keep construction moderate.



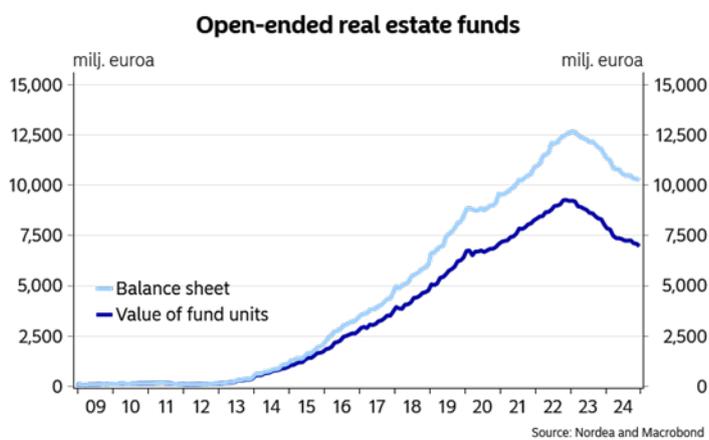
The significance of open-ended real estate funds for the housing market is limited

The suspension of redemptions of open-ended real estate funds has been in the headlines in recent months. The housing market is inherently more illiquid than many other investment markets, and this

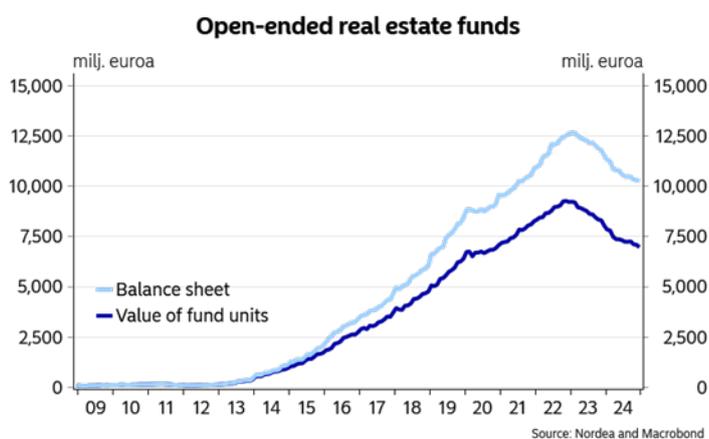
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is especially true in recent years, when demand for housing has been weak. Real estate funds have the opportunity to effectively diversify real estate ownership, but funds do not necessarily improve the liquidity of investments. If funds have to sell large numbers of apartments in order to redeem fund units, this may lead to a situation where the liquidity of the fund unit is weaker than that of an individual home.

At the end of 2024, the balance sheet of open-ended real estate funds, which roughly corresponds to the value of their holdings, was EUR 10.2 billion and the value of fund units was approximately EUR 7 billion, thus the funds' gearing ratio was 32 per cent. In addition to apartments, real estate funds also invest in plots, commercial properties, business premises and community service properties. Apartments account for a maximum of a quarter of the funds' real estate holdings.

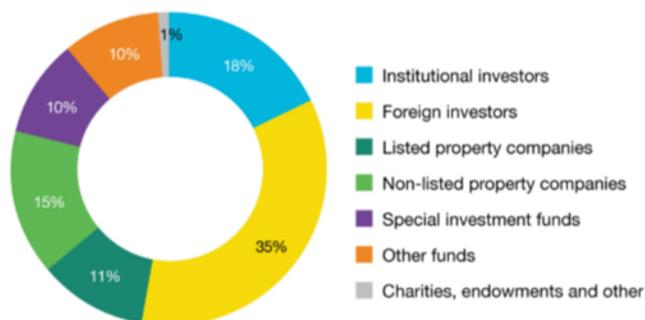


The popularity of open-ended real estate funds increased significantly from 2013 onwards, when the total balance sheet of the funds was only EUR 0.3 billion. Between 2014 and 2022, the funds' net subscriptions averaged EUR 900 million per year. Over the past two years, money has started to flow out of real estate funds as the market situation has deteriorated, which is why many funds have had to stop redeeming fund units for the time being.



In addition to open-ended funds, there are plenty of closed-end funds that are more geared towards institutional investors. Closed-ended funds also have real estate assets worth around EUR 10 billion.

The structure of Finnish property investment market by investor group in 2023



Source: KTI

The growth in the popularity of real estate funds has been due to the zero-interest period, when the returns on fixed-income investments were very low, which thus attracted capital to other low-risk but positive returns. The average return on open-ended real estate funds has been 5.3% over the past 10 years.

In addition to foreign investors, real estate funds have played a significant role in the increase in construction volumes in recent years, which were used to respond to the increased demand for rents for small apartments. On the other hand, at the end of the construction cycle, construction primarily satisfied investor demand, as vacancy rates in the rental market were already starting to increase.

Although real estate funds have been significant in terms of real estate investment demand in recent years, their share of all non-subsidised rental apartments is quite marginal. Closed-ended real estate funds are typically limited partnerships, and in 2021, Ky owned 3% of rental apartments in the Helsinki metropolitan area.

In summary, it can be said that real estate funds have been one of the actors in enabling the relatively large construction of recent years, which has been driven by changes in student housing allowance and the long-term very loose monetary policy. However, open-ended real estate funds cover only about 10% of all professional real estate investment markets and only a few percent of the entire rental housing market, so their importance as a driver of the housing market should not be overemphasized.

<https://view.taiqa.com/kti/kti-special-investment-funds-spring-2024#/page=6>

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