2018 was another active year in the Finnish real estate markets, with €9.2 billion of investment transaction activity recorded.

This is approximately 10% less than the year before which was arguably distorted by the two mega-portfolio acquisitions by Blackstone and CIC (€3.7 billion and €1.1 billion, respectively). International interest remains keen with over 60% of acquisitions carried out by international buyers. Helsinki remains one of the most active real estate investment capitals in Europe right behind the likes of London, Paris and Frankfurt but ahead of Amsterdam, Madrid and Milan – and far ahead of the other Nordic capitals. Prime yields are now at 3.4% for CBD offices. There was a healthy distribution of transactions by sector in Finland with retail, offices, residential and alternative markets doing well and only industrial transaction volumes decreasing year-on-year.

Finland’s economic position remains steady over most of the main economic metrics - growth, inflation, interest rates and debt. Unemployment is still decreasing and has fallen below the Eurozone average of 7.8%. This has had a knock on effect on consumer markets and office demand levels. For instance, office gross take-up is tracking the previous 12 year average of 350,000 sq m with office net take-up reaching 83,000 sq m in the Helsinki Metropolitan Area in 2018. Due to a comparatively modest development pipeline, compared to other European business capitals, rental levels across the market and submarkets have gradually increased – prime office gross rents have reached €40 sq m/month.

Overall, Finland is in very good shape and we see 2019 being another prosperous year.

At CBRE, we are investing heavily into our business lines so that we can continue to help our clients capture more market opportunities. We have eight business lines that should increase to ten by the end of 2019. One of the other areas that we are focusing more on is our Digital & Technology service to support our clients – some are investing on the basis of a monthly or annual retainer for the programmes that benefit their respective business plans.

We held our inaugural client conference on 7 February in Helsinki – branded 'CBRE Spark'. The event was supported by some of our international speakers and was primarily focused on capital markets and the effects of geo-political events. It was also a chance to provide our opinion on market outlook for this year and beyond. The event was attended by many of our investment clients and we thank all who supported. Due to popular demand, we will be hosting a similar event next year and we envisage that CBRE Spark will become an annual event.

I would like to wish our current and potential clients all the best for 2019 and hope the content of the following CBRE Finland Market Outlook 2019 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.

With kind regards,

Colin Waddell
Managing Director - CBRE Finland
PAGE 7

ECONOMIC OUTLOOK

Finnish economy growing despite of global risks.

The low unemployment rate, strong consumer confidence and increasing household consumption support economic growth in Finland regardless of global economic growth rate slow down, increasing uncertainty around the effects of Brexit and possible increases in the cost of capital.

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CAPITAL MARKETS OUTLOOK

Liquidity of Finnish real estate market remains high.

The Finnish real estate market is experiencing a growing trend in the average volume of individual transactions. The trend is driven by increased demand of international investors for Finnish real estate.

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OFFICE OUTLOOK

Prime office rents increase in 2019 due to high occupier demand.

Supported by robust economic growth, increasing office-based employment and high competition from talented workforce, demand for prime offices is expected to exceed office supply in the next years, resulting in higher rents and lower vacancy rates.

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RETAIL OUTLOOK

Location will increase its role in determining the value of retail properties.

Even though strong fundamentals for economic growth, increasing urbanisation and growing working age population are supporting total retail sales in the Helsinki region, individual sales are expected to become more dependent on the location of retail properties in the future.
INDUSTRIAL AND LOGISTICS OUTLOOK

High occupier and investor demand results in increasing prime rents and decreasing prime yields.

Low supply of vacant prime properties, lack of speculative construction, and high occupier and investor demand for modern and well located space are driving higher prime rents and lower prime yields.

RESIDENTIAL OUTLOOK

Demand for rental housing holds strong.

Driven by increasing urbanisation and positive international and national net migration into the Helsinki Metropolitan Area, future demand for rental housing is expected to remain steady.

HOTEL OUTLOOK

Increasing tourism supports hotel market in Helsinki metropolitan area.

Several new hotels are under construction and new hotel projects being planned as tourism and business-stay demand is increasing in Finland and the Helsinki Metropolitan Area.

CARE OUTLOOK

New government to decide how to continue with social care and healthcare reform.

An aging population and increasing social and healthcare costs are consequently increasing pressure for further structural social reform in Finland.
THE FINNISH ECONOMY IS CURRENTLY GROWING RAPIDLY BUT IS EXPECTED TO ENTER A MODEST GROWTH PHASE IN THE NEAR FUTURE

GDP of Finland grew by 2.3%\(^1\) in 2018 due to high investment activity, modestly growing exports and strong private consumption; in 2018, the employment rate increased by 1.4 percentage points\(^2\) and exports by 1.5%\(^1\) (year-on-year change). As the fundamentals for future national growth are in place, the outlook for 2019–2020 remains positive even though the growth rate is expected to decrease during the period as there is an increasing number of growth barriers, especially in industry and the construction sector\(^3\).

The unemployment rate in Finland declined to 6.9%\(^1\) in the last quarter of 2018, which is almost one percentage point below the Eurozone average of 7.8%\(^2\). The downward trend, which has continued since 2015, is expected to come to its end in 2019\(^1,3\) as a further increase in an employment rate would require structural changes in Finnish labour markets. Nevertheless, the decreased unemployment level is expected to support household consumption and economic growth in Finland in the coming years.

Source: \(^1\)Statistics Finland March 2019; \(^2\)Eurostat March 2019; \(^3\)Oxford Economics March 2019
**FIGURE 1: UNEMPLOYMENT IN FINLAND, 2010–2021**

Source: Statistics Finland, Oxford Economics

**FIGURE 2: GDP GROWTH IN FINLAND AND EURO AREA, 2010-2020**

Source: The Ministry of Finance (Finland data); Oxford Economics (Eurozone)
Finnish consumer confidence has declined from its peak levels to 15.5 during the first quarter of 2019, still remaining strong as the long-term average (2000-2018) of 12.1 is exceeded by 42%. However, in January 2019 27% of Finnish consumers (20 percentage points more than in January 2018) believed that Finland’s economic situation will weaken during the next few years.¹ Nevertheless, consumers are forecasted to increase their consumption, resulting in higher inflation, in 2019-2020.

At a global level, however, there are risks with a downside effect on the Finnish economy. Slowing economic growth of both the US and China combined with trade disagreements between the two has resulted in a weakened global economy². The effect of a possible hard Brexit on the European and Finland economies still remains unclear², furthermore, the likelihood of increasing interest rates are tightening financial conditions further and eroding business confidence. Nevertheless, as the fundamentals for economic growth are in place in Finland, these risks, if realized, are expected to have only a limited effect on the Finnish economy in 2019.

Source: ¹Statistics Finland March 2019; ²Bank of Finland March 2019

Economy of Finland growing despite global risk
## FINLAND KEY FACTS

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>GDP, change in volume</td>
<td>0.1%</td>
<td>2.8%</td>
<td>2.7%</td>
<td>2.3%</td>
<td>1.5%</td>
<td>1.3%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Exports, change in volume</td>
<td>0.9%</td>
<td>3.5%</td>
<td>7.7%</td>
<td>1.5%</td>
<td>3.1%</td>
<td>2.6%</td>
<td>2.4%</td>
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<tr>
<td>Private consumption, change in volume</td>
<td>1.7%</td>
<td>2.2%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>1.2%</td>
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<tr>
<td>Investment, change in volume</td>
<td>0.7%</td>
<td>8.6%</td>
<td>4.3%</td>
<td>3.2%</td>
<td>-0.1%</td>
<td>1.2%</td>
<td>0.3%</td>
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<tr>
<td>Government gross debt, relative to GDP</td>
<td>63.5%</td>
<td>63.0%</td>
<td>61.3%</td>
<td>59.3%</td>
<td>58.4%</td>
<td>57.6%</td>
<td>57.5%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>9.4%</td>
<td>8.9%</td>
<td>8.6%</td>
<td>6.9%</td>
<td>6.9%</td>
<td>6.7%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.2%</td>
<td>0.4%</td>
<td>0.7%</td>
<td>1.1%</td>
<td>1.4%</td>
<td>1.6%</td>
<td>1.7%</td>
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<tr>
<td>Interest rate (10 year govt. bonds)</td>
<td>0.7%</td>
<td>0.4%</td>
<td>0.5%</td>
<td>0.7%</td>
<td>1.0%</td>
<td>1.5%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: Statistics Finland, Ministry of Finance (forecast years)
ECONOMIC OUTLOOK

HELSINKI – GROWING CAPITAL OF FINLAND

Economic growth of the Helsinki region has clearly outpaced Finland in the past few years, and this excess growth is expected to be maintained in the future as the trend towards a greater concentration of population and economic activity in the region is forecasted to continue. Also, Helsinki region’s unemployment rate has trended downwards since September 2016, reaching 8.3% in January 2019, ca. 9% less than a year before. Moreover, the number of workplaces has increased notably during 2018, indicating the strengthened occupational markets across the region.

Recent forecasts on population growth and the share of working age population to total population show that the Helsinki region is a net beneficiary from national migration: by 2040, population in the region will comprise ca. 33% of the total population in Finland, resulting in a 16% increase in the working age population. Thus, excess economic growth of the Helsinki region over Finland is expected to continue in the long run, which will likely result in increased long-term occupier and investor demand for work, residential space, transportation, logistics and retail space in the Helsinki region.

Source: 1MDI, Helsingin Sanomat, Kauppalehti February 2019; 2Ministry of Economic Affairs and Employment March 2019, Eurostat March 2019, Statistics Finland March 2019
FIGURE 5: CHANGE IN HELSINKI REGION UNEMPLOYMENT, 2010-2018, Y-O-Y

Source: Ministry of Economic Affairs and Employment, January 2019

FIGURE 6: CHANGE IN HELSINKI REGION WORK PLACES, 2013-2018, Y-O-Y

Source: Helsinki Region of Chamber of Commerce
INVESTMENT MARKET SUPPORTED BY SEVERAL LARGE REAL ESTATE TRANSACTIONS

The Finnish transaction volume totalled over €9.2 billion in 2018, 10% lower than the earlier record year of 2017. This variance is partly explained by the largest single real estate transaction in Finland in the previous year: Blackstone’s acquisition of Sponda, which was worth of €3.7 billion. The core investment volume of 2018 remains at the level of 2017.

The Finnish real estate market has experienced a growing trend in the average volume of individual transactions during the past few years. The number of large transactions continued to increase in 2018, with a record number of 19 transactions worth more than €100 million being recorded, representing a 36% increase from 2017.

International investor interest towards Finland holds strong as the share of international buyers remains high (62%) compared to the long-term average (38%) and several notable global players were active in the market in 2018.

FIGURE 7: TRANSACTION VOLUMES IN THE NORDICS, 2015-2018

International investor interest in Finnish real estate is currently high with record transaction volumes and the immediate outlook remains positive.
Supported by strong economic fundamentals and a healthy occupier market, offices were the largest market sector of the year, with a total volume exceeding €3.6 billion. The sector saw a considerable amount of large ticket size deals with 8 office transactions in excess of €100 million being completed in 2018. The amount of capital targeting the Helsinki office sector is unprecedented and 2019 is expected to be another year of significant liquidity for offices.

Despite the general turmoil around the sector, retail emerged as the second largest investment group in 2018 fuelled by a handful of sizable transactions. The largest transaction was Sirius Capital Partners’ IPO of its grocery anchored retail portfolio. The shopping centre market has remained relatively active as the dominant centre Itis was acquired by Morgan Stanley for €450 million and 2019 has already witnessed Unibail-Rodamco’s sale of its 34% stake in Jumbo to the domestic pension fund Elo. The caution around retail is anticipated to continue in 2019, with investors being highly selective regarding criteria. As the underlying market fundamentals around retail remain strong, the sector is expected to see a correction in the future.
The residential sector continued to have significant weight in the market and the demand towards the rented residential sector is increasingly international, while domestic institutions have been active on the sale side. Aberdeen entered the market by acquiring an over 800 apartment portfolio from LocalTapiola and BVK increased their presence by taking over the ICECAPITAL fund comprising of 1,740 apartments. As in many other European markets, investors across all risk profiles are looking to gain exposure to the residential sector and are willing to enter at early stages of development.

The Helsinki Metropolitan Area continued to attract the majority of investments as more than 60% of deals occurred in the capital region, which is higher than the 5-year average. Supported by urbanisation, robust employment figures and strong population growth, Helsinki is among the top investment locations in Northern Europe. The general trend in terms of geographical allocation is expected to be similar in 2019. However, as pricing in the metropolitan area is getting sharp, capital is expected to seek higher returns in alternative locations, such as Tampere and Turku, where premiums over Helsinki continue to be around 150-175 bps.
FIGURE 11: QUARTERLY TRANSACTION VOLUMES IN FINLAND, 2011-2018

Source: CBRE Research
The market saw several significant deals during 2018 across all main sectors, including the €927 million purchase of Technopolis by Kildare Partners, Commerz Real re-entering the Finnish market by acquiring the Tripla offices in Pasila and Morgan Stanley’s acquisition of the shopping centre Itis for €450 million. The Finnish market saw an unprecedented amount of large deals with 19 transactions in excess of €100 million being completed in 2018, representing a 36% increase over the previous record year in 2017.

Prime office yields are expected to remain unchanged at 3.4% or decrease only moderately in 2019, whereas prime industrial and logistics yields are at 5% and we could see further, albeit slight, yield compression during the year. Moreover, in 2019, prime yields for shopping centres are expected to remain close to 4.5% even though prime retail yields in general are expected to witness upward pressure.

Given the liquidity in the market, it is anticipated that a significant amount of large ticket deals will continue to occur in 2019.
OFFICE INVESTMENT MARKET

For the office investment market, 2018 was the second record-high year in a row with a total transaction volume of €3,580 million, 169% higher than the average volume in 2010-2017. Thus, office transactions accounted for 39% of the total transactions for Finland in 2018, meaning that the office sector is once again the number one sector in terms of investment volume. Top transactions in 2018 included sales of Technopolis shares, offices of Tripla, KPMG headquarters, and Kymppi of Kalasatama.

Source: CBRE Research
With a total transaction volume of €3,580 million, the office sector dominated the real estate investment market in 2018

**NOTABLE TRANSACTIONS IN 2018**

<table>
<thead>
<tr>
<th>Date</th>
<th>Asset</th>
<th>Location</th>
<th>Size (sq m)</th>
<th>Price</th>
<th>Purchaser</th>
<th>Seller</th>
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<tbody>
<tr>
<td>Q2</td>
<td>21 office and 3 storage buildings</td>
<td>Several</td>
<td>132,000</td>
<td>€108.5 million</td>
<td>Goldman Sachs and Cromwell Group</td>
<td>IVG</td>
</tr>
<tr>
<td>Q2</td>
<td>K6 office building</td>
<td>Helsinki</td>
<td>12,000</td>
<td>€53 million</td>
<td>Senaatti Kiinteistöt</td>
<td>Skanska</td>
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<tr>
<td>Q3</td>
<td>Porkkalankatu 5 office property</td>
<td>Helsinki</td>
<td>12,360</td>
<td>Conf.</td>
<td>Blackrock Real Assets</td>
<td>AXA</td>
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<tr>
<td>Q4</td>
<td>Sale of Technopolis shares</td>
<td>Several</td>
<td>443,300</td>
<td>c. €927 million</td>
<td>Kildare Partners</td>
<td>Technopolis Oyj</td>
</tr>
<tr>
<td>Q4</td>
<td>Tripla Workery offices</td>
<td>Helsinki</td>
<td>50,000</td>
<td>Conf.</td>
<td>Commerz Real AG</td>
<td>YIT</td>
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<tr>
<td>Q4</td>
<td>Urban Environment House</td>
<td>Helsinki</td>
<td>27,500</td>
<td>€165 million</td>
<td>Union Investment Real Estate GmbH</td>
<td>City of Helsinki</td>
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<tr>
<td>Q4</td>
<td>Tietotie 6 office and school property</td>
<td>Espoo</td>
<td>26,461</td>
<td>Conf.</td>
<td>eQ</td>
<td>Regenero, HGR, YIT</td>
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<tr>
<td>Q4</td>
<td>Portfolio of 11 properties</td>
<td>Several</td>
<td>62,000</td>
<td>€117 million</td>
<td>Cromwell</td>
<td>Conf.</td>
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<tr>
<td>Q4</td>
<td>Alvar Aallon katu 3 office property</td>
<td>Helsinki</td>
<td>11,845</td>
<td>€116 million</td>
<td>M&amp;G Real Estate</td>
<td>Ilmarinen</td>
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<tr>
<td>Q4</td>
<td>Fredriksberg A office property</td>
<td>Helsinki</td>
<td>8,850</td>
<td>€45 million</td>
<td>Swiss Life Group</td>
<td>NCC</td>
</tr>
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</table>

Source: CBRE Research
ECONOMIC GROWTH AND EMPLOYMENT DRIVE
OCCUPIER DEMAND IN THE HELSINKI
METROPOLITAN AREA

In 2018, office construction in the Helsinki Metropolitan Area ("HMA") declined close to the level of 2016 (37,800 sq m), significantly below the long-term average of ca. 90,700 sq m. However, 2019 is expected to witness above average construction, which will slightly increase the supply of offices in the coming years. New office constructions are focused mainly on the Pasila, Sörnäinen and Kalasatama areas.

The office vacancy rate in HMA has been stable and remained around 13% for the past two years. At the same time, net take-up of offices has been over 50,000 sq m a year with a peak of 83,000 sq m in 2018. Modern office space with a central location particularly attracts occupiers. Together with a robust economic growth, high employment rate and a significant number of working places in HMA, the occupier demand for offices is expected to remain higher than the supply during the next few years.
FIGURE 15: NEW OFFICE COMPLETIONS IN THE HELSINKI METROPOLITAN AREA, 2008-2019

Source: KTI Property Information Ltd
FIGURE 16: OFFICE VACANCY RATE IN THE HELSINKI METROPOLITAN AREA, 2002-2018

Source: CBRE Research

FIGURE 17: OFFICE NET TAKE-UP IN THE HELSINKI METROPOLITAN AREA, 2006-2018

Source: KTI Property Information Ltd
Driven by high occupier demand and limited supply, the central Helsinki office market has enjoyed steady rental growth. Increasing office-based employment and competition from a talented workforce are reflected especially in higher rents of high-quality and high-accessibility offices: gross prime rents of Helsinki CBD are currently at the level of €38-40 per sq m per month, 6% higher than in the previous year, while the average gross office rent in HMA is standing at ca. €19 per sq m per month. In central Helsinki, rental growth is expected to continue due to low net office supply, increased demand and decreasing office vacancy.

Prime office rents will continue to increase in 2019 due to high occupier demand

FIGURE 18: HELSINKI CBD OFFICE RENT INDEX, 2000–2018 (2000 = 100)

Source: KTI Property Information Ltd
Excess prime office demand in relation to supply also results in a decreasing prime office yield in 2019 (10 bps decrease in Q1/2019). Thus, the prime yield spread between the office yield and government bond yield or the ‘risk premium’ is expected to tighten during the year, indicating lower expected investment risks or higher risk appetite among investors in Finland. However, the attractiveness of the risk premium of Finnish prime offices, when compared to office spreads of other Nordic or European countries, is also expected to remain high in 2019 as both office and government bond yields are anticipated to change only moderately in Finland during the year.

Source: ¹Bank of Finland
FIGURE 19: PRIME CBD OFFICE YIELD SPREAD IN SELECTED MARKETS, Q1 2019

Source: CBRE Research, Financial Times

FIGURE 20: PRIME OFFICE YIELD SPREAD IN HELSINKI CBD, 2006-2019

Source: CBRE Research, Bank of Finland, Financial Times
Investment volume for the retail sector has increased, on average, ca. 26% per annum in 2010-2018, resulting in €2,108 million invested in 2018. With a share of 23%, retail was the second most attractive sector for capital in 2018. Large shopping centres, in particular, have attracted buyers during the past couple of years. In 2018, notable retail transactions included the sales of ITIS centre (€450m) and a bookstore of Stockmann’s Book Building (€109m) and a purchase of 123 retail premises by Cibus (€750m).

With a total transaction volume of €2,108 million, the retail sector was the 2nd most invested sector in 2018.
Location will have a greater role in determining the value of a retail property in 2019.
STRONG CONSUMPTION SUPPORTS RETAIL SALES

Daily goods comprise ca. 44%\(^1\) of the total retail sales turnover in 2016-2018 in Finland, being the highest consumed retail class. Moreover, daily goods' sales have increased steadily during the past few years, generating almost half of the total retail sales growth in 2018. In the case of food products, consumers have moved towards higher quality products in recent years as the price of food has trended downwards due to increased price competition among the top grocery stores.\(^1\) As private consumption is expected to remain strong in the near future, the consumption of high quality food products is anticipated to continue in 2019-2020.

The past six to seven years have witnessed a booming trend of healthy lifestyles in Finland\(^{1,2}\) which has resulted in growing sales of sport, beauty, and health products. Even though the trend peak may have passed, consumers in general are more health and wellness aware, meaning that the consumption of these products is likely to continue in the coming years. The booming economy and increased consumption in 2016-2018 have also resulted in growing sales of home electronics and hardware. As consumers are more confident in their financial situation, sales of electronics and high quality products are expected to remain high for the next few years.
“Consumers are strongly confident in their own economy”

Source: Statistics Finland, 28 January 2019
Fuelled by a significantly strengthened overall economy and increased private consumption, Finland’s retail turnover development remains on a growth path. In 2017, the retail market witnessed a 2.0%¹ sales’ growth, followed by a 2.7%¹ increase in 2018.

In 2019 and 2020, the strong financial situation and economic confidence of consumers, low unemployment and a forecasted increase in consumption are driving sales of the Finnish retail market, resulting in an annual growth of 0.5%². At the same time, urbanisation and an increase in the working age population are fuelling the sales growth in the Helsinki region in the long run. However, we expect the location of a retail property to have a more significant role in determining the value of the property in the Helsinki region in the future as more and more retail tenants are willing to pay higher rents for a central location.

Prime rents in the Helsinki Metropolitan Area (HMA) have been gradually increasing in 2010-2018, hitting a record high of ca. €160 per sq m per month in Q4/2016 and staying at that level ever since. At the same time, prime shopping centre rents outside of the HMA have increased only moderately, resulting in a level of €60 per sq m per month in Q4/2018, ca. 62% lower than in the HMA. Thus, a central location adds a significant premium to retail rents.

Sources: ¹Statistics Finland March 2019; ²Finnish Commerce Federation 2019

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**FIGURE 25: RETAIL AND HOTEL & RESTAURANT SALES GROWTH IN FINLAND, 2010-2020, Y-O-Y**

Source: Statistics Finland, Finnish Commerce Federation (forecasts)
FIGURE 26: PRIME RETAIL RENT LEVEL IN FINLAND, 2010-2018

Source: CBRE Research
While prime rents have been increasing, prime yields have been decreasing, especially for high street properties, to levels of 3.5-4.5% during the past few years. These lowered yields underline the increased demand of investors for central or high-catchment locations of retail properties, resulting in tightened yield spreads or risk premiums. However, even though the risk premium for properties with central locations holds close to 3% in Finland at the moment, it still represents one of the highest premium levels in Europe, which is expected to be also the case in the future.
FIGURE 28: PRIME HIGH STREET YIELD SPREAD IN SELECTED MARKETS, Q1 2019

Source: CBRE Research

FIGURE 29: PRIME SHOPPING CENTRE YIELD SPREAD IN SELECTED MARKETS, Q1 2019

Source: CBRE Research
The industrial and logistics sector recorded an investment volume of €582 million in 2018, 5% less than the 2010-2017 average of €610 million. The long-term volume average is explained by a low supply of industrial and logistics space whereas the record-high volumes of 2014 and 2017 are explained by single extra-ordinary transactions. The major reason for lower industrial and logistics volumes is seen to be the lack of supply of industrial and logistics opportunities. In 2018, the industrial and logistics sector’s share of the total transaction volume of Finland was 6%. Top transactions of the year were sales of the DSV headquarters, a DHL Helsinki airport logistics and crossdock hub, and a logistics property in Juvanmalmi.
With a total transaction volume of €582 million in 2018 – the industrial and logistics volume decreased from last year and was 5% less than the 2010-2017 average
FIGURE 32: CHANGE IN EXPORTS AND IMPORTS OF FINLAND, 2010-2022, Y-O-Y

Source: Oxford Economics
E-COMMERCE SUPPORTING DEMAND FOR LOGISTICS PROPERTIES IN FINLAND

Both exports and imports are expected to revert to a steady annual growth of 2-3% during the next few years. Moreover, the share of e-commerce in total sales is expected to increase to 15.5% by 2022. Increasing online trading, in particular, will support the need and consequently the demand for logistics properties in Finland in the coming years.

In 2018, total sales of e-commerce are estimated to reach €12.2 billion, representing annual growth of ca. 18% from 2017. 47% of total sales is estimated to be accounted for by travelling, 36% by products, and 17% by services. In the case of products, consumers are interested especially in clothing, wellness, media and toy products but the share of daily goods and food products is increasing as, for example, food delivery services are increasing their popularity.¹

Source: ¹Paytrail March 2019
INDUSTRIAL AND LOGISTICS OUTLOOK

HIGHER DEMAND THAN SUPPLY RESULTS IN LOWER YIELDS AND HIGHER PRIME RENTS

Investor demand for logistics properties is expected to remain high compared to the supply as available stock of vacant up-to-date and centrally located space is low due to the built-to-suit and pre-let nature of Finland’s logistics property development market. For example, almost all new constructions of logistics properties of 2018 are pre-let. Beyond that, there is a lack of sales product for the industrial and logistics sector as no speculative construction exists in Finland. Therefore, yields on industry and logistics properties are expected to continue their downward trend in 2019.

Decreasing yields combined with a possible increase in the government bond yield of Finland⁴ is likely to result in a lower yield spread in 2019. However, yield spread on industrial and logistics properties in Finland is also expected to remain attractive in the near future when compared to the spreads of other Nordic or European countries.

As a result of prime locations for industry and logistics properties, such as Aviapolis close to Helsinki-Vantaa airport, being fully constructed, the supply of vacant space of prime properties is not expected to meet the increasing demand for this type of space in the coming years. Therefore, we expect rents of prime properties to increase in 2019.

Source: ⁴Bank of Finland

FIGURE 34: PRIME INDUSTRIAL & LOGISTICS RENT IN FINLAND, 2010-Q3 2018

Source: CBRE Research
FIGURE 35: PRIME INDUSTRIAL & LOGISTICS YIELDS IN SELECTED MARKETS, 2010-Q1 2019

Source: CBRE Research

FIGURE 36: PRIME INDUSTRIAL & LOGISTICS YIELD SPREAD IN SELECTED MARKETS, Q1 2019

Source: CBRE Research, Financial Times
RESIDENTIAL OUTLOOK
RESIDENTIAL INVESTMENT MARKET

In 2018, the residential sector was the third most attractive sector for capital with a transaction volume of €1,818 million, 20% of the total volume of Finland. Transaction volume of the sector has increased, on average, by ca. 51% a year, resulting in ca. 29% annual growth in volume from 2010 to 2018. Once again, ca. €1,000 million of transactions of the record year 2016 was the result of two outlier transactions. In 2018, notable transactions were the sales of Icecapital Housing fund III and purchases of portfolios of 3,263, 824, and 981 apartments by Round Hill Capital, Aberdeen Asset Management, and Kojamo, respectively.

Source: CBRE Research
With a total transaction volume of €1,818 million, residential investment volume grew by 102% from last year and residential was the 3rd most invested sector in 2018

<table>
<thead>
<tr>
<th>Date</th>
<th>Asset</th>
<th>Location</th>
<th>Size (sq m)</th>
<th>Price</th>
<th>Purchaser</th>
<th>Seller</th>
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</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Residential portfolio of 981 rental apartments</td>
<td>Several</td>
<td>n/a</td>
<td>n/a</td>
<td>Kojamo Oyj</td>
<td>OP Group</td>
</tr>
<tr>
<td>Q1</td>
<td>2 residential towers, 211 rental housing units</td>
<td>Helsinki</td>
<td>n/a</td>
<td>€65 million</td>
<td>LähiTapiola</td>
<td>SRV</td>
</tr>
<tr>
<td>Q2</td>
<td>Portfolio of 3263 apartments</td>
<td>Several</td>
<td>190,000</td>
<td>Conf.</td>
<td>Round Hill Capital</td>
<td>Affiliate of Avant Capital Partners</td>
</tr>
<tr>
<td>Q2</td>
<td>Portfolio of 1594 rental apartments</td>
<td>Several</td>
<td>n/a</td>
<td>€97 million</td>
<td>Morgan Stanley</td>
<td>Kojamo Oyj</td>
</tr>
<tr>
<td>Q2</td>
<td>465 rental apartments</td>
<td>Several</td>
<td>27,698</td>
<td>Conf.</td>
<td>NREP</td>
<td>Avara</td>
</tr>
<tr>
<td>Q2</td>
<td>Residential portfolio, 3 properties with 89 apartments</td>
<td>Helsinki, Espoo</td>
<td>5,632</td>
<td>Conf.</td>
<td>AXA</td>
<td>LähiTapiola</td>
</tr>
<tr>
<td>Q2</td>
<td>158 apartment portfolio</td>
<td>Several</td>
<td>9,054</td>
<td>Conf.</td>
<td>Kunta-asunnot Oy</td>
<td>OP Group</td>
</tr>
<tr>
<td>Q3</td>
<td>Residential portfolio of 824 apartments</td>
<td>Several</td>
<td>45,678</td>
<td>Conf.</td>
<td>Aberdeen Asset Management</td>
<td>Lähi Tapiola</td>
</tr>
<tr>
<td>Q4</td>
<td>Icecapital Housing fund III</td>
<td>Several</td>
<td>100,000</td>
<td>n/a</td>
<td>BVK</td>
<td>Icecapital</td>
</tr>
<tr>
<td>Q4</td>
<td>Residential property</td>
<td>Helsinki</td>
<td>4,137</td>
<td>€18 million</td>
<td>Kojamo Oyj</td>
<td>Henna ja Pertti Niemistön Kuvataidesäätiö</td>
</tr>
</tbody>
</table>

Source: CBRE Research
HOUSING PRICES INCREASING STEADILY

The Finnish residential construction sector has been experiencing a very favourable market since 2015. In 2018, there were ca. 47,000 new housing starts, 5.0% more than in 2017, and significantly over the 1995-2017 average of ca. 33,600 new apartments per annum. In the Helsinki region, there were 21,900 new housing starts in 2018, corresponding to annual growth of 26% and accounting for 48% of the total construction.

New housing starts in Finland are expected to decrease in 2019 to ca. 39,000 apartments due to reducing investor demand at a national level. The average home size has decreased from 114 sq m (2012 level) to 82 sq m (2017 level), which is driven by the steadily decreasing size of households, being now 2.0 persons. In larger cities the share of single-person households is significantly driving the demand for smaller homes.

High levels of demand and a robust economic backdrop mean that housing market prospects across much of Europe are broadly positive for 2019. Favourable credit conditions and strong investor demand will continue to drive capital value growth at international level.

Residential sales prices (apartment buildings, excluding new development) have increased in the Helsinki Metropolitan Area (“HMA”) and in Finland by 2.9% and 1.6%, respectively, per annum in 2010-2018. In 2018, the average apartment sales price in the Helsinki Metropolitan Area was €3,875 per sq m for existing stock and €5,179 per sq m for new development. In contrast, the highest apartment sales prices were over €10,000 per sq m in the HMA in 2018.

FIGURE 38: RESIDENTIAL TRANSACTION VOLUME IN FINLAND, 2010-2018

Source: CBRE Research

Source: ¹Statistics Finland March 2019; ²asuntojen.hintatiedot.fi, Hintaseurantapalvelu.fi, March 2
FIGURE 39: HOUSING STARTS IN HELSINKI REGION, 2012–2019

Source: Statistics Finland, City of Helsinki, Confederation of Finnish Construction Industries RT, Helsinki Chamber of Commerce

FIGURE 40: APARTMENT BUILDING DWELLING PRICE DEVELOPMENT IN FINLAND AND HELSINKI METROPOLITAN AREA, 2010–2018

Source: Statistics Finland
Residential rents in the HMA have increased, on average, by 3.89% per annum since 2010. The rental growth is driven by the growing population with ca. 17,200 new inhabitants per annum added to the Helsinki region population during 2010–2018 (1.24% per annum, 1.27% in 2018). With continuing urbanisation, positive international net migration and an excess birth rate, the demand for rental housing is also expected to remain strong in the future.

The rental growth slightly exceeded the sales price growth in 2010–2015. The growth rates of rents and sales prices have remained roughly equal in the period 2016-2018, with the price to rent multiple now at ca. 17 and 13 for the HMA and Finland, respectively.

Demand for rental housing holding strong also in 2019
Office and retail transactions dominated in 2018 with a 39% (€3.6 billion) and 23% (€2.1 billion) share, respectively. The hotel volume has been on a low level ever since 2010, when a 15 hotel portfolio was sold (€310 million). The hotel sector comes seventh with a 3% (€264 million) share. The largest reason for lower hotel volumes is seen to be the lack of supply of hotel opportunities. Hotel transactions have increased during the past few years as a couple of larger deals have been completed (e.g. a hotel development in Tripla, Hotel Seurahuone, Hotel St. George). Hotel development in the Helsinki region is strong and the investment volume in the hotel sector is expected to grow in the coming years.

With a total transaction volume of €264 million invested in hotels in 2018 – hotel volume grew by 91% from the previous year
FIGURE 43: HOTEL SECTOR SHARE, 2018

Source: CBRE Research

NOTABLE TRANSACTIONS IN 2018

<table>
<thead>
<tr>
<th>Date</th>
<th>Asset</th>
<th>City</th>
<th>Size (sq m)</th>
<th>Price</th>
<th>Purchaser</th>
<th>Seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2</td>
<td>Original Sokos Hotel Kupittaa</td>
<td>Turku</td>
<td>n/a</td>
<td>€30 million</td>
<td>Rausanne Oy</td>
<td>YIT</td>
</tr>
<tr>
<td>Q2</td>
<td>Scandic Hakanimemi</td>
<td>Helsinki</td>
<td>6,998</td>
<td>ca. €35 million</td>
<td>eQ</td>
<td>VVT</td>
</tr>
<tr>
<td>Q3</td>
<td>6 hotels portfolio</td>
<td>Several</td>
<td>43,500</td>
<td>€72.4 million</td>
<td>Corum</td>
<td>CapMan</td>
</tr>
<tr>
<td>Q3</td>
<td>Scandic Ikaalisten Kylpylä</td>
<td>Ikaalinen</td>
<td>25,346</td>
<td>ca. €15 million</td>
<td>Ikaalia Invest Oy</td>
<td>Tradeka Real Estate Oy</td>
</tr>
<tr>
<td>Q3</td>
<td>Original Sokos Hotel Royal</td>
<td>Vaasa</td>
<td>7,380</td>
<td>Conf.</td>
<td>KPO-Kiinteistöt Oy</td>
<td>CapMan</td>
</tr>
<tr>
<td>Q3</td>
<td>Hotel property</td>
<td>Vaasa</td>
<td>n/a</td>
<td>ca. €7.5 million</td>
<td>Greenstar Hotels Oy</td>
<td>WasaGroup</td>
</tr>
<tr>
<td>Q3</td>
<td>Hotel Kuusamo</td>
<td>Kuusamo</td>
<td>10,593</td>
<td>€2.4 million</td>
<td>Health city Finland Oy</td>
<td>Koillismaan Osuuskauppa</td>
</tr>
<tr>
<td>Q4</td>
<td>Hotel Katajanokka</td>
<td>Helsinki</td>
<td>7,140</td>
<td>Conf.</td>
<td>Fennia Group</td>
<td>Hotelli Katajanokka Oy</td>
</tr>
</tbody>
</table>

Source: CBRE Research
**BUSINESS ENVIRONMENT**

Business development of the hotel industry is monitored and predicted by internationally established indicators, i.e. room occupancy rates (OCC), average room allowance (ADR), and average sales revenue (RevPAR). The hotel market in Helsinki has been stable over the period 2013–2018: the hotel occupancy rate has stabilized since the rapid increases in 2013-2016. Likewise, RevPAR per room (RevPAR) has also grown steadily over the same period. Growth has been influenced by an increase in both occupancy and average room-specific turnover (ADR). In Helsinki, the profitability of hotels is curbed by high labour costs, which can be seen, for example in the limited amount of luxury hotels. The Helsinki hotel market is also dependent on the season. The strongest months of sales are May, June, August, September, October and November. The highest occupancy rates, in turn, are achieved in the summer months when tourists take advantage of the more favourable prices for the summer season. Finland’s future view of tourism is looking optimistic due to positive publicity in 2018 (e.g. Trump-Putin summit, social media and Most trending destination, India travel awards).

---

**FIGURE 44: OVERNIGHTS IN THE NORDICS, 2017**

- Iceland: 5.3 million (+10%) 11%
- Norway: 8.7 million (+3%) 25%
- Denmark: 10 million (+3%) 14%
- Sweden: 14.6 million (+5%) 38%
- Finland: 6.7 million (+17%) 32%

Source: Visit Finland 2017
HOTEL MARKET FIGURES 2017/2018

<table>
<thead>
<tr>
<th>Hotel</th>
<th>Occupancy (%)</th>
<th>ADR (EUR)</th>
<th>RevPAR (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helsinki</td>
<td>75.8</td>
<td>72.9</td>
<td>117.7</td>
</tr>
<tr>
<td>Stockholm</td>
<td>67.3</td>
<td>67.0</td>
<td>116.6</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>78.8</td>
<td>78.6</td>
<td>134.1</td>
</tr>
<tr>
<td>Oslo</td>
<td>68.0</td>
<td>69.4</td>
<td>110.2</td>
</tr>
</tbody>
</table>

**Occupancy:** Average room occupancy  
**ADR:** Average Daily Rate (excl. VAT)  
**RevPAR:** Revenue Per Available Room (excl. VAT)

Source: CBRE Hotels, Visit Finland 2017
DEMAND - TOURISM IN FINLAND

Tourism has grown and become more important for the Finnish economy in recent years. 2017 was an all-time year for travel in Finland. International travel to Finland increased by 14% during the year. Europe is still Finland’s number one market for tourism. The top five visiting nationalities remain unchanged from the previous year: Russia, Germany, Sweden, UK and China. Russia was still the most important market. However, the biggest growth was reported from the Chinese markets (+35.3%). The Helsinki region and Lapland are Finland’s main attractions but travellers are starting to discover other regions as well. In Helsinki, tourists are attracted by the proximity of the sea, safety, existing infrastructure, new developments and the surrounding nature. Helsinki is also believed to increase its reputation as a conference and leisure destination. The potential for growth in tourism is strong.

HELSINKI-VANTAA AIRPORT

<table>
<thead>
<tr>
<th>Distance from Helsinki city centre</th>
<th>20km</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers 2018</td>
<td>20.8 million</td>
</tr>
<tr>
<td>Growth (2017-2018)</td>
<td>10.4%</td>
</tr>
</tbody>
</table>
| Expansions                        | 2020 West Pier  
                                      2021 New Entrance  
                                      2021 New Arrival and Departure halls  
                                      2022 Expansion of Schengen gate area |
| Expansion investment value        | €1,000 million |

Source: CBRE Research
SUPPLY - HOTEL DEVELOPMENT

The future of the hotel market in the Helsinki metropolitan Area looks positive. New hotel investments will be developed in the next few years, the centre will expand at a steady pace, and the Aviapolis area of Vantaa near the airport will develop with increasing air travel. At the moment, some hotel projects are under construction in the city centre of Helsinki. The most significant of these being the construction of the Scandic hotel at the railway Station (500 rooms). A total of about 1,000 new hotel rooms are under construction in the Helsinki Metropolitan Area. In addition to these projects, there are a number of hotel projects at different planning stages, some of which can be expected to be completed in the next few years. The most significant of these are: Tripla (420 rooms), Holiday Inn Fair Center renovation project (245 rooms), Woodcity and Art Hotel in Jätkäsaari and SRV project in Kalasatama Center.

Source: Visit Finland 2017

FIGURE 45: PURPOSE OF HOTEL STAYS IN HELSINKI, 2013-2017

Helsinki Metropolitan Area hotel market is blossoming, as c. 1,000 new hotel rooms under construction and several new hotel projects under planning.

Source: Visit Finland 2017
CARE INVESTMENT MARKET

With an investment volume of €544 million, the care sector represented 6% of total transaction volume in 2018. On average, the sector has attracted ca. 60% more capital each year from 2012 to 2018, resulting in a record-high transaction volume in 2018. Top transactions of the year were sales of the Health Care II portfolio and Töölö hospital building and Pareto’s purchase of 13 care properties. In Finland, only four companies exceeded revenue of €400 million in 2017.

With a total transaction volume of €544 million, care investment volume grew 83% from last year.
### FIGURE 47: CARE TRANSACTION VOLUME IN FINLAND, 2010-2018

![Graph showing the CARE transaction volume in Finland from 2010 to 2018. The graph displays a significant increase in the transaction volume, with a peak in 2018.

Source: CBRE Research

### NOTABLE TRANSACTIONS IN 2018

<table>
<thead>
<tr>
<th>Date</th>
<th>Asset Description</th>
<th>Location</th>
<th>Size (sq m)</th>
<th>Price</th>
<th>Purchaser</th>
<th>Seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Health care II - fund</td>
<td>Several</td>
<td>34,702</td>
<td>€140.8 million</td>
<td>Evli-Rahastoyhtiö Oy</td>
<td>Northern Horizon Capital Oy</td>
</tr>
<tr>
<td>Q2</td>
<td>9 care properties</td>
<td>Imatra</td>
<td>n/a</td>
<td>€21 million</td>
<td>Attendo</td>
<td>City of Imatra and Eksote</td>
</tr>
<tr>
<td>Q2</td>
<td>Terveystalo Pori Lääkäritalo</td>
<td>Pori</td>
<td>6,863</td>
<td>€16 million</td>
<td>eQ</td>
<td>Suomen Terveystalo Oy</td>
</tr>
<tr>
<td>Q2</td>
<td>2 care properties</td>
<td>Turku, Kaarina</td>
<td>3,750</td>
<td>€12 million</td>
<td>Hemsö Fastighets AB</td>
<td>Hartela</td>
</tr>
<tr>
<td>Q2</td>
<td>Kuopion Portti care, 65 serviced apartments</td>
<td>Kuopio</td>
<td>n/a</td>
<td>€10 million</td>
<td>Suomen Hoivatilat Oy</td>
<td>Lapti Group</td>
</tr>
<tr>
<td>Q3</td>
<td>Töölö hospital building</td>
<td>Helsinki</td>
<td>36,937</td>
<td>€64 million</td>
<td>Veritas</td>
<td>HUS</td>
</tr>
<tr>
<td>Q3</td>
<td>6 care properties</td>
<td>Several</td>
<td>n/a</td>
<td>€24 million</td>
<td>Evli-Rahastoyhtiö Oy</td>
<td>Siklatilat Oy</td>
</tr>
<tr>
<td>Q3</td>
<td>Shares of 6 property companies</td>
<td>Turku, Ulvila, Nurmijärvi, Paimio, Kouvola, Salmi</td>
<td>n/a</td>
<td>€16.4 million</td>
<td>eQ</td>
<td>Suomen Hoivatilat Oy</td>
</tr>
<tr>
<td>Q4</td>
<td>Portfolio of 13 care properties</td>
<td>Several</td>
<td>14,345</td>
<td>€48 million</td>
<td>Pareto Securities</td>
<td>Titanium</td>
</tr>
<tr>
<td>Q4</td>
<td>6 care property portfolio</td>
<td>Several</td>
<td>n/a</td>
<td>Conf.</td>
<td>Evli-Rahastoyhtiö Oy</td>
<td>FinCap</td>
</tr>
</tbody>
</table>

Source: CBRE Research
CARE OUTLOOK

SOCIAL CARE SERVICES MARKET IN FINLAND

FINLAND’S SOCIAL CARE WELFARE AND HEALTHCARE REFORM

Finland has a decentralised system of health and social welfare programs, where much of the administration is left to local municipalities. This arrangement has led to widespread geographic variation when it comes to quality and access to health care services.

The government of Finland has been preparing national social welfare reform, one of the largest administrative overhauls ever in Finland. In 2007–2019, ca. €200 million was spent on preparing the regional government, health and social services reform. The drivers for the reform included meeting the overall increased demand while managing the costs of social and healthcare services among the aging population, changing the range of illness, inequalities between different areas and people and managing higher expectations from the population. The aim of the reform was to narrow down the disparities in health and social care, create customer-oriented and integrated services and to manage costs. As a significant part of the reform, the freedom of choice was supposed to significantly increase: customers could choose between public, private or third sector service providers creating equal operating opportunities among different sectors.

<table>
<thead>
<tr>
<th>Name</th>
<th>Revenue 2017, M€</th>
<th>Revenue Growth from 2016</th>
<th>Net income 2017, M€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mehiläinen</td>
<td>756</td>
<td>+28%</td>
<td>44</td>
</tr>
<tr>
<td>Terveystalo</td>
<td>690</td>
<td>+26%</td>
<td>32</td>
</tr>
<tr>
<td>Attendo Finland</td>
<td>510</td>
<td>+15%</td>
<td>-</td>
</tr>
<tr>
<td>Pihlajalinna</td>
<td>424</td>
<td>+6%</td>
<td>15</td>
</tr>
<tr>
<td>Esperi Care Group</td>
<td>213</td>
<td>+39%</td>
<td>-</td>
</tr>
</tbody>
</table>

There has been general agreement among political parties of the need to reform the system. However, the parties differ when it comes to the finer details, which has led to the current impasse of the reform, however, the work done so far can be utilised later. The continuity of the preparatory organisations will be ensured, to a limited extent, until 30 September 2019. It will be up to the next government to decide whether the reform work will continue.

Source: Regional Government, Health and Social Services Reform March 2019
FIGURE 48: SHARE OF SOCIAL SERVICES OUTPUT BY SECTOR IN FINLAND, 1992-2017

Source: Statistics Finland
CARE OUTLOOK

FIGURE 49: OUTPUT OF THE SOCIAL SERVICES BY SECTOR IN FINLAND, 1992-2017

Source: Statistics Finland

SOcial Care Services Market Company Sector Growing

Finland’s social care services market is currently worth over €12.0 billion¹. The market has witnessed a tremendous growth over the past 24 years, with the average annual growth rate being 6.3%¹ during the 1992-2017 period. Traditionally, the market was dominated by the public sector and non-profit service providers but since the mid-2000s, private care companies have gained a significant market share in the sector. As evidence of this development, the company sector grew virtually from zero to a €2.6 billion over the 1992-2017 period. This implies average growth of 17.5% per annum, a triple-fold growth against overall market development.

Source: ¹Statistics Finland March 2019
SIGNIFICANT NEED FOR FURTHER PRIVATE SECTOR INVOLVEMENT

€7.6 billion or 63% of the social care services market is still operated by the public sector implying significant room for further outsourcing from the public sector to the private sector. Impending national social welfare and health care reform together with municipalities’ stretched financial situations and a rapidly increasing need for social services are expected to significantly further support growth of the private sector.
ELDERLY CARE SECTOR DRIVEN BY THE RAPIDLY AGEING POPULATION

A rapidly ageing population is the main growth driver for the social services market. According to the central Statistics Office of Finland, people aged over 75 years are expected to almost double by 2040.

This means approximately 400,000 more senior citizens than today, nearly 1 million in total, and 16.3% of the entire Finnish population. As a consequence, demand for elderly care services will increase significantly suggesting solid fundamentals for the sector several decades down the road.

Source: Statistics Finland March 2019

FIGURE 51: OVER 75 AGED POPULATION IN FINLAND, 2018-2040

Finnish population is ageing more rapidly than other European economies.

Source: Statistics Finland
FIGURE 52: AGED-POPULATION GROWTH IN SELECTED COUNTRIES, 2018-2040

Source: Statistics Finland, Eurostat
**CHILD DAY CARE CENTRES IN FINLAND**

Finland’s child day care services market has three main forms of day care centres; municipal, outsourced and private day care centres. All of the three forms are governed by the early childhood education law that came into effect on 1.8.2015 replacing the previous day care law. 55.2% of all the children in the six largest municipalities of Finland go to one of these types of day care centre. The remaining children are in home care.

Municipal day care centres are operated by the municipality and their operations are financed with tax income and day care fees collected from the children’s parents. The fee from children’s parents is based on the family size, their need for the service and the gross income of the parents. In Finland’s six largest municipalities (Kuusikkokunnat) 79.8% of the children that go to a day care centre (i.e. excluding those children who are in home care) are in the municipal day care system.

In outsourced day care centres the local municipality contracts with a company or non-profit organisation operated day care centre. The municipality finances the centre’s operations in the first place and collects a part of the expense as day care fees from the families in the same way as with the municipality operated day care. 2.7% of Finland’s six largest municipalities’ children are in the outsourced day care centres.

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**FIGURE 53: CHILDREN IN DAY CARE IN FINLAND’S SIX LARGEST MUNICIPALITIES, 2010-2017**

![Chart showing the percentage distribution of children in day care in Finland’s six largest municipalities from 2010 to 2017. The percentage for municipal day care ranges from 80% to 84%, for outsourced day care from 2% to 5%, and for private day care from 1% to 3%. Source: Kuusikkokunnat]
Similar to outsourced day care, private day care centres are operated by company and third sector operators. In contrast to outsourced day care, in private day care centres the municipality does not contract with the operator but the family selects their preferred private day care centre and receives either a statutory day care allowance or service voucher from the local municipality to cover (partially) the cost of the day care. Currently, 17.6% of the six largest municipalities’ children are in private day care centres.

Currently, only 17.6% of the six largest municipalities’ children are in private day care centres

Source: Kuusikkokunnat early childhood report 2017
Around 3 billion Euros is used for early childhood education annually in Finland. In 2017, there were 247,968 children who participated in early childhood education. Although the birth rate is declining in Finland, the proportion of children aged between 1-6 years being in day care has risen from the early 2000’s at 60.0% to 68.1% in 2018. The trend is expected to continue in the same direction, and for example in Sweden this ratio is already over 85% and in Norway over 90%. There are noticeable geographical differences in Finland between the number of children in early childhood education organised outside the home. In the capital area, children participate in early education and care outside the home in much greater numbers than on average in the whole country.

There is significant growth potential in Finland, especially among younger age groups. Even though the rate of participation in early childhood education among Finnish 3-year-olds has increased significantly since the beginning of the 2000s, the participation percentage is one of the lowest among the OECD countries. Finland differs essentially from the other Nordic countries. While the participation rate of 3-year-olds is well over 90% in Denmark, Iceland, Norway and Sweden, the figure for Finland is only 68.2%.

Source: ¹National Institute for Health and Welfare, ²OECD 2019

FIGURE 55: ENROLMENTS RATES FOR 3-YEAR OLDS IN PRE-PRIMARY EDUCATION OR PRIMARY SCHOOL IN SELECTED COUNTRIES, 2018

With the service voucher, households can choose from private service providers’ services that they want to use.
SERVICE VOUCHERS TO BECOME MORE COMMON FOR THE NEXT FEW YEARS IN CHILD DAY CARE

According to the National Institute for Health and Welfare, 15.8% of the children in day care in Finland were in private day care, which means the early childhood education is provided by the municipality as a purchased service, as a service voucher or private day care allowance. However, differences between cities are significant, for example, in Vantaa, private day care centres account only for ca. 13% and in Turku over 30%¹. In around 50 municipalities there are no private day care service providers at all. In the six largest cities in Finland, Helsinki, Espoo, Vantaa, Turku, Tampere and Oulu, the number of children in early childhood education in private day care centres has increased from 10.2% in 2010 to 17.6% by 2017¹

The private day care sector has been in operation for a long time, but in recent years there has been a major change in service voucher use. This significantly affects private day care companies operating in the field as the popularity of vouchers favours private day care. With the service voucher, households can choose the one whose services they want to use from various private service providers. The municipality commits to pay the service purchased by the customer up to the value of the voucher, which is determined by the municipality. In 2017, a total of 23,449 children’s early childhood education was carried out through vouchers. The share of the children using vouchers was 9.5%² of all children in early childhood education. The share of service vouchers in all early childhood education increased by 28% from the previous year, 2016. Private day care is usually around twenty euros more expensive in a month for the household than a municipal alternative.

Source: ¹Kuusikkokunnat early childhood report 2017, ²National Institute for Health and Welfare
It is expected that the use of service vouchers will become more common over the next few years as more municipalities are taking them into use. In addition, structural change in healthcare and social service provision caused by the possible reform is also opening up new opportunities for service providers and property investors in the near future.

Private companies offer a tempting trade to municipalities as operating with private companies does not result in distinct investment for municipalities, ie. it is not tying up the capital for day care properties and the cities do not have to take care of the payroll. Public sector debt supports the growth of the private day care centre sector, as the municipalities are being spared from investments into buildings, which are increasingly rising with the aging of the public child care centre stock. A large part of the municipalities’ real estate stock was built before the 1990s. Private child day care operators can typically provide municipal day care services more cost-effectively. Co-operating with private day care operators also attracts municipalities that have strong financials, as private day operators can construct a day-care centre ready for use within six months from the decision, while this may take years for the municipality.

Care properties are typically built for a purpose, which reduces their reuse if the original use of the premises ends. In addition, care properties are subject to regulatory requirements and restrictions that may change very quickly, increasing the risk to these properties. This is a particular concern for the older property stock. However, the child care market is strictly regulated and a license to build a child care centre will only be given if there is demand in the area, which in addition reduces the demand risk.

With the service voucher, households can choose from private service providers’ services that they want to use.
ELDERLY CARE MARKET IN FINLAND

ELDERLY CARE HOMES WITH 24-HOUR ASSISTANCE IN FINLAND

The elderly care home services in Finland are offered by the municipalities and the private sector, including companies and non-profit organizations. The importance of elderly care homes with 24-hour assistance has grown significantly over the last decade, and the number of people living in elderly care homes has grown from 13.9% in 2000 to 78.7% in 2017. The number of clients in the elderly care homes totalled 43,704 at the end of 2017, of which 51% lived in municipal service units.

FIGURE 57: CUSTOMERS IN SHELTERED HOUSING WITH 24-HOUR ASSISTANCE IN FINLAND, 2017

Source: Institutional care and housing services in social care 2017, Statistical Report, National Institute for Health and Welfare

FIGURE 58: STRUCTURE OF CARE AND SERVICES FOR OVER 75-YEAR-OLD PEOPLE IN FINLAND, 2000-2017

Source: Institutional care and housing services in social care 2017, Statistical Report, National Institute for Health and Welfare
In the municipal service units, the municipality manages and owns the elderly care home and finances its operations. The customer pays a monthly fee for the services directly to the municipality. The monthly fee is determined according to required level of services and care and the customer’s gross earnings provided that after paying the monthly fee, the customer must have €160-260/month spending money depending on the city/municipality (2018). The municipality selects the customers, based on the need of service and order of urgency. The gross and net expense (after deducting fees received from the customer) of municipal elderly care homes with 24-hour assistance in Finland’s six largest municipalities was ca. €53,052 and €41,571/customer/year in 2017, respectively. In the private sector, care homes with 24-hour assistance are organized in two distinct ways; outsourced and privately operating elderly care homes.

Finland’s Social Welfare and Healthcare Reform is anticipated to increase the customers’ freedom of choice and the use of the service voucher in the future they want to use.
Outsourced elderly care homes are operated by a company or a non-profit organization. The municipality tenders the private service providers and those who meet the qualitative criteria are typically ranked according to price. Subsequently, the municipality places the customers in the qualified units according to the need of service, ranking and availability. The service providers are normally tendered in 3 to 5 years’ frequency, and the average gross cost of an elderly care home with 24-hour assistance is ca. €53,052/customer/year.

Privately operating elderly care homes typically receive their customers through municipal service vouchers. The use of a service voucher is based on the freedom of choice – the municipality provides the voucher to those who are in need of service and the customer can freely make a choice from those elderly care homes that have been approved into the service voucher system. In addition to service voucher based services, there are also private elderly care homes where the client is directly responsible for the whole fee.

The service voucher’s value is income related and, for example in the municipality of Espoo, the maximum value is €3,000/month with customer’s net income of less than €1,000/month and the minimum value is €100/month with net income of more than €3,800/month (2018). The impending Finland’s Social Welfare and Healthcare Reform is anticipated to increase the customers’ freedom of choice and the use of the service voucher in the future.

Sources: ¹Institutional care and housing services in social care 2017, Statistical Report, National Institute for Health and Welfare, ²Elderly care in 2017 in Finland's six largest municipalities covering 32.1% of the country’s total population, www.kuusikkokunnat.fi, ³City of Espoo, Senior Housing Service

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**Figure 59: Public Sector Purchases from the Private Sector in Finland, 2011-2017**

Source: Statistics Finland
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