Intelligent Investment

Market Outlook 2025

REPORT

FINLAND

REAL ESTATE

CBRE RESEARCH

Executive Summary

After over two years of challenging economic conditions, the Finnish economy is poised for growth in 2025, driven by decreasing interest rates, improving real disposable incomes and slowing inflation. Recent data indicates a notable improvement in confidence indicators in Finland and this positive trend reflects growing optimism among businesses regarding future economic conditions, driven by stable domestic demand and favorable export prospects. Finnish economy is expected to grow by 1.8% and inflation will cool down further to 1.5% in 2025. The rebound in growth in 2025 is supported by two key factors, cyclical industry recovery and infrastructure investment, especially in the artificial intelligence led data centre investment.

The Finnish real estate investment market bottomed out in 2024, with total investment reaching €2.46 billion, up 8% year-over-year. Industrial and logistics was the largest sector with 27% of total investment followed by residential (22%) and social infrastructure (22%) in 2024. Yields stabilized and the gap between buyers and sellers narrowed. The sector repricing saw prime capital values bottoming in 2024, and current pricing levels are starting to see traction in new investment. Nordic banks were active in restructuring and refinancing for commercial real estate, and the much-anticipated distress did not surface for Finnish and Nordic real estate investors in 2024. The opening of the financing market is a clear positive for the real estate market and is indicating optimism towards further recovery, even though, the commercial real estate fundraising market has not yet seen a widespread turn to better.

Living and industrial and logistics (I&L) are topping investor preferences, but we expect the appetite for larger transactions to boost recovery in other sectors, such as retail, as well in 2025. Alternatives, including social infrastructure and more recently data centres, will continue to see growing interest from international investors. Although still liquidity constraint and selective, the investment market is back on the growth track and the Finnish investment market will see +15% year-over-year growth in 2025.

Jussi Niemistö
Head of Research
Nordics

GRADUALLY IMPROVING IN 2025

After over two years of spiking inflation and increases in interest rates, the economic backdrop has turned into more positive tone. Recent activity in the financing market is indicating optimism towards further recovery, even though, the fundraising market has not yet seen a widespread turn to better.

Living and I&L are topping investor preferences, but we expect the appetite for larger transactions to boost recovery in other sectors, such as retail, as well in 2025. Alternatives, including social infrastructure and more recently data centres, will continue to see growing interest from international investors. Although still liquidity constraint and selective, the investment market is back on the growth track and the Finnish investment market will see +15% year-over-year growth in 2025.

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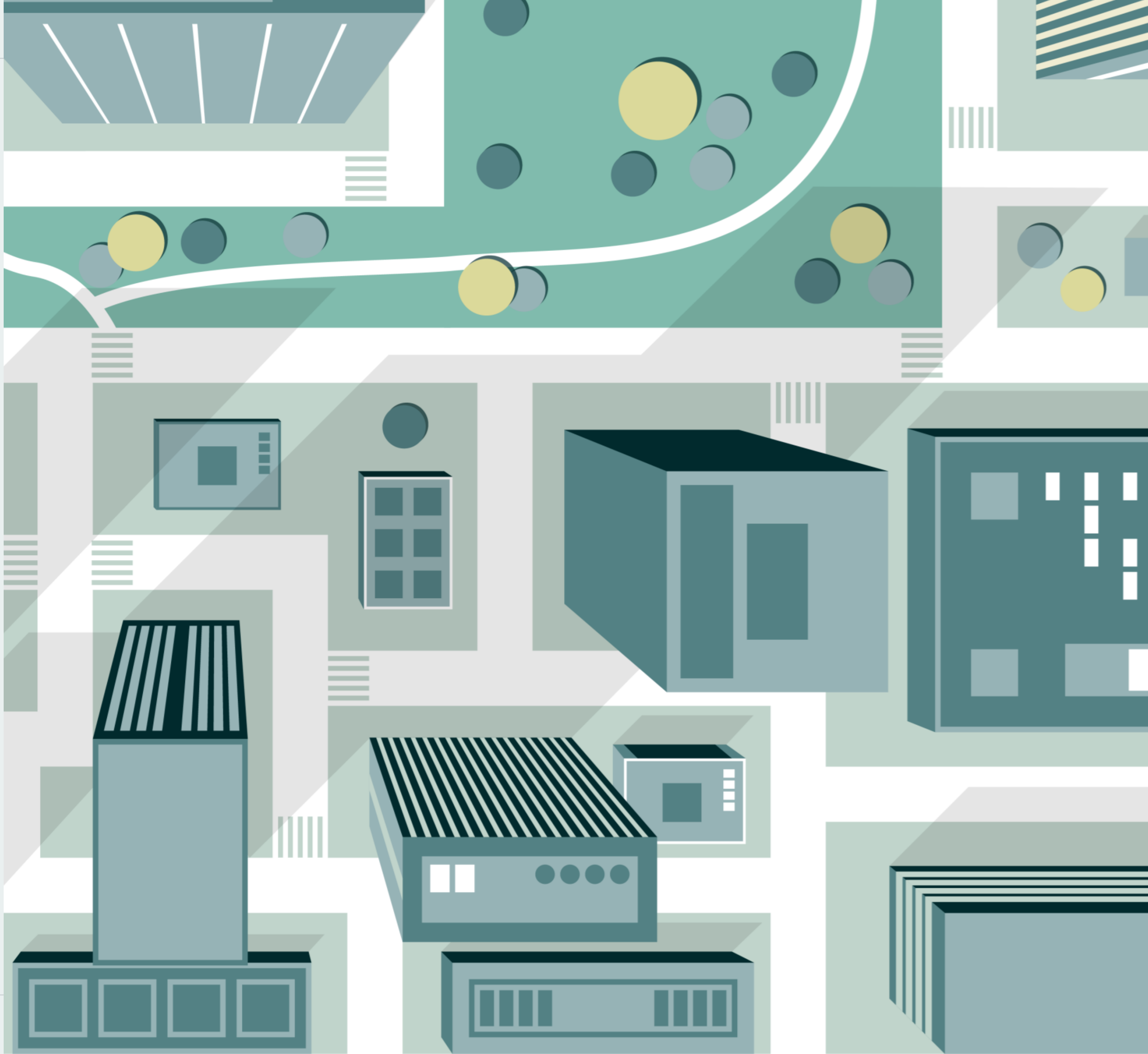
Economic Outlook

The Finnish economy is resuming its growth trend following two years of low economic activity and tight financial markets. Inflation rates have moderated, and the European Central Bank plans to lower interest rates further in 2025, which is expected to enhance the financing climate for households, businesses, and the Finnish real estate sector.



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Key takeaways

01

Finland saw another slow year in 2024 with GDP declining by 0.4% through higher interest rates and decreasing business activity. Inflation cooled further to 1.6% in 2024, and interest rates started to trend lower as ECB began its cutting cycle.

02

In Finland, lower interest rates will turn to higher economic activity quicker than in peer countries in Europe, and real disposable gains are expected to propel consumer spending growth in 2025 and beyond. The rebound in growth in 2025 is supported by two key factors, cyclical industry recovery and infrastructure investment.

03

Finnish economy is expected to grow by 1.8% and inflation will cool down further to 1.5% in 2025. Domestic demand will be a key factor for GDP growth in 2025, and consumer spending is expected to grow by 1.5%.

01
Economic
Outlook

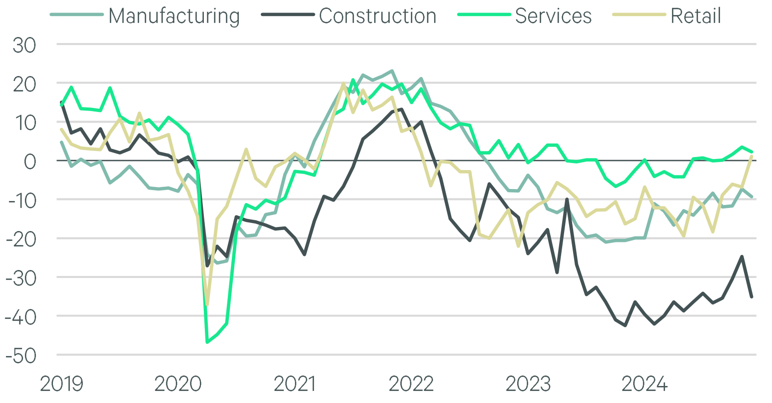
Recovery has started for the Finnish economy

ECONOMY BOOSTED BY FALLING INTEREST RATES

Finnish economy saw another slow year in 2024 with GDP declining by 0.4% through higher interest rates and decreasing business activity. Headline inflation cooled further to 1.6% in 2024, and interest rates started to trend lower as ECB began its cutting cycle with 100 basis point cuts in four different policy meetings. Finland's economy has a high sensitivity to interest rates since majority of the financing for households and businesses is linked to floating interest rate loans. Consumer spending did not yet see the positive impact from lower borrowing costs as the uncertainty in the labour market was limiting the upturn in 2024. Unemployment rate spiked to 8.4% as companies downsized their operations to meet the decreased demand.

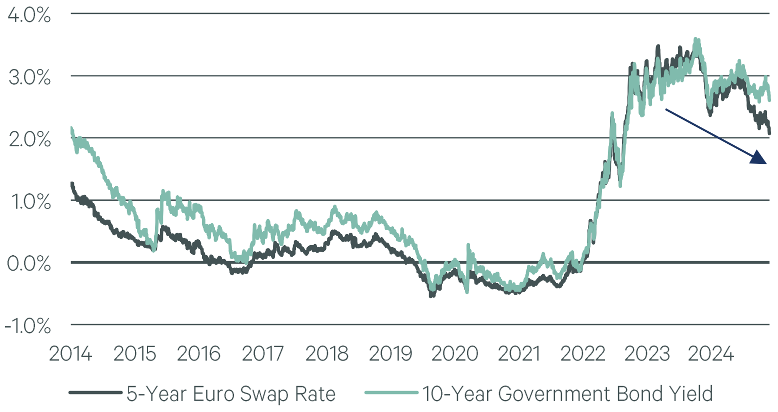
The industry split is an important factor while monitoring the development of the Finnish economy. Finnish industrial base is led by cyclical sectors, such as heavy machinery and capital goods, and the construction sector challenges have also slowed down the recovery in the last two years. New construction starts in Finland hit a low in 2024, with gradual recovery projected in 2025. The anticipated completion of 17,000 new residential apartments in 2024 and 20,000 in 2025 falls short of the long-term demand of 38,000 and there are no significant increases in construction supply expected until 2027.

Figure 1: Business Confidence Indicators in Finland.



Source: Confederation of Finnish Industries (EK), CBRE Research, December 2024

Figure 2: 5-Year Euro Swap Rate and 10-year Government Bond Yield (%)



Source: CBRE Research, December 2024

BUSINESS CONFIDENCE POINTING FOR GROWTH

Recent data indicates a notable improvement in confidence indicators in Finland and business confidence has risen across various sectors (Figure 1). This positive trend reflects growing optimism among businesses regarding future economic conditions, driven by stable domestic demand and favorable export prospects. The improvement in confidence indicators is a promising sign for continued economic growth and investment in Finland.

GLOBAL UNCERTAINTY INCREASES DOWNSIDE RISKS

There remains an elevated level of global uncertainty, which keeps the downside risks to the recovery high. Changes in trade policies across the globe would reduce Finnish export levels and potentially impact wider business sentiment. An additional risk comes from political uncertainty in some of the large European economies. The political uncertainty in Germany and France, on top of the new U.S. Government trade policies, create a risk to growth in 2025, if they were to dampen consumer and business sentiment and spending. Geopolitical uncertainty remains a risk as an escalation of the conflict in the Near East or the continuing of the conflict in Ukraine could threaten higher commodity prices or further risk unsettling business and consumer sentiment in wider Europe and Finland.

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Growth to return in 2025

CYCLICAL INDUSTRIAL RECOVERY AND AI LED INVESTMENT BOOM

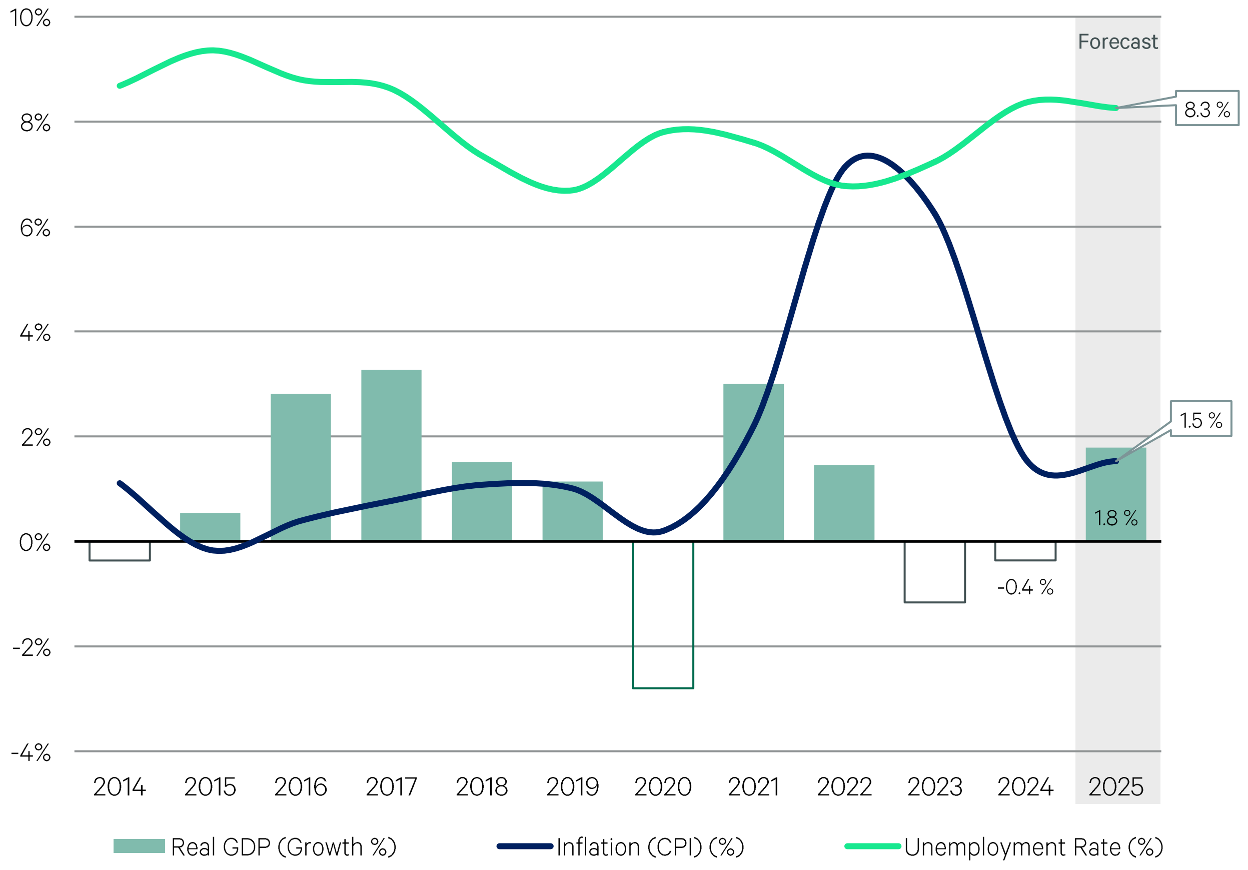
The rebound in growth in 2025 is supported by two key factors, cyclical industry recovery and infrastructure investment. The need for more computing power for the artificial intelligence has led to a boom in new investment into data centre construction in Finland. Global data centre players have unveiled several new project plans in Finland during 2024. These include Google's €1 billion expansion at its Hamina data center and a 1,400-hectare land acquisition from the government in Eastern Finland. Additionally, the quant-trading company XTX Markets is investing over €1 billion to construct five data centres in Kajaani, Eastern Finland, to underpin its growing use of machine learning.

Finland is renowned for its political stability and reliability as an investment destination. The country's strong democratic tradition, effective regulatory framework, and significant investments in infrastructure, education, research, and social equality continue to support its reputation as a secure and attractive place for investment.

THE ECONOMY POISED FOR GROWTH IN 2025

Finnish economy is expected to grow by 1.8% and inflation will cool down further to 1.5% in 2025. Domestic demand will be a key factor for GDP growth in 2025, and consumer spending is expected to grow by 1.5%. Recovery is still slow, but the gradual uptick in exports and domestic demand aided by falling inflation and interest rates will drive the growth in 2025. Unemployment rate will remain at high level at 8.3% due to the lag effects from weaker business demand. Unemployment will trend lower, when economic growth will start to increase the recruitment needs again in 2025/2026.

Figure 3: Real GDP growth, CPI Inflation and Unemployment Rate in Finland (%)



Source: Statistics Finland, CBRE Research, December 2024

02

Capital Markets

Finnish real estate investment market bottomed out in 2024, and gradual recovery is expected to continue into 2025. Buyer and seller expectations inched closer, the pricing environment has become clearer, and the financing market has improved significantly paving way for more investment activity in 2025.

02
Capital
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Key takeaways

01

The Finnish real estate investment market bottomed out in 2024, with total investment reaching €2.46 billion, up 8% year-over-year. Yields stabilized and the gap between buyers and sellers narrowed. The sector repricing saw prime capital values bottoming in 2024, and current pricing levels are starting to see traction in new investment. Living and I&L continue to be the most preferred sectors.

02

The bond and financing market opened for business in the second quarter of 2024, even though, in a selective manner. Nordic banks were active in restructuring and refinancing for commercial real estate and the much-anticipated distress did not surface after all for the Finnish and Nordic real estate investors in 2024.

03

Investment activity in the Finnish investment market is expected to increase by 15% in 2025 as buyers and sellers continue to align their pricing expectations, driven by the interest rate cuts by the ECB and the continued favorable funding environment.

02
Capital
Markets

Finnish investment market bottomed out in 2024

LIQUIDITY CONSTRAINT BUT GRADUALLY IMPROVING

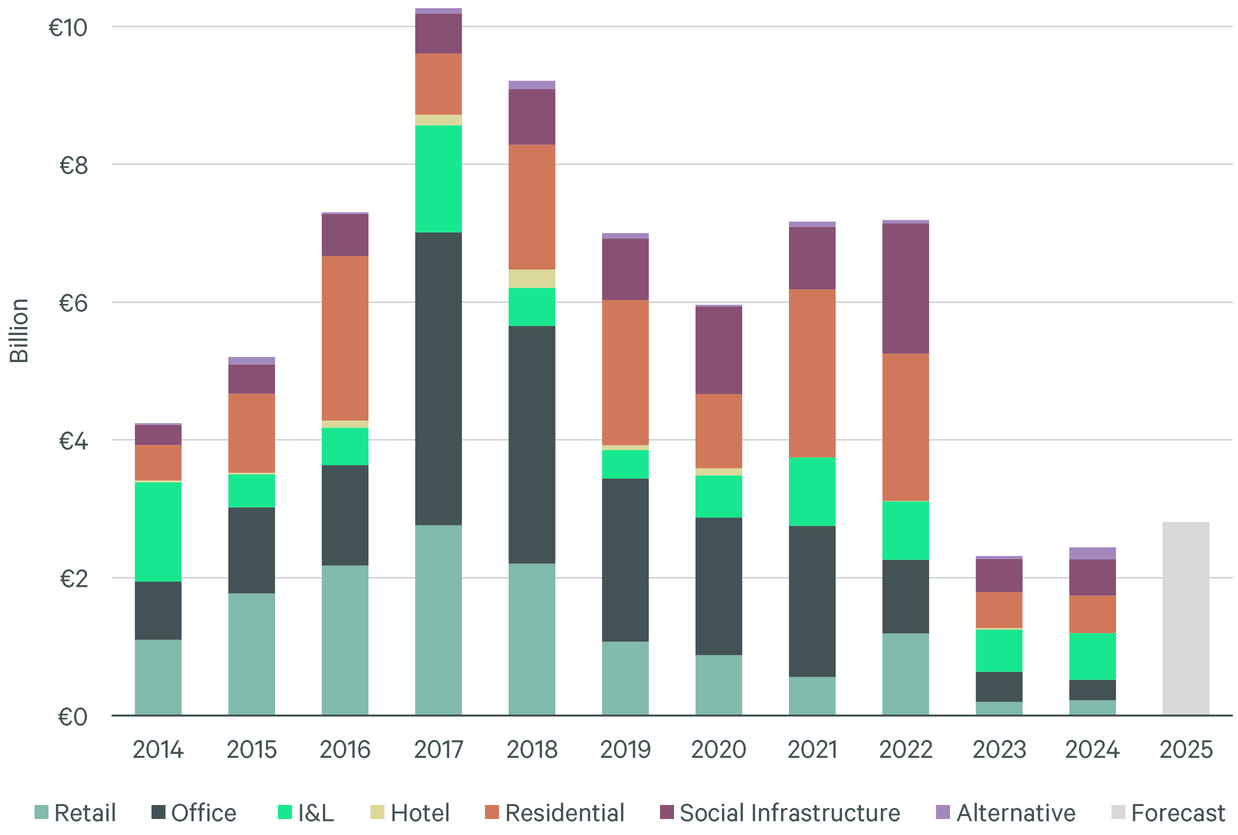
The Finnish real estate investment market bottomed out in 2024, with total investment reaching €2.46 billion, up 8% year-over-year. International investors continued to be active in the Finnish market and the share of cross-border capital remained high with more than half of total investment (58%), slightly above the 5-year average (53%), and the Helsinki Metropolitan Area (HMA) landed more than half of total investment in 2024.

The largest transactions of 2024 included the CBRE-advised Castlelake-SBB transaction in February, where the parties founded a new social infrastructure joint venture, SBB Infrastructure, as well as Blackstone's acquisition of the urban logistics portfolio from Nrep in June and Slättö's purchase of the HMA residential portfolio from OP in July.

REOPENING OF THE BOND MARKET BOOSTS INVESTOR CONFIDENCE

The bond and financing market opened for business in the second quarter of 2024, even though, in a selective manner. Nordic banks were active in restructuring and refinancing for commercial real estate and the much-anticipated distress did not surface after all for the Finnish and Nordic real estate investors in 2024. The financing environment has improved significantly through the reopening of the bond issuance market in the Nordics. The trailing twelve-month bond issuance in the Nordics reached nearly €16 billion, close to the record level of the year 2021 (over €18 billion). The issuance volume more than doubled from 2023 showing a clear improvement for the commercial real estate sector in Finland and the wider Nordic region.

Figure 4: Investment volume in Finland by sector and forecast for 2025



Source: CBRE Research, December 2024

02
Capital
Markets

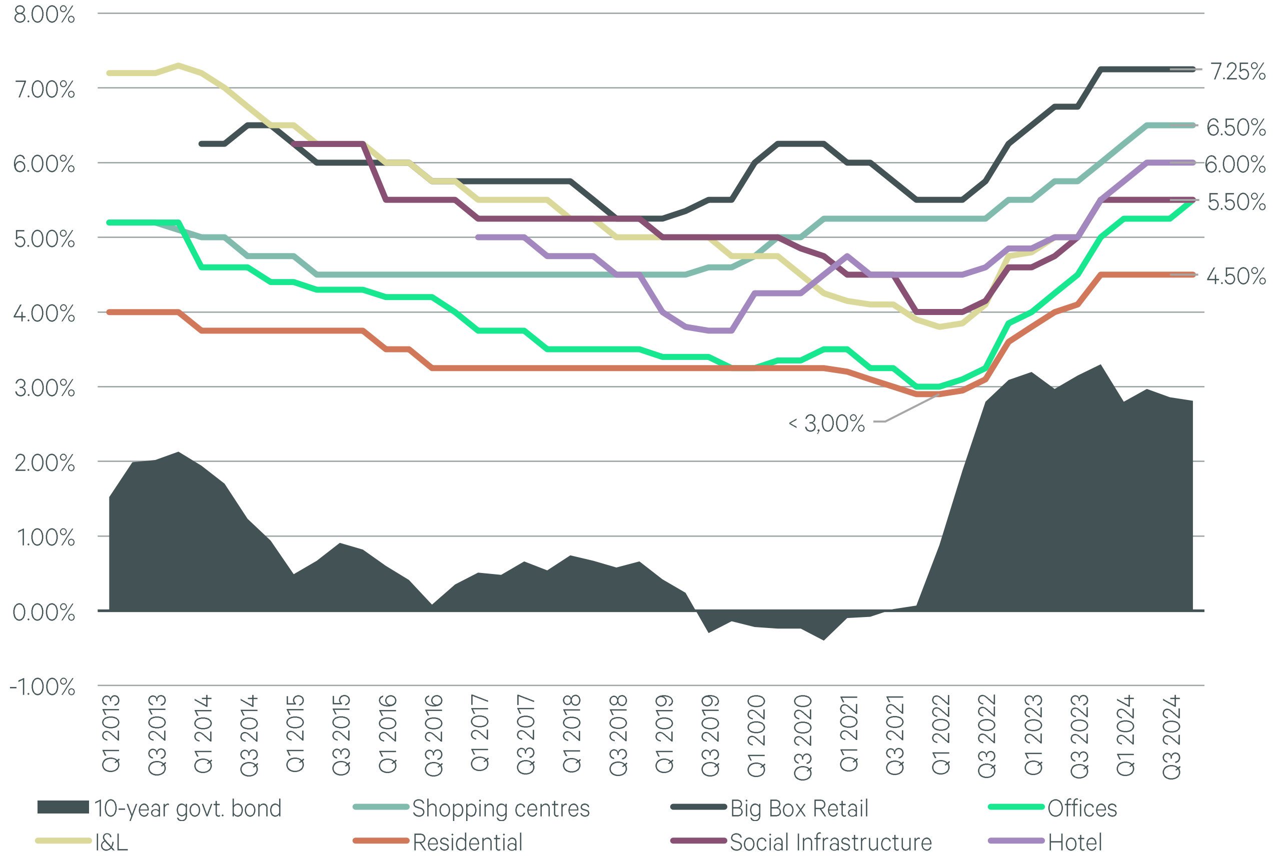
OPEN-ENDED FUNDS ACTIVE SELLERS IN 2024

International and Nordic private equity players, such as Blackstone, Slättö and Niam were some of the most active buyers in the Finnish market during 2024. Logian, the joint venture by the pension fund Keva and MREC IM, also continued to scale its I&L investment platform with three acquisitions during the year. Open-ended real estate funds were the most active net-sellers during 2024, representing over 20% of total volume.

Several mostly domestic funds were disposing assets across different sectors to match redemptions from the end-investors. The liquidity transformation of the open-ended funds has been one of the largest themes for the Finnish investment market in the last two years, and several fund managers have temporarily closed the fund structures from redemptions for an undisclosed period. The open-ended real estate fund universe has historically at highest been over 20% of the total purchasing activity in the Finnish market, and having these funds missing from the buy-side has also limited the recovery in Finland compared to other Nordic markets.

The pricing environment became clearer with falling interest rates, and sector prime yields stabilized and mostly remained stable during 2024. Offices continued to see repricing and the prime office yields moved out by 50 basis points during the year.

Figure 5: Sector prime yields for Finland.



Source: CBRE Research, December 2024

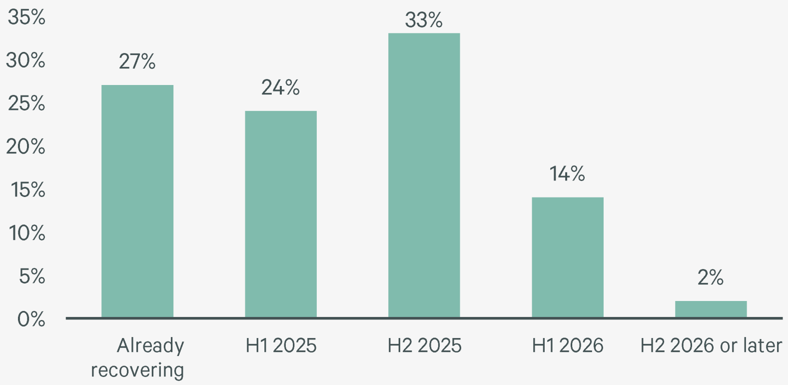
INVESTORS SIGNAL OPTIMISM FOR THE RECOVERY

According to CBRE Nordic Investor Intentions Survey 2025, investors interested in Finland and the Nordics signal a level of optimism for a continued recovery in the real estate investment. 84% of the respondents interested in the Nordics are indicating that the market either already is in a recovery mode or will start to recover during 2025.

Plans to deploy capital mirror this view, with 94% of investors intending to maintain or increase their buying activity in 2025. 76% of the Nordic respondents expect to buy more than they did last year, cementing the view that market recovery is well underway. These findings provide a degree of optimism for the Finnish real estate market activity for 2025. Ever larger share of Nordic investors are seeing value-add as the most attractive strategy in deploying capital with 40% of respondents favouring this strategy, while core plus also increased popularity from the previous year (26%→35%).

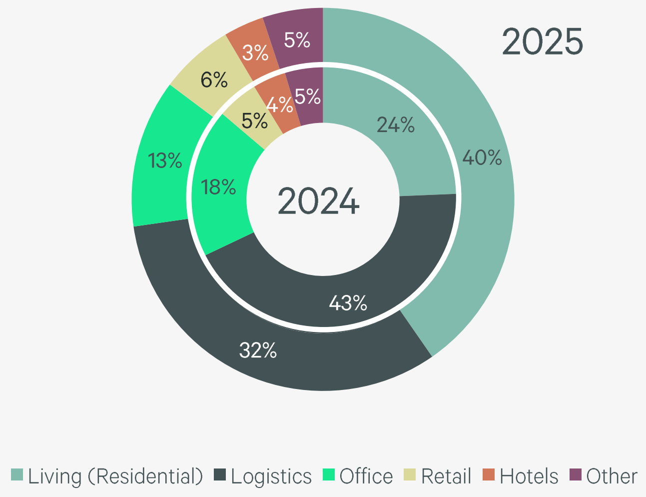
The challenges from higher interest rates and tighter credit availability cited in the 2024 edition of the IIS survey faded to the background in the 2025 survey results, where the mismatch in buyer and seller pricing expectations was quoted as the biggest challenge facing real estate investment, while geopolitical uncertainty and weak tenant demand were the other major challenges cited by Nordic investors in the 2025 survey.

Figure 6: Market recovery expectations for Nordic investors



Source: Nordic Investor Intentions Survey, CBRE Research, February 2025

Figure 7: Sector preference – 2025 vs. 2024



Source: Nordic Investor Intentions Survey, CBRE Research, February 2025

LIVING TAKES TOP SPOT FOR INVESTMENT DEMAND

The living sector has overtaken Industrial as the top real estate investment choice for the first time, favoured by 40% of Nordic respondents for 2025. While down on the previous year, logistics remains a strong second at 32%. office (13%) continued its decline, but retail deviated from the trend, with 6% of investors choosing it as their most preferred sector for 2025. Hotels did not yet see an increase in investor preferences despite the strong operational performance and tailwinds from tourism recovery.

OUTLOOK FOR 2025

In their search for scale, investors are increasingly looking at larger ticket sizes in Europe, and this demand for large transactions will support investment volumes also in the Finnish market in 2025. Investment activity in the Finnish investment market is expected to increase by 15% in 2025 as buyers and sellers continue to align their pricing expectations, driven by the interest rate cuts by the ECB and the continued favorable funding environment.

03 Office

The current trend in office spaces is a flight to quality, with grade A properties leading demand from both occupiers and investors. Companies are increasingly bringing employees back to the office, resulting in stricter attendance policies. Overall, office-based employment is expected to drive long-term demand for office spaces.

03
Office

Key takeaways

01

The Finnish office market faced continued challenging market conditions in 2024 - Office investment declined by 32% to €296 million in 2024. The office sector saw the widest repricing of all sectors in 2024, and prime office yields moved out by over 50 basis points. Better availability of financing and continued decreasing of interest rates are expected to boost investment in 2025.

02

Prime CBD office rent increased 15% year-over-year to €55/sqm/mth, while average rent only saw modest 3% growth. This divergence is attributed to new modern office buildings, such as Signe, which are setting a new standard for prime office space. Demand for the highest-quality buildings in strong transport locations is expected to remain high on both the investment and occupier sides in 2025.

03

In 2025, market polarization in the office occupier sector is expected to continue, driven by an increased emphasis on higher-quality working environments and the sustained flight-to-quality trend. As companies return to stricter office guidelines and shift away from standard hybrid working models, the demand for superior quality becomes essential. Tenants are increasingly favoring prime office locations and modern amenities, while secondary office areas are expected to face ongoing challenges.

03
Office

Gradual recovery in office investment expected

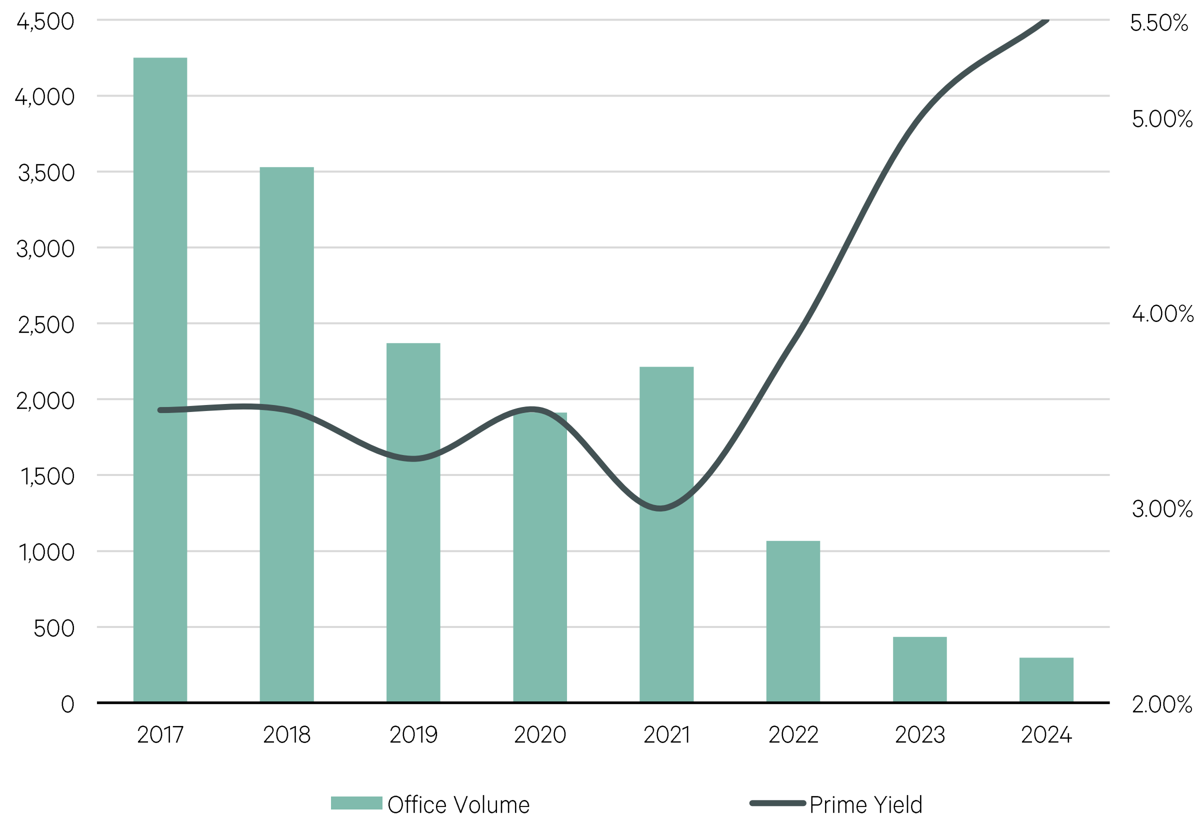
SUBDUED INVESTMENT IN OFFICE SECTOR IN 2024

Office investment declined by 32% to €296 million in 2024 as investors remained cautious in allocating capital to the sector. The flight-to-quality theme continued to be evident, with investor demand focused on prime office properties in key submarkets. The prime office yield shifted by 50 basis points to 5.50%, while the prime yield outside the CBD experienced a stronger shift of 75 basis points to 6.25% amid ongoing weak market conditions.

Cross-border capital remained robust in the Finnish office market, with 60% of the transaction volume coming from international investors. The volume primarily consisted of new development projects and a few prime office assets in prime locations. The most significant transactions of 2024 were KanAm's sale of a prime office property at Fabiankatu 9 to Colony, a green hybrid office company managed by Altaal AB, and VVT's acquisition of a prime office property in Tampere from Sponda in January. CBRE advised the sellers in both transactions.

For 2025, we expect the improved financing market environment to support further recovery in office investment, as the long-term drivers for the Finnish office market remain intact and current pricing levels offer appealing investment opportunities. Both investor and occupier demand are increasingly centered on modern, high-quality office premises located in key office submarkets.

Figure 8: Office investment volume (€ million) and prime office yield in Finland



Source: CBRE Research

03
Office

Flight-to-quality theme continues in the office market

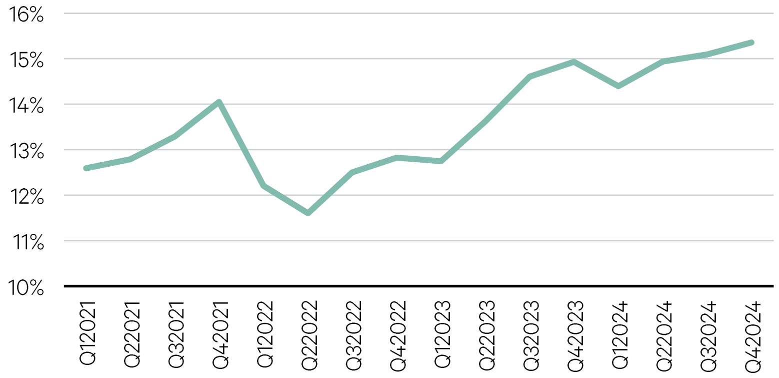
GRADE A OFFICES SEE HIGH OCCUPIER DEMAND

The office leasing market is gradually recovering, characterized by longer lease negotiation processes and a focus on prime submarkets in key transport locations. Prime rents in the Central Business District (CBD) have surged to €55 per sqm per month, reflecting a significant year-on-year growth of 15%. In contrast, average rents have seen a modest increase of 3%. This divergence in rental trends is largely attributed to the new modern office projects in central locations which are setting new standards for prime office spaces. Demand within the office occupier market is highly polarized: Grade A properties are experiencing robust interest, while secondary office stock is witnessing a notable decline in tenant interest.

SECTOR AND SIZE TRENDS

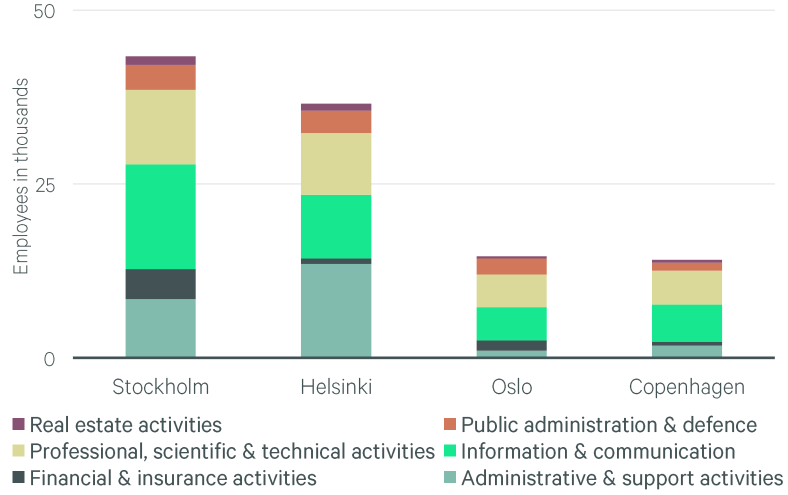
Downsizing continues to be the dominating trend for large office occupiers. Leases under 1,000 sqm are more common in the market, while larger deals are declining and facing prolonged negotiation periods due to the current economic climate. The Financial and Professional Services (FPS) and Technology sectors are leading in occupancy activity, with management consulting firms, law practices, and financial service companies actively seeking modern Grade A office spaces in key submarkets.

Figure 9: Vacancy rate in Helsinki Metropolitan Area



Source: CBRE Research, Helsinki Research Forum

Figure 10: Employment sector contribution to growth, 2024–2029



Source: CBRE Research, Oxford Economics

VACANCY RATE STARTING TO STABILIZE

As of the last quarter of 2024, the vacancy rate in the Helsinki Metropolitan Area (HMA) stands at 15.4%, up by 0.4% points year-over-year, while net take-up was -8,200 sqm in 2024. The HMA office market is grappling with high structural vacancy, with significant discrepancies between prime and secondary offices across key submarkets. The most significant decrease in vacancy rates occurred in Aviapolis, which saw a reduction of 1.9%, while Sörnäinen experienced the highest increase at 5.0%.

OUTLOOK FOR OFFICES IN 2025

In 2025, the strengthening economic environment, coupled with the forecast of nearly 37,000 office-based jobs by 2029 in the HMA, along with enhanced office attendance policies, are likely to boost demand for quality office spaces. Companies are increasingly implementing stricter attendance guidelines to foster collaboration and team cohesion. Despite these positive indicators, challenges remain. Ongoing portfolio downsizing, a focus on operational efficiency, and occupier caution regarding long-term lease commitments are significant factors influencing market dynamics.

The demand for higher-quality buildings in well-connected transport hubs is expected to remain strong in 2025, driving continued rental growth in the premium segment of the market.

03
Office

Demand for prime office premises drive construction activity

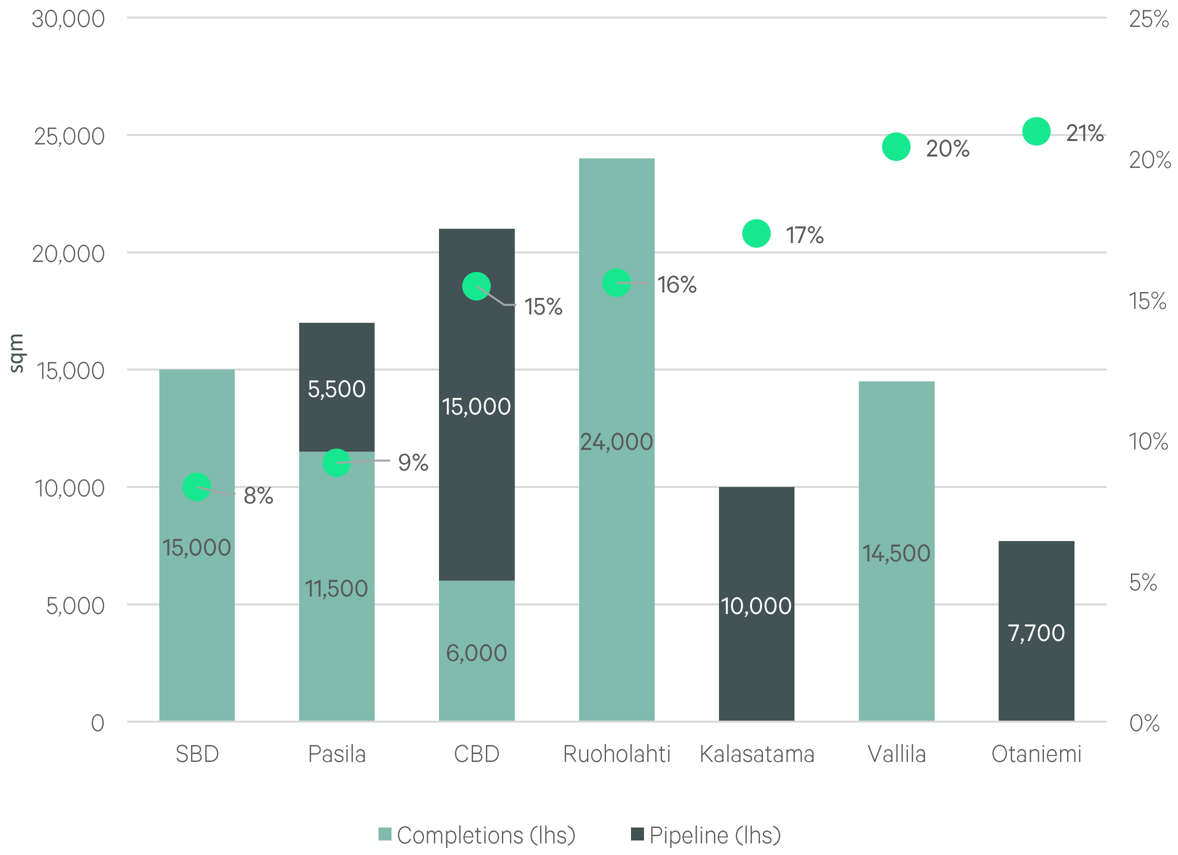
LARGE PROJECTS ON THE PIPELINE FOR UPCOMING YEARS

The Helsinki Metropolitan Area office market saw 103,000 sqm of new office completions in 2024. In 2025, a modest addition of 33,000 sqm of new office space is expected to be constructed in the HMA, which is below the long-term average of 80,000 sqm. Several speculative developments have been postponed due to market uncertainty.

In 2024, significant developments included the WeLand and Wood City office buildings in Ruoholahti, providing 18,000 sqm and 6,000 sqm of new office space, respectively, along with the 11,500 sqm Ilmalan Aura office in Pasila. Looking ahead to 2025, the standout project anticipated for completion in the second quarter is Kalasataman Horisontti, Finland's first skyscraper office building, soaring over 100 meters. Additionally, the Innopoli 4 office building in Otaniemi will offer 5,700 sqm of modern office space. Skanska also announced a €90 million investment into a new office development project in Pasila. The project is expected to be completed in the second quarter of 2027. The 14-storey building will feature approximately 15,000 sqm of modern office space.

The strong demand for modern grade A office spaces is set to fuel construction activity in the coming years, with notable projects like Signe in the CBD, Firdo and The Node in Pasila, and Keilaniemen Portti leading the way. However, the Helsinki Metropolitan Area office market faces challenges, as a significant portion of the office stock consists of structurally obsolete properties. Submarkets, where vacancy rates are above 20%, such as Pitäjänmäki, Sörnäinen, and Vallila, present opportunities for conversion into residential or alternative property types.

Figure 11: Office completions and pipeline and vacancy rate in selected submarkets



Source: CBRE Research, Helsinki Research Forum, KTI

04

Industrial & Logistics

In 2024, the I&L sector had the highest share of investment in Finland and investment volumes grew 9% to €677 million. For 2025, we expect the improved financing market environment to support further recovery in the I&L market across different subsectors.

04
Industrial & Logistics

Key takeaways

01

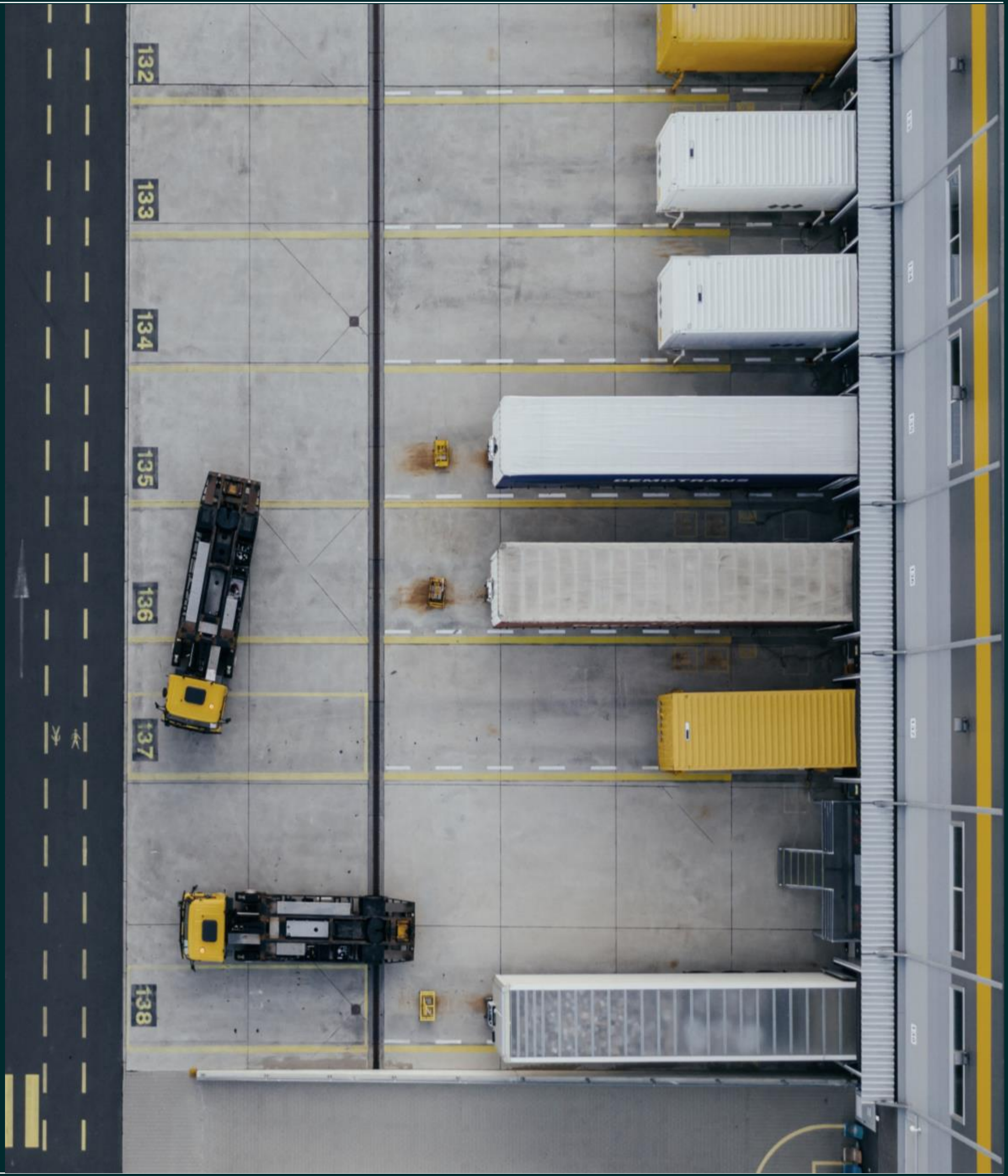
The Finnish Industrial and logistics (I&L) market attracted the highest share of investments (27%) in 2024 - I&L investment increased by 9% to €677 million in 2024. The prime logistics yield remained stable at 5.50%. Better availability of financing and continued decreasing of interest rates are expected to further increase investment activity in 2025.

02

In 2024, the logistics occupier market faced reduced demand and longer negotiation processes due to economic challenges, resulting in a vacancy rate increase to 5%. However, demand for prime industrial properties remained strong, with modern spaces under 1% vacancy. A projected economic recovery is expected to boost leasing activity and reduce vacancies in 2025.

03

In 2024, the Helsinki Metropolitan Area (HMA) saw approximately 70,000 square meters of new space I&L completed. Looking ahead to 2025, the pipeline is robust, with major developments expected to drive the total new I&L space in HMA to 110,000 square meters, over the historical average of 80,000 square meters.



04
Industrial & Logistics

Industrial and logistics the largest sector in 2024

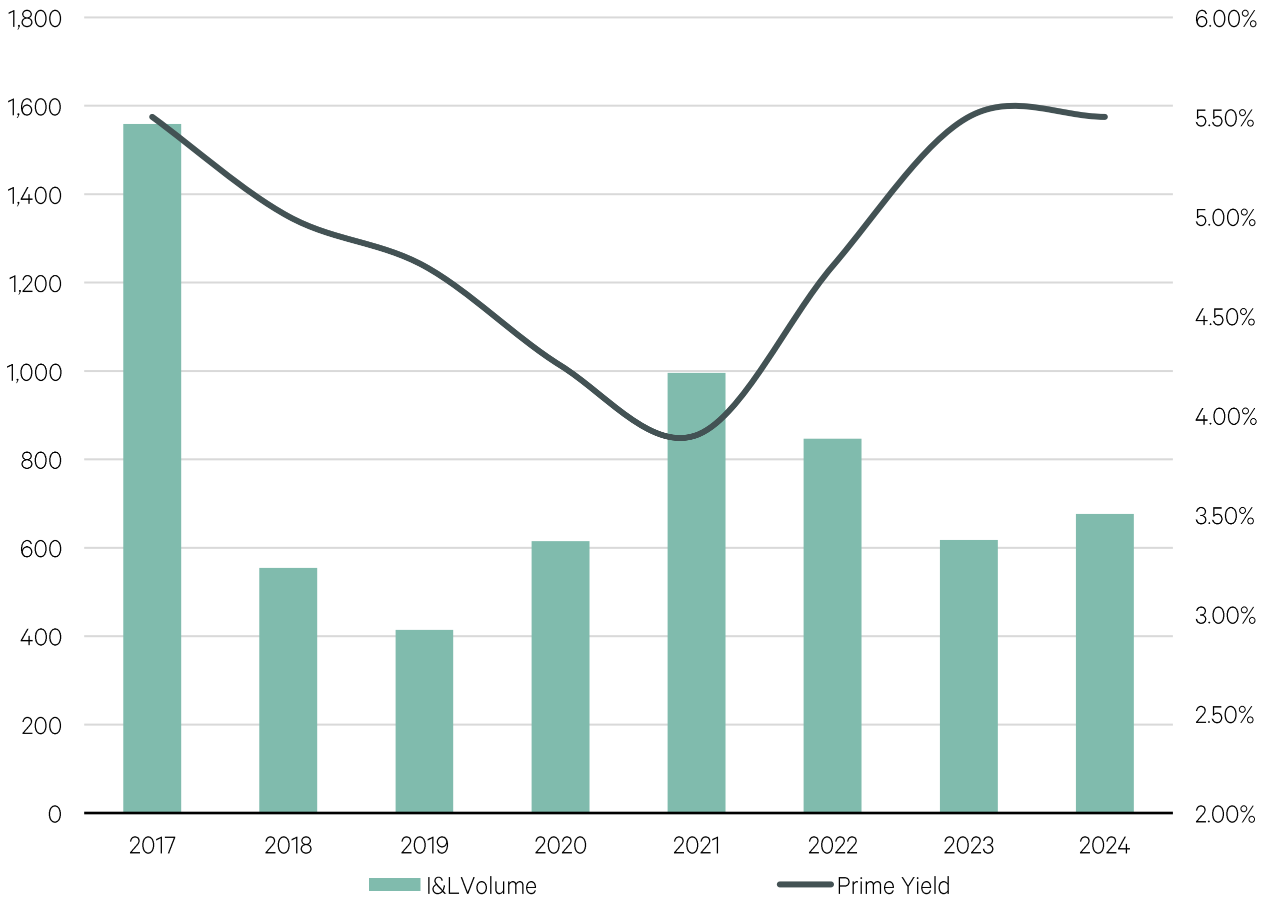
I&L SECTOR SEES STRONG INVESTOR DEMAND IN 2024

Industrial and Logistics (I&L) investment increased by 9% to €677 million in 2025, as investors remained active in allocating capital to the sector. The I&L sector recorded the highest share of investment volume across all sectors, accounting for 27% of the total volume, and the investment activity ranged wide into different industrial subsectors.

Prime yields remained stable throughout 2024 in all subsectors, with logistics yields standing at 5.50%, prime warehouse yield at 6.75%, and prime light industrial yield at 7.75%. Cross-border capital remained active in the Finnish I&L market with 60% of the volume coming from international investors. Blackstone's acquisition of a 22-asset urban logistics portfolio from Nrep for €135 million in June was the largest transaction in 2024. Logian continued the expansion of its investment platform completing two major transactions in the third quarter by acquiring over 57,000 sqm of logistics space with the purchase of two modern logistics properties in Tuusula from OP and a logistics asset in Aviapolis from abrdn. Other notable deals included Barings' acquisition of Berner's logistics property in the key logistics submarket of Viinikkala in Vantaa.

For 2025, we expect the improved financing market environment to support further recovery in the I&L market. Yields are anticipated to begin compressing in 2025, as the availability of financing and decreasing interest rates boost investor demand. A growing number of investors, both domestic and international, are looking to deploy capital in the Finnish I&L market.

Figure 12: I&L investment volume (€ million) and prime I&L yield in Finland



Source: CBRE Research

04
Industrial & Logistics

Demand for prime properties remains robust

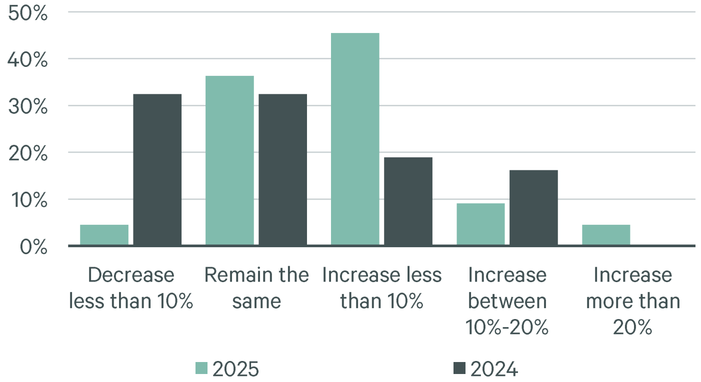
OCCCUPIER ACTIVITY EXPECTED TO INCREASE IN 2025

In 2024, the logistics occupier market experienced softer demand due to reduced activity levels among businesses navigating weakened economic conditions. The cautiousness among occupiers has resulted in longer negotiation processes for signing leasing agreements. The vacancy rate increased to 5% in the last quarter of 2024, driven by the completion of new development sites. Despite these headwinds, the demand for prime industrial and logistics properties in key submarkets remained robust, highlighting a persistent interest in high-quality spaces. The vacancy rate in modern >10,000 sqm premises remains below 1%.

During 2024, rental levels began to stabilize, and prime rent levels are not expected to rise in the near term. While the rise in e-commerce will drive demand for logistics space in the long term, currently the main demand driver is companies optimizing their supply chains. Industrial companies are prioritizing location and exploring new opportunities for existing sites that do not align with current ESG standards. Location is essential, and demand is centered on key logistics submarkets with secondary markets experiencing increases in vacancy.

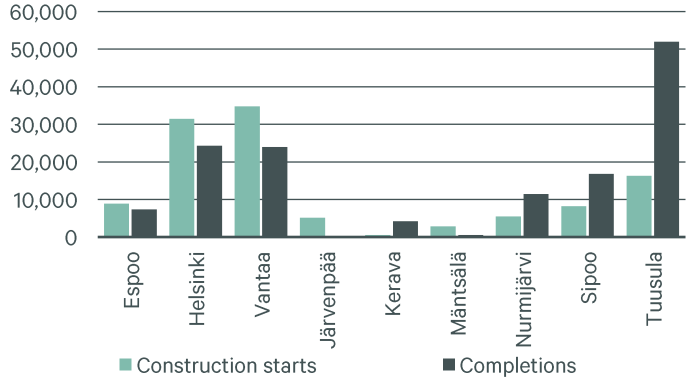
The expectation of a strengthening economic outlook is projected to increase leasing activity, and the vacancy rate is anticipated to start decreasing in 2025. CBRE Nordic Investor Intentions Survey 2025 indicates that investor confidence in occupier demand has grown, with nearly 60% of investors interested in the Finnish I&L market expecting an increase in demand, up from 35% last year.

Figure 13: Occupier demand for logistics assets expectation compared to previous year



Source: CBRE Nordic Investor Intentions Survey, February 2025

Figure 14: Construction starts and completions in 2024



Source: CBRE Research, Statistics Finland
Note: Data coverage is until October 2024

SEVERAL LARGE COMPLETIONS EXPECTED IN 2025

In 2024, the logistics sector in the Helsinki Metropolitan Area (HMA) saw the completion of approximately 70,000 square meters of new logistics space. This development ranked second to Greater Helsinki's total of 100,000 square meters of new industrial and logistics space.

The HMA accounted for most of the new I&L construction starts in 2024 up to October, totaling 75,000 sqm, compared to Greater Helsinki, which recorded 38,600 sqm during the same period. Key I&L completions in 2024 included Logicenters' 11,000 square meter logistics center for DSV Solutions, a 9,000 square meter facility for Haugen-Gruppen in Nurmijärvi, and Logicenters' 38,000 square meter logistics center in Tuusula, with Alfaroc as the main tenant.

Several notable projects are expected to be completed in 2025. The largest developments in Greater Helsinki include Kesko's 89,000 sqm logistics center in Hyvinkää, Posti's 35,000 sqm warehouse in Järvenpää, and Makita's 24,000 sqm logistics property in Tuusula. The most significant developments in the HMA are Okmetic's 42,500 sqm industrial property in Vantaa and IKEA's 19,600 sqm distribution center in Espoo. In 2025, we expect to see 110,000 sqm of new I&L space in the HMA, exceeding the average level of 80,000 sqm of new completions.

05
Living

In 2024, the living sector ranked as the second-largest investment sector in Finland, with a transaction volume of €560 million. The long-term fundamentals of the Finnish living market, including urban population growth and a low level of regulation, continue to attract investor demand.

05
Living

Key takeaways

01

In 2024, living investment in Finland increased by 5% to €560 million, making it the second highest investment sector with a 22% share of the total volume. The prime yield in the Helsinki Metropolitan Area (HMA) remained stable at 4.50%, while Turku and Tampere recorded yields of 5.00%.

02

In November, average sales prices of old dwellings decreased by 2.8% in the HMA, 5.0% in Tampere, and 2.7% in Turku. However, a price rebound is forecasted in 2025, supported by continued ECB rate cuts, alongside low new housing supply and strong population growth in major cities.

03

New construction starts in Finland hit a low in 2024, with gradual recovery projected in 2025. The anticipated completion of 17,000 new apartments in 2024 and 20,000 in 2025 falls short of the long-term demand of 38,000. Significant increases in supply are not expected until 2027.

05
Living

Living expected to attract the most investor interest in 2025

LIVING SECTOR OVER 20% OF THE TOTAL INVESTMENT

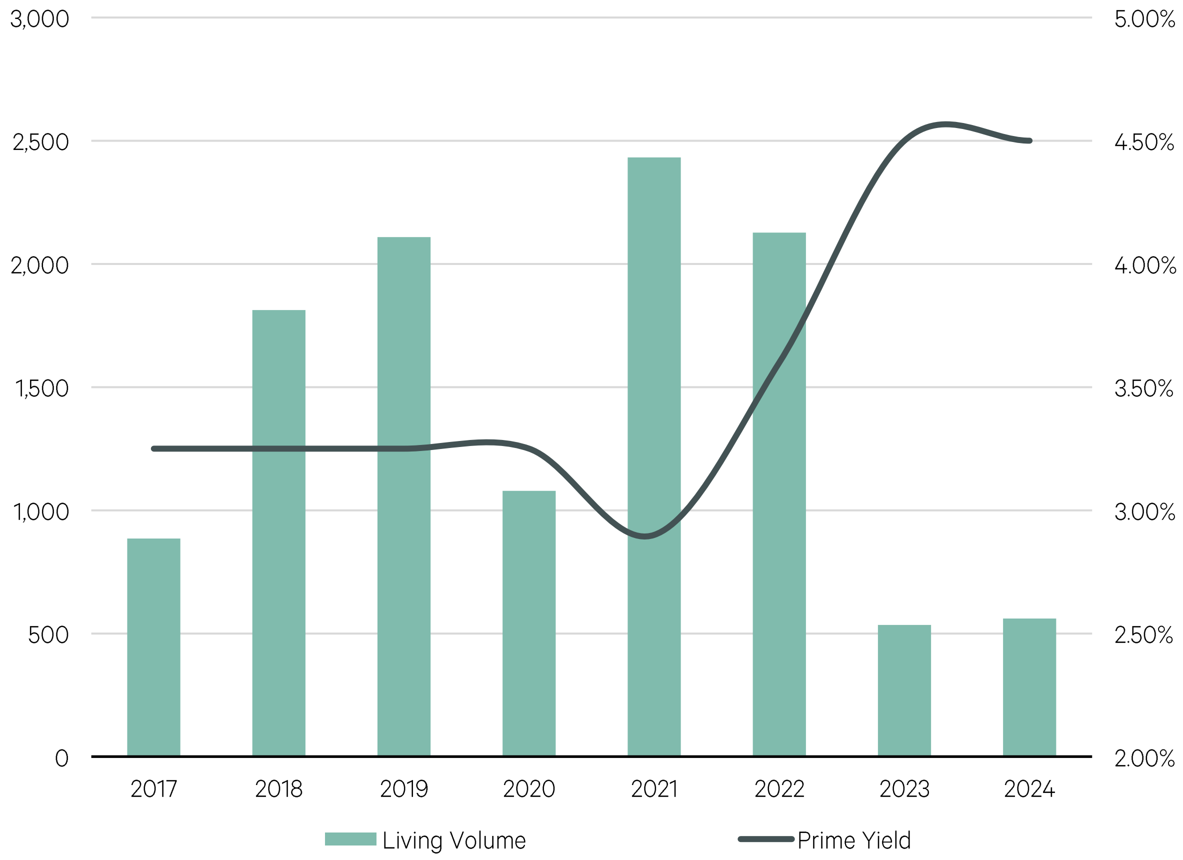
Living investment increased by 5% to €560 million in 2024, making the living sector the second highest share of investment volume across all sectors, accounting for 22% of the total volume. Cross-border capital remained strong in the Finnish living market, with 53% of the volume coming from international investors.

The most active seller group were the open-ended real estate funds, while majority of the investment activity, especially the larger deals, was centered in the Helsinki Metropolitan Area. Slättö was one of the most active players in the Finnish living market with two notable portfolio acquisitions consisting of approximately 800 apartments. Sirius Capital Partners was also an active buyer, acquiring ca. 650 apartments in three separate deals, with locations ranging from the HMA and Greater Helsinki to Turku and Tampere.

According to CBRE's Nordic Investor Intentions Survey 2025, the living sector is the most sought-after sector with 40% of respondents identifying it as their preferred sector. Investors reported that value-add properties are their main interest; however, core investments are also attracting attention. Investors view the occupier market favorably, as 85% of respondents believe there will be a moderate to strong increase in the upcoming three years.

For 2025, we expect the improved financing market environment to support further recovery in the living market. Yields are expected to see slight compression as the availability of financing and decreased interest rates will boost investment demand.

Figure 15: Living investment volume (€ million) and prime living yield in Finland



Source: CBRE Research

Strong urbanization driving the growth

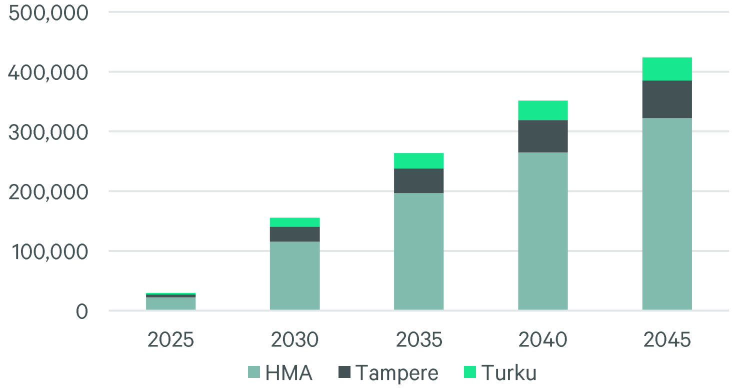
DEMOGRAPHIC TRENDS DRIVING HOUSING DEMAND

The Finnish housing market is currently shaped by significant demographic trends, the continued urbanization and the rise in the number of households due to declining average household sizes. These factors are poised to significantly boost housing demand, particularly in major urban areas. The Golden Triangle—comprising of Helsinki, Turku, and Tampere—is forecast to see strong population growth.

The HMA is expected to gain approximately 115,000 new residents by 2030, while Tampere and Turku anticipate increases of 25,000 and 15,400 inhabitants, respectively, translating to growth rates of 9.2%, 9.5%, and 7.5%. As one of Europe's fastest-growing metropolitan regions, the HMA's population is projected to increase by nearly 26% by 2045, underscoring a robust demand for housing..

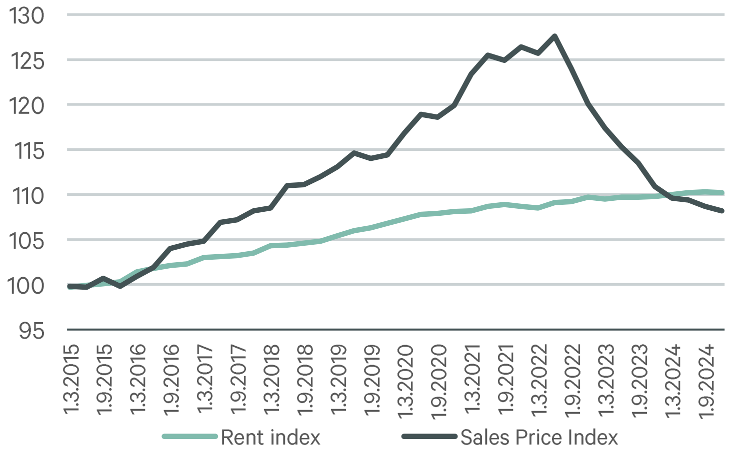
The Finnish residential market is recognized as one of the most transparent and least regulated in Europe with no expected tightening of government regulations. Investors benefit from transparent market practices and rental laws that impose minimal restrictions on rental rates and lease durations. In 2024, the Finnish government introduced reductions in transfer taxes aimed to enhance residential sales and revive construction activities.

Figure 16: Cumulative population growth forecast until 2045



Source: CBRE Research, Statistics Finland

Figure 17: Price vs Rent index growth in the HMA



Source: CBRE Research, Statistics Finland (Index 2015 = 100)

SALES PRICES PROJECTED TO RECOVER IN 2025

In the last quarter of the year, the average sales price of existing dwellings in the HMA declined by 1.4% year-on-year, with prices falling by 3.6% in Tampere and only slightly by 0.1% in Turku. Due to a recent drop in housing prices, rental growth since 2015 has exceeded the price growth of apartments in the HMA. However, a shift toward price growth is anticipated in 2025, supported by multiple rate cuts from the European Central Bank and a 170-basis point decline in the twelve-month Euribor, the most common lending rate. This decline is expected to rejuvenate the housing market and unleash pent-up demand. Additionally, the combination of low new housing supply and strong population growth in major cities further reinforces this positive trend.

GROWTH EXPECTED TO OUTPACE INFLATION

Average rents saw modest increases in Q4, rising by 0.4% in the HMA, 2.1% in Turku, and 2.4% in Tampere on a year-over-year basis. The current high supply of rental homes has resulted in subdued rental growth in the HMA compared to overall consumer prices. However, the number of rental apartments has not significantly increased this year, largely due to a slowdown in construction amidst accelerated population growth in major cities. The absorption of rental stock is expected to improve in the coming years, leading to an upward trend in rental growth. Moreover, the increasing popularity of renting and falling household sizes will further contribute to this trend.

05
Living

Gradual recovery in sight for construction

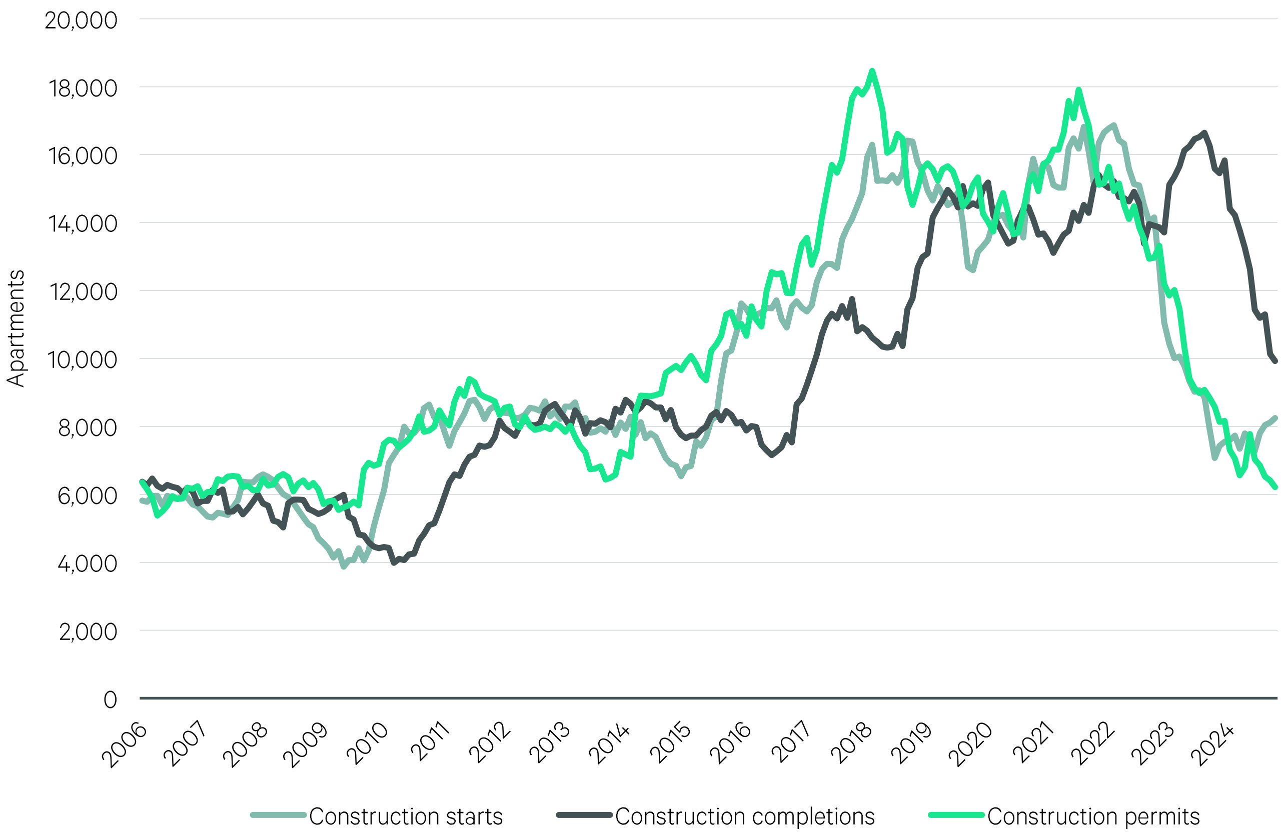
CONSTRUCTION ACTIVITY REACHED LOW POINT IN 2024

The construction starts reached their lowest point in 2024, with a gradual recovery expected to begin in 2025. The Confederation of Finnish Construction Industries (CFCI) estimates that the completion of new apartments in 2024 will total around 17,000 nationwide, while 2025 may see a rise to 20,000 units—still significantly short of the long-term need for 38,000 apartments. In the HMA, completions have decreased by 40%, and construction starts have declined by 51% from the peak values of the past two years. The long-term demand for apartments in the HMA is projected to be approximately 12,000 apartments per year.

The sales for new residential apartments continues to be weak and is also stalling the pickup in construction activity. The expected turnaround in residential construction is being delayed due to the recent wave of open-ended fund closures, the substantial price gap between new and existing apartments, and high construction costs. Profitability for new projects remains challenging, leading construction companies to exercise caution in initiating new developments, even when permits are in place.

Over the past two years, the government owned and subsidized rental apartments (ARA-asunnot) have accounted for approximately half of all residential construction. The supply of non-subsidized dwellings is projected to recover slowly and there is no quick recovery in construction or overall supply expected until 2027.

Figure 18: Trailing Twelve-month construction permits, starts and completions in the HMA since 2006



Source: CBRE Research, Statistics Finland

06

Retail

Falling interest rates and improving real incomes will boost retail sales and consumer spending in 2025. Retail investment will focus on necessity driven assets, such as supermarkets and retail parks and big boxes.

06
Retail

Key takeaways

01

In 2024, retail volumes increased by 17% year-over-year to €230 million, representing 9% of total transactions. Prime retail yields in high street and shopping centres increased by 50 basis points to 6.00% and 6.50%, while retail parks experienced a slight compression to 8.00%.

02

In 2024, Finland saw a gradual recovery in disposable income due to falling headline inflation, interest rate cuts, and nominal wage growth, with inflation-adjusted personal disposable income showing slight growth. Despite this modest recovery, consumer spending rebounded to pre-pandemic levels and is expected to accelerate in the coming years.

03

Improving consumer fundamentals are anticipated to drive a recovery in leasing activity throughout 2025. However, prime rent levels for high street and shopping center spaces have declined over the past year due to weaker economic conditions and reduced demand.

06
Retail

Retail volume remain modest in 2024

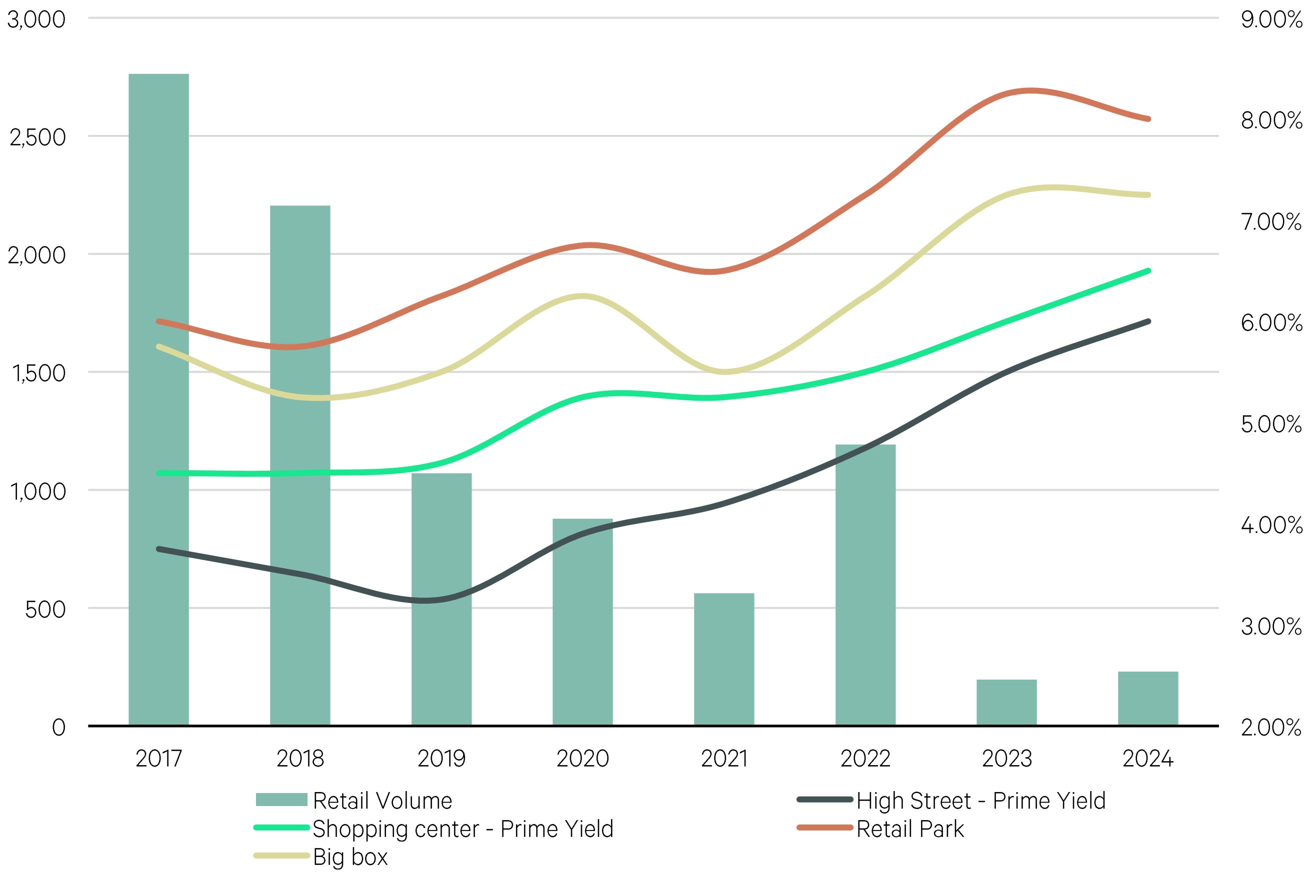
RETAIL INVESTMENT REMAINED SELECTIVE IN 2024

Retail volumes increased by 17% year-over-year to €230 million in 2024, accounting for 9% of the total volume. Retail transactions varied across different asset types, with the largest transactions involving shopping centres, big box assets, and retail parks. Open-ended real estate funds were the largest vendor group, as over 80% of the volume resulted from these funds liquidating their assets. The largest transactions of the year included eQ Commercial Properties Fund selling the big box retail asset in Espoo to Swiss Life, as well as the sale of Citymarket in Salo and the Sinikallio shopping centre in Espoo to Kesko.

The pricing environment for retail became clearer during 2024 as interest rates started to trend lower and buyer and seller expectations aligned. Prime retail yields in high street and shopping centres increased by 50 bps to 6.00% and 6.50%, respectively. The big box prime yield remained unchanged at 7.25%, while the retail park yield was the only yield in 2024 to compress, decreasing by 25 bps to 8.00%. Yield movement has stabilized for shopping centres, retail parks, and big box assets, while the outlook for high street prime yields remains cautious, with limited investor interest in this asset type.

Investors are increasingly looking at larger ticket sizes in Europe, and the newly found interest for European retail from opportunistic and value-add funds may cause spillover effects to the Finnish investment market. There are active transaction processes in the Finnish retail market, and the rising demand for larger lot sizes is expected to boost investment activity, especially in shopping centres.

Figure 19: Retail investment volume (€ million) and prime retail yields in Finland



Source: CBRE Research

06
Retail

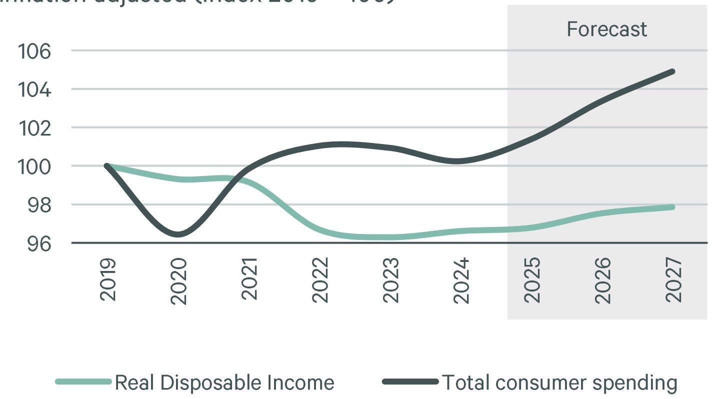
Demand focused on low-cost retail in 2025

CONSUMER FUNDAMENTALS TO CONTINUE TO IMPROVE, BUT AT MODERATE RATES

In 2024, a fall in headline inflation and interest rate cuts, combined with continued nominal wage growth, has led to a gradual recovery in disposable income. According to Oxford Economics, inflation-adjusted personal disposable income grew slightly in Finland, and this recovery is expected to remain modest in the upcoming years. However, despite the sluggish recovery of real incomes, consumer spending has rebounded to pre-pandemic levels and is expected to grow more swiftly in the coming years. While consumer confidence is still below the long-term average, it has clearly increased from the previous year's lows.

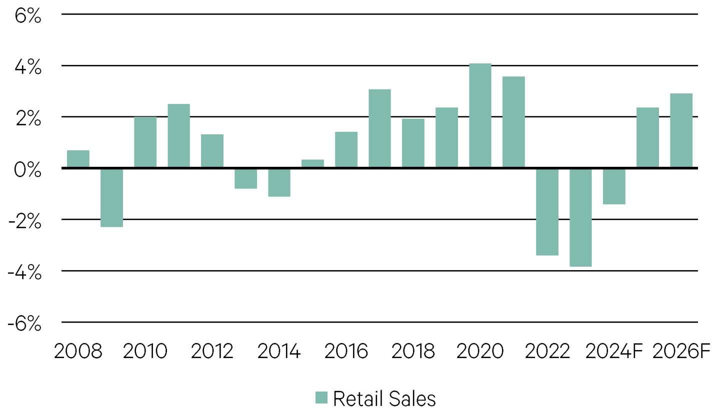
According to the Finnish Shopping Centre Association, shopping centres experienced growth in sales and footfalls. The trailing twelve-month footfalls increased by 4.5%, and total sales rose by 1.5% at the end of the third quarter in 2024. Finnish retail market is dominated by shopping centres, which continue to attract sales and foot traffic away from high street retail, even in central Helsinki and its suburbs. This trend poses challenges for traditional retail formats as consumer preferences shift towards the convenience of one-stop shopping experiences.

Figure 20: Personal disposable income and consumer spending, inflation adjusted (Index 2019 = 100)



Source: Oxford Economics, CBRE Research

Figure 21: Retail sales volume change (%) to previous year



Source: CBRE Research

NECESSITY DRIVEN RETAIL LEADS ACTIVITY

In Finland, consumer behavior is increasingly centered around convenience, driving a preference for easily accessible and necessity driven retail locations. Consumers are gravitating toward stores that offer quick and efficient shopping experiences, particularly in urban areas. The low-cost retail players such as Normal, Jula, Tokmanni, and Puuilo have been expanding their footprint by opening new locations across Finland.

However, not every sector in retail is thriving; consumer durables, construction supplies, gardening products, and furniture have faced difficulties in the 2023/2024 market. Additionally, electronics retailers are grappling with challenges due to decreased demand and elevated inventory levels following the pandemic. The food and beverage sector has shown resilience; however, it is now seeing a more challenging market landscape.

As a result of improving consumer fundamentals, leasing activity is expected to start recovering throughout 2025. High street and shopping centre rent levels have stagnated over the past year due to weakened economic circumstances and lowered demand. Leasing activity is increasingly focused on smaller retail premises, and lessors now have more negotiating power, leading to flat rental growth expectations.

07

Hotels

In 2024, Finland's hotel market saw strong year-on-year performance growth as Revenue Per Available Room has increased swiftly in Helsinki and Lapland. The main driver for increased performance has been growing number of foreign visitors.

07
Hotels

Key takeaways

01

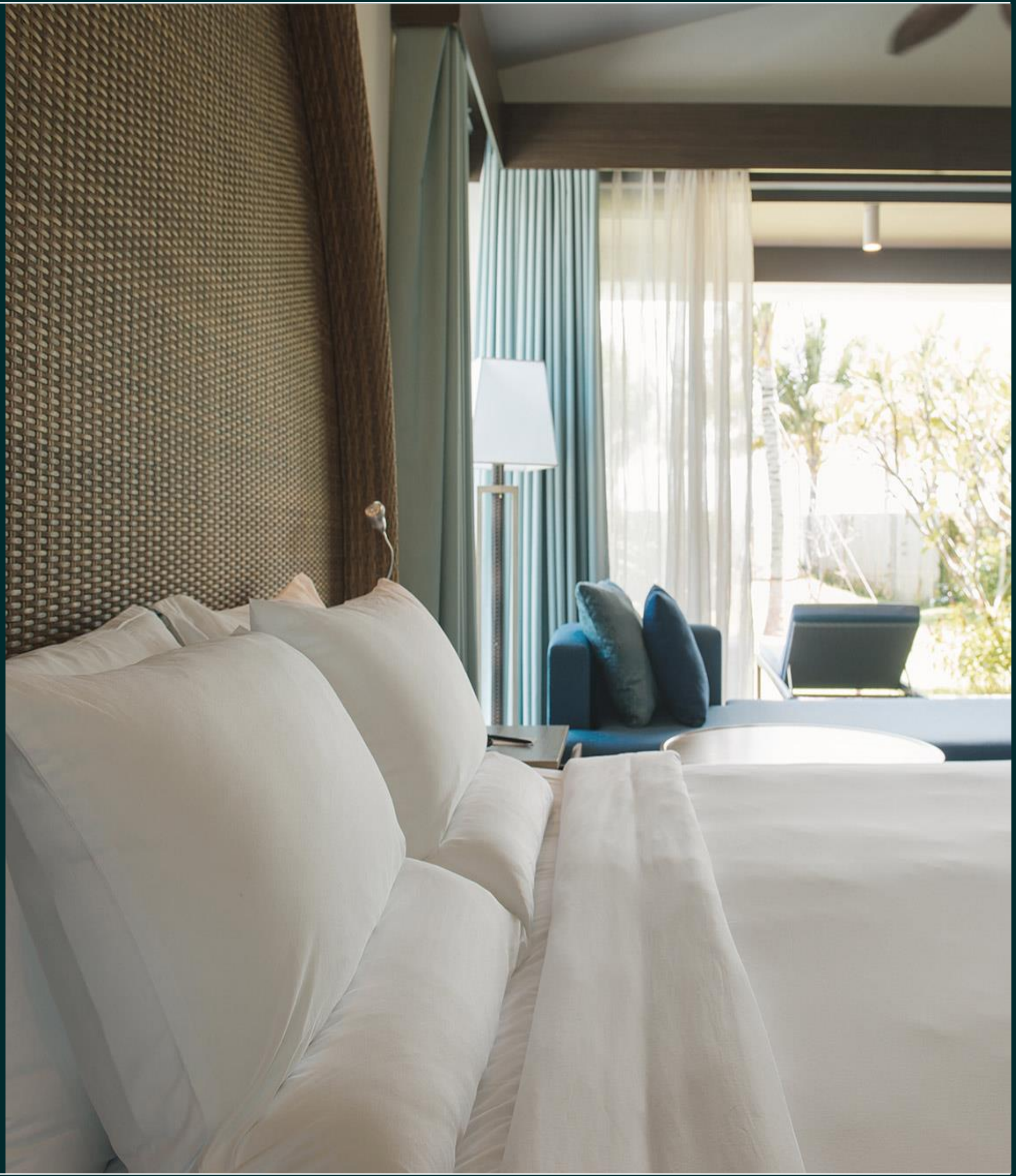
The Finnish hotel investment market remained subdued in 2024, highlighted by only two transactions. Prime hotel yields in Helsinki increased by 50 basis points to 6.00%.

02

The Finnish hotel market experienced strong year-over-year increase in Revenue Per Available Room (RevPAR), with Helsinki, Kittilä, and Rovaniemi seeing significant growth driven by rising occupancy rates and increased tourism, particularly from international visitors.

03

The Finnish hotel industry is expanding, particularly in Helsinki, with several new openings enhancing accommodation options, including the Luxury scale Hotel Grand Hansa and the Clarion & Comfort hotel near Helsinki-Vantaa airport. Looking ahead to 2025, additional projects are set to add 400 new rooms, with a strong focus on central locations in Helsinki.



07
Hotels

Lapland and Helsinki seeing strong growth in international arrivals

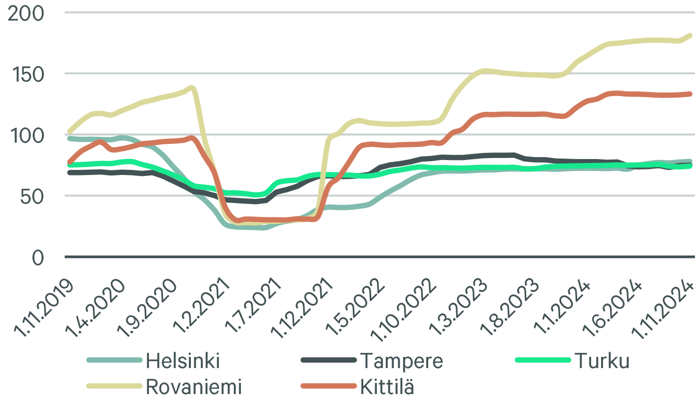
STRONG REVPAR GROWTH IN LAPLAND AND HELSINKI

The Finnish hotel investment market remained subdued in 2024 – The sector saw only two closed transactions with the largest being Keva's acquisition of the Sokos Hotel Vaakuna from Osuuskauppa Arina in Rovaniemi in December. The prime hotel yield in Helsinki decompressed by 50 basis points to 6.00% during 2024.

The Finnish hotel market has seen a year-over-year increase in Revenue Per Available Room (RevPAR), with Helsinki experiencing 8.2% growth, while Lapland cities Kittilä (15.3%) and Rovaniemi (14.1%) have also witnessed significant increases. This uptick is primarily driven by rising occupancy rates, which can be attributed to the increasing amount of tourism. In contrast, Turku's RevPAR has remained stagnant, while Tampere has seen a 4.1% decline compared to the previous year. Both cities have experienced a decrease in overnight stays, with foreign visitors being disproportionately affected.

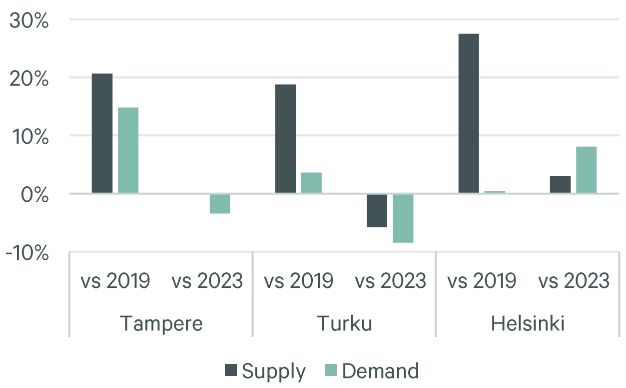
Helsinki, on the other hand, has recorded a notable 9.2% increase in overnight stays, driven primarily by a 17.1% surge in arrivals from abroad, as well as Rovaniemi and Kittilä, which have seen slight growth of 1.7% and 1.4%, respectively. Domestic overnight stays decreased, while international stays increased notably, with 10.1% and 8.5% growth rates, respectively. Finland has become a hot spot for winter travels in Lapland, with 76% of travelers choosing Finland as their destination compared to 24% who choose Sweden or Norway.

Figure 22: Rolling 12-month RevPar in selected cities



Source: CBRE Research, Statistics Finland

Figure 23: Hotel supply and demand vs 2019 and vs 2023



Source: CBRE Research, Statistics Finland

SEVERAL NEW HOTELS OPENED IN 2024

The Finnish hotel industry has seen multiple new openings in Helsinki, enhancing the city's accommodation options. Notably, Luxury scale Hotel Grand Hansa opened its doors in in May, introducing 224 rooms to the market. Additionally, City Box hotel launched its Kallio location, featuring 178 rooms. Also, Bob W expanded its presence by repurposing a former office building into a new aparthotel estate on Kasarmikatu 40. The largest hotel project in Finland was the completion of the Clarion & Comfort hotel near Helsinki-Vantaa airport, consisting of 716 rooms. Looking ahead to 2025, three major projects are in the pipeline: an apartment hotel and two extension projects, Radisson Blu Royal and Scandic hotel, which will collectively add 400 new rooms to the market. All of these new additions will be situated in central areas of Helsinki.

SUPPLY AND DEMAND

From 2019 to 2023, the hotel landscape in Finland's key cities—Tampere, Turku, and Helsinki—demonstrated significant shifts in supply and demand. Tampere experienced an increase in hotel supply by 20.6% alongside a 14.8% rise in demand, indicating a healthy growth trend, though occupancy has lagged behind new capacity. Turku, however, faced a decline with supply decreasing by 5.8% and demand dropping 8.5%, highlighting challenges in attracting visitors. In contrast, Helsinki's hotel supply surged by 27.5% compared to 2019, while demand has recovered slightly above pre pandemic level.

08

Social infrastructure

In 2024, investment in social infrastructure investment increased by 16% to €558 million, making it the third-largest sector, accounting for 22% of total investment volume. The long-term demographic and structural megatrends of ageing population and public-to-private outsourcing keep driving the growth for the sector.

08
Social infrastructure

Key takeaways

01

In 2024, investment in social infrastructure investment increased by 16% to €558 million, making it the third-largest sector, accounting for 22% of total investment volume. Prime yields remained stable at 5.50% for elderly care and 6.00% for daycare in the Helsinki Metropolitan Area.

02

Finland is experiencing the fastest population ageing rate in Europe. By 2045, the number of individuals aged 75 or older is projected to increase by 43%, reaching a total of 268,000 people. Currently, 7% of those over 75 and 16% of those over 85 reside in social care housing services. If this trend continues, an additional 24,400 permanent residents are expected in these services by 2045.

03

Healthcare costs represent a substantial portion of the Finnish economy, making up the third-largest expenditure category. In 2022, healthcare costs were estimated at €27 billion, equating to over 10% of the country's GDP.

08
Social infrastructure

Social infrastructure keeps attracting investor demand

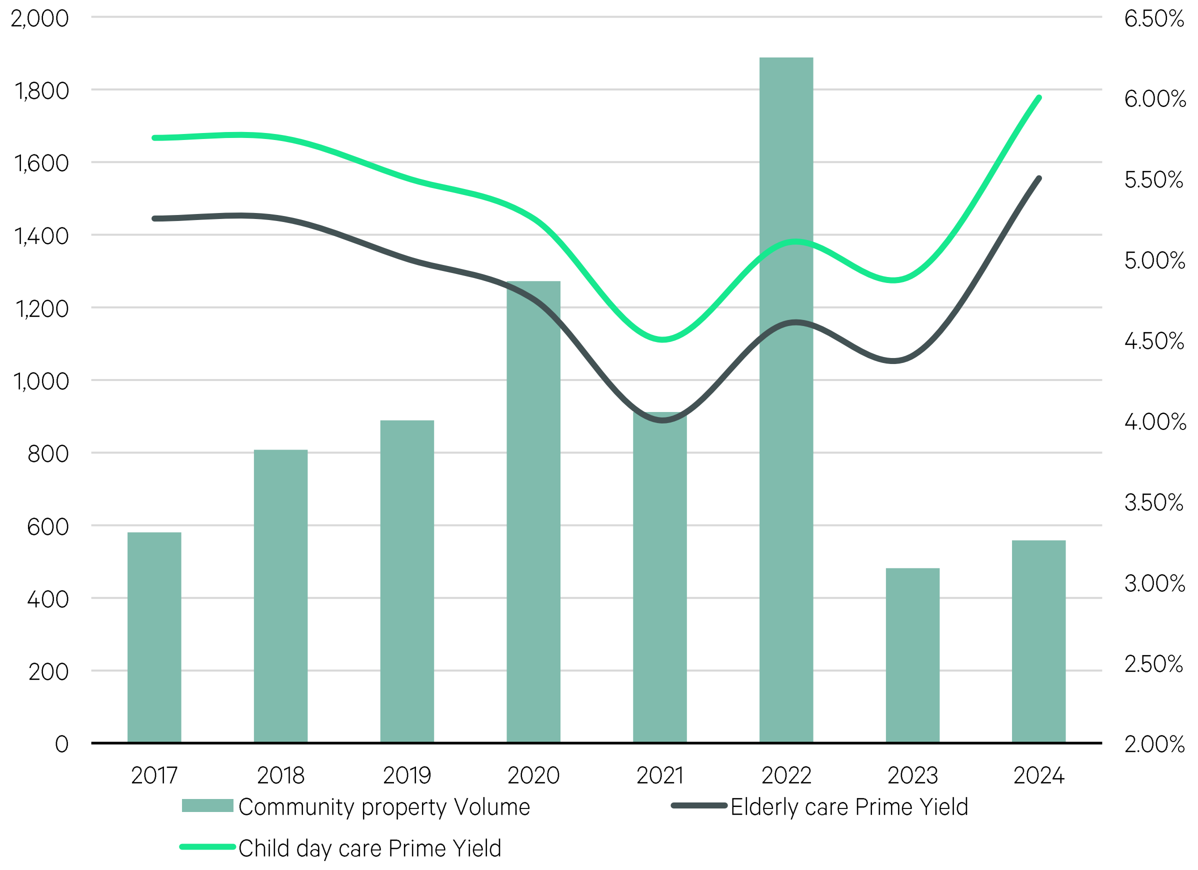
ACTIVE INVESTMENT MARKET FOR SOCIAL INFRASTRUCTURE

Social infrastructure investment increased by 16% to €558 million in 2024, making the sector the third largest in the Finnish market, accounting for 22% of the total. The prime yield in the Helsinki Metropolitan Area for elderly care remained stable throughout 2024 at 5.50%, while the prime yield for day care stood at 6.00%. International capital was strong in the Finnish social infrastructure property market with 70% of the volume coming from international investors in 2024.

In February, Castlelake formed a joint venture with SBB to support SBB Infrastructure AB, facilitating significant investment in the Finnish real estate market. This financing enabled SBB Infrastructure to acquire properties across the Nordics and refinance existing debt owed to SBB. This transaction was the largest in the sector, while other notable social infrastructure transactions, particularly in medical properties, including Niam's acquisition of two medical care properties in Helsinki and Alma Property Partners, together with Lumme Palvelukiinteistöt, purchasing eight new care homes in Finland for €30 million.

Social infrastructure remains attractive to investors due to its lower risk profile and long net lease terms, typically 15 years or more. Demand is less affected by economic cycles, and tenants are often public entities or private operators providing legally mandated social services. An aging population in Finland, projected to increase by over 37% for those aged 75 and older by 2045, further supports the sector's growth.

Figure 24: Social infrastructure investment volume (€ million) and prime elderly and child day care yields in Finland



Source: CBRE Research

08
Social infrastructure

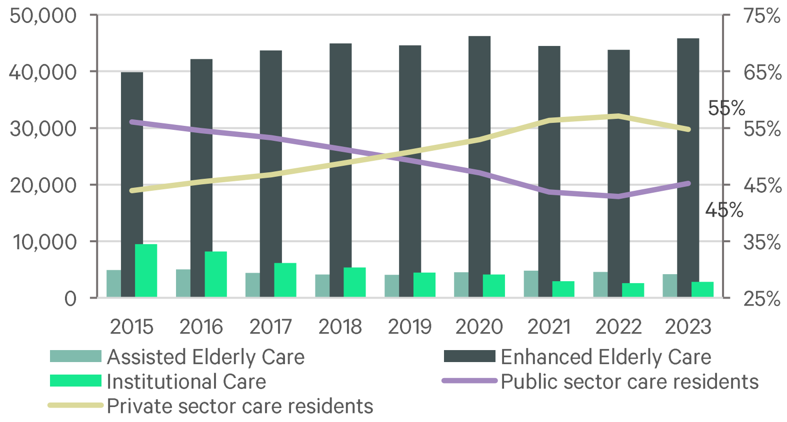
Construction starts and rental market dynamics

FINNISH SOCIAL INFRASTRUCTURE MARKET

In 2022, healthcare costs were third largest expenditure at €27 billion and over 10% of Finland's GDP. In Finland, private operators play a critical role in the provision of social care housing services, accounting for 55% of the total market. In 2023, these services accommodated 82,700 clients, highlighting their vital role in supporting the elderly population. The demand for social care housing services continues to rise, with total care days reaching 17.6 million in 2023. This figure represents notable growth of over 4% compared to the previous year, underscoring the increasing reliance on these services among the aging population.

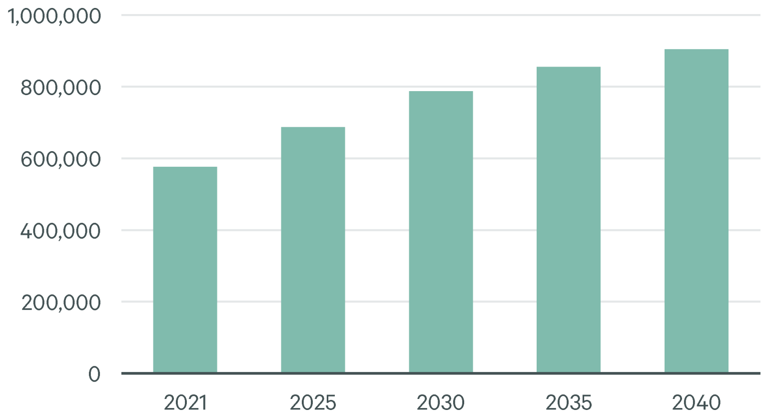
The Finnish healthcare system underwent significant reform in 2023, transferring social and healthcare services from municipalities to 21 wellbeing service counties. This change has introduced new risks for long-term leases, as lessees can now terminate contracts with 12 months' notice without compensation. The reform also implemented early termination clauses for leases exceeding a certain threshold. The transition process has been marked by decision-making challenges and internal debates, leading to delays and uncertainty. Additionally, healthcare operators are facing labor shortages, site closures, and budget pressures, making it difficult for even larger hospitals to secure a stable workforce.

Figure 25: Senior residents living in public and private sector provided care at the end of the year



Source: CBRE Research, THL

Figure 26: Growth of over 75-year-old population



Source: CBRE Research, Statistics Finland

CHANGING DEMOGRAPHICS DRIVING THE DEMAND

Finland is experiencing significant demographic changes due to its ageing population. The number of over 75-year-olds is projected to grow by 43% by 2045, resulting in a total of 268,000. Currently, 7% of people aged over 75 and 16% of over 85 years old reside in social care housing services. If the current residency rates persist, this demographic shift is expected to transform into an additional 24,400 permanent residents in social care housing services by 2045.

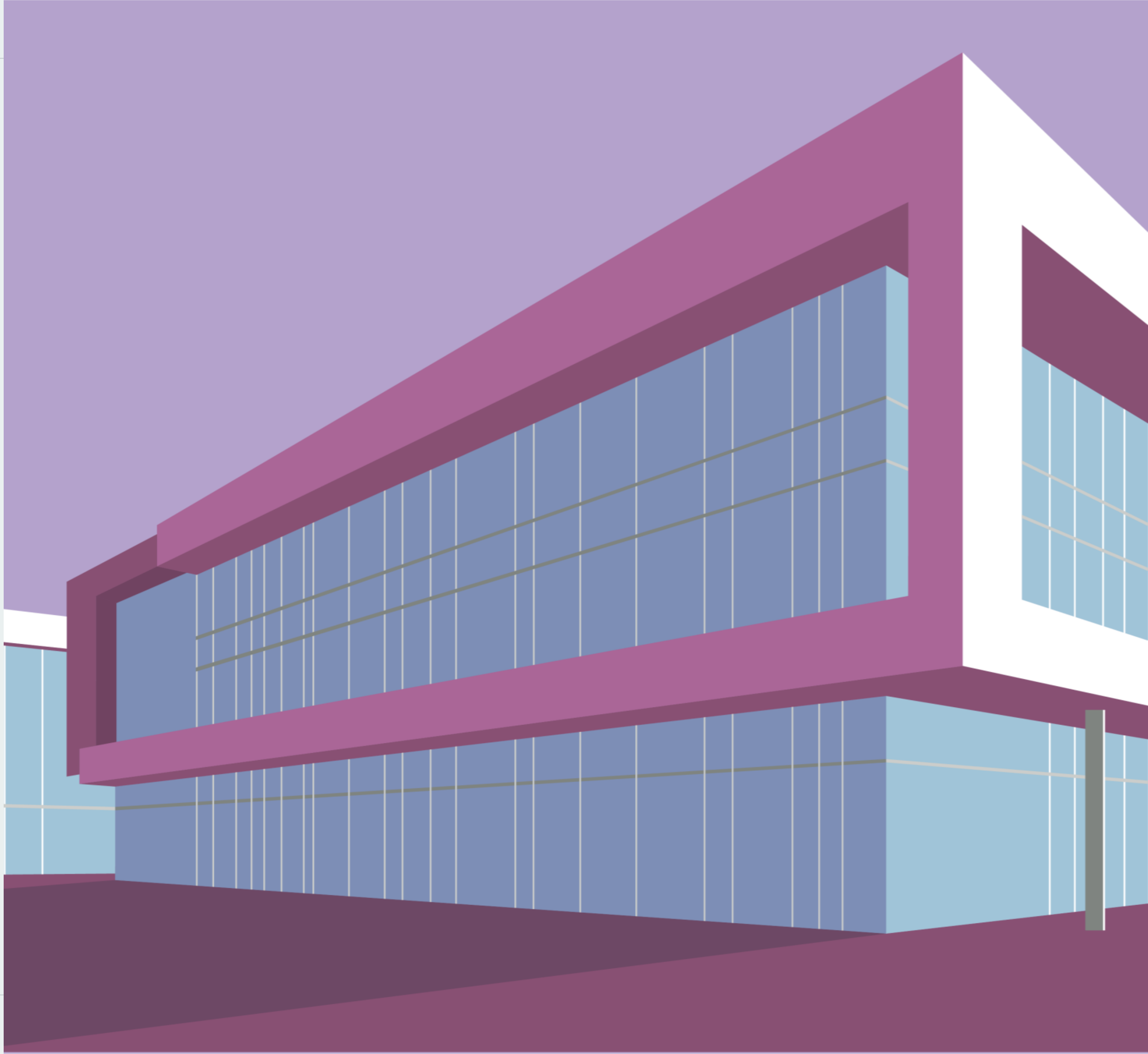
This growth trend emphasizes the need for expanded care facilities to accommodate the elderly population. The changing demographics of Finland are increasing pressure on municipalities and welfare regions to enhance their social care housing services. Legislative mandates are driving the need for more diverse care facilities, ensuring that adequate provisions are in place to meet the rising demand for elderly care. However, the new construction of care facilities is currently at its lowest point in 30 years.

The trend of increasing demand for social care housing services is projected to continue, fueled by Finland's rapidly aging population. As the fastest aging country in Europe, stakeholders in the social care sector must prepare for significant changes and challenges ahead, ensuring that facilities and services are adequately equipped to meet the needs of future residents.

09

Data Centres

Lack of availability in primary markets is causing the demand for new capacity to expand into smaller markets where their requirements can be met. Finland is seeing this growing demand in data centres with several announcements of new data centre locations already in 2024.



09
Data
Centres

Key takeaways

01

Lack of availability in primary markets is causing the demand for new capacity to expand into smaller markets where their requirements can be met. Finland and the Nordics are seeing this growing demand in data centres with several large announcements of new data centre locations already in 2024.

02

Finland and the Nordics are suitable and attractive secondary markets for their lower cost of electricity, good availability of power and land, strong governmental support and especially the high supply of available renewable energy.

03

Data centres in the Nordic countries have become attractive to GPU-as-a-service providers. This reflects the fact that, in some cases, the available power and land to build new, large data centres are sometimes more readily available in Finland and other Nordic countries than in the larger European markets. As a result, we expect to see more deals to let multiple MWs of colocation data centre capacity to GPU-as-a-service providers in 2025.

09
Data
centres

AI demand to spur growth in the Nordic data centres

FINLAND IS SEEING HIGH DEMAND FOR NEW DATA CENTRE LOCATIONS

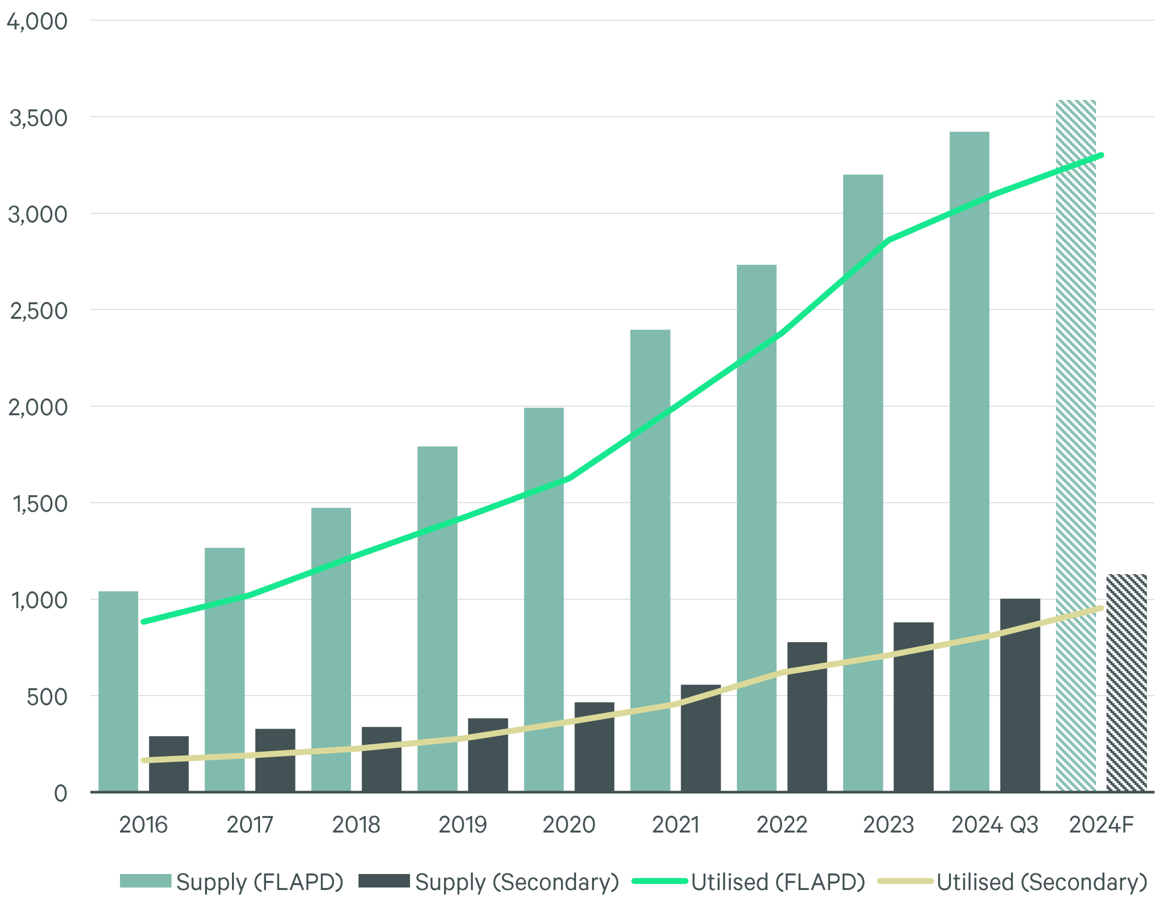
London and Frankfurt are expected to account for 2.5GW of capacity, approximately half of the total data centre supply in Europe, by the end of 2025. Over 70% of European take-up is expected to happen in the primary FLAPD markets in 2025. The main 15 European data centre markets combined have traditionally seen a double-digit vacancy rate.
However, available space is expected to decline for the fourth straight year, given strong demand for capacity and the difficulties providers are having delivering new stock due to the lack of available land and power for data centres in Europe.

Given the lack of availability in primary markets the demand for new capacity is expanding into smaller secondary markets where their requirements can be met. Finland and the Nordics are suitable and attractive secondary markets for their lower cost of electricity, good availability of power and land, strong governmental support and especially the high supply of available renewable energy. Finland is seeing growing demand in data centres with several announcements from the likes of Google and XTX Markets for new data centre investments in 2024. The quant-trading firm XTX Markets is investing more than €1 billion building five data centers in Kajaani in the Eastern Finland to underpin its growing use of machine learning. The first data center, which it expects to complete in 2026, will have a floorspace of 15,000 square meters.

Data centres in the Nordic countries have become attractive to GPU-as-a-service providers. This reflects the fact that, in some cases, the available power and land to build new, large data centres are sometimes more readily available in Finland and other Nordic countries than in the larger European markets such as Paris.

As a result, we expect to see more deals to let multiple MWs of colocation data centre capacity to GPU-as-a-service providers in 2025. AI providers need large quantities of data centre capacity in areas where low-cost renewable power is more readily available. Agreements to let 6 to 12MW in newer facilities are now the norm. Requests are expected to come mostly from well-funded technology service providers and AI start-ups as opposed to hyperscalers.

Figure 27: European market supply and utilisation, 2016–2024F (MW)



Source: CBRE Research, Q3 2024

10

Sustainability

Owners and occupiers of commercial real estate will face significant challenges when trying to navigate the complex regulatory landscape, as new directives come into effect. Assets with good sustainability credentials are likely to experience enhanced cash flow stability and greater yield compression.

10
Sustainability

Key takeaways

01

The EU's Corporate Sustainability Reporting Directive (CSRD) and the recently passed Corporate Sustainability Due Diligence Directive (CS3D), will require companies in scope to publicly disclose their climate transition plans and to implement them to the best of their ability. This reinforces the need for corporates to have a robust transition plan to achieve climate goals.

02

In 2025, the first group of companies will commence reporting in accordance with the European Sustainability Reporting Standards (ESRS) for the fiscal year 2024. Additionally, the impending enactment of Basel IV is expected to introduce a heightened degree of complexity to the European commercial real estate investment landscape.

03

Investors will have to prioritize the formulation of a comprehensive CAPEX strategy aimed at retrofitting assets to align with the Net Zero Carbon Pathway, as mandated by European legislation, while also addressing the financial implications associated with adaptation to prospective climate-related risks.

10
Sustainability

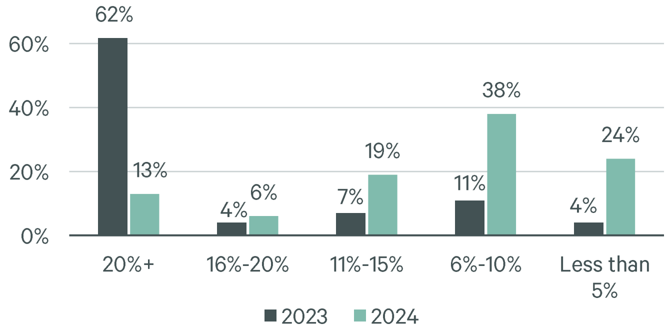
Navigating the uneven recovery

European commercial real estate (CRE) investment markets are anticipated to experience a gradual yet uneven recovery in 2025, characterized by polarization across various sectors. The persistent investor pursuit of yield will significantly influence investment decisions, with critical factors including asset location, property segment, and sustainability profile. There will be an emphasis on substantiating sustainability attributes to enhance asset value, particularly in mitigating the risks associated with future obsolescence. The current pricing landscape presents a strategic opportunity to drive transformation; assets failing to comply with sustainability standards are likely to undergo repricing due to the substantial investment required for refurbishment to meet these standards. Investors should prioritize locations where demand exceeds supply, as this dynamic may present significant avenues for value enhancement.

THE SHIFT IN PERCEPTION

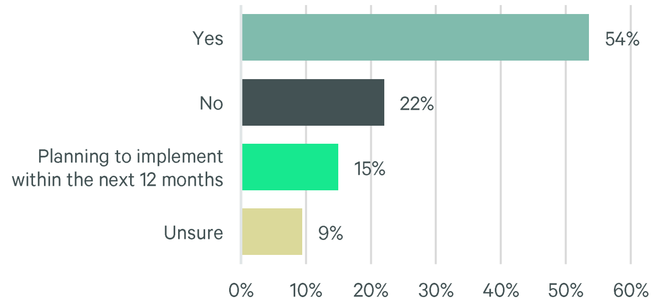
Sustainability features are increasingly viewed as industry norms rather than enhancements, resulting in occupiers being unwilling to pay rental premiums over market rent for such assets and to seek discounts for non-compliant properties. For investors, the willingness to pay a premium for assets with strong sustainability credentials is often predicated on anticipated improvements in cash flow metrics, such as rental growth, occupancy rates, depreciation, and yield. However, the true value may manifest in enhanced tenant quality, expedited leasing processes, and reduced vacancy rates, rather than solely in rental income.

Figure 28: Premium certain investors are willing to pay to acquire assets that meet sustainability standards (2024 vs. 2023)



Source: CBRE European Investor Intentions Survey 2024

Figure 29: Are lenders willing to offer margin stepdowns for assets with strong ESG credentials?



Source: CBRE European Lender Intentions Survey 2024

Going forward, assets with good sustainability credentials are likely to experience enhanced cash flow stability, attributed to improved tenant retention and consequently diminished vacancy rates and operational costs. A compression of cap rates for assets with high sustainability credentials is therefore anticipated to manifest increasingly throughout the region. Recognizing that sustainability-related obsolescence in real estate may result in significant value depreciation could drive more decisive actions than the mere prospect of modest value increases.

FINANCING STRATEGIES WILL EVOLVE

European lending institutions are anticipated to progressively implement incentives and strategies aimed at financing retrofitting initiatives. Nonetheless, considerable variations in local market practices are likely to emerge, contingent upon the maturity of the market and the robustness of the accompanying financial institutions. Conversely, in line with the strategic objectives of financial institutions to diminish the carbon footprint of their financed portfolios, there may be an inclination towards selectivity in approving refinancing for assets requiring upgrades.

CAPEX requirements, along with strategies for securing this financing, will be on the agendas of investors and landlords. A clear valuation of transition risk is essential for investors to formulate a compelling business case for sustainability-related initiatives. Ultimately, property owners and investors require assurance that any contemplated investments will augment the value of the property.

Complex reporting landscape

CSRD REPORTING WILL BECOME MANDATORY FOR MANY

The European Union's Corporate Sustainability Reporting Directive (CSRD) and the recently enacted Corporate Sustainability Due Diligence Directive (CS3D) mandate that eligible companies publicly disclose their climate transition strategies and execute them to the fullest extent feasible. The implementation of the CSRD will necessitate compliance from approximately 50,000 companies throughout the EU, collectively representing 75% of the total turnover of EU enterprises, thereby obligating them to adhere to comprehensive EU sustainability reporting standards. This is expected to pose significant challenges for corporates, as the processes of data collection and third-party auditing necessitate substantial time and resource allocation.

BASEL IV COMES INTO FORCE ON 1 JANUARY

The Basel IV reforms are set to be implemented in 2025 and will introduce significant changes to credit risk management, constraining the use of internal risk models and requiring an increase in bank’s capital. There is a concern that this could translate into less capital for commercial real estate, as increased capital requirements will potentially force banks to raise more equity or lend less, translating into higher costs for borrowers. The reforms will likely have a disparate impact in different regions, due to regional differences in banks’ use of internal models for calculating risk. Additionally, Basel IV will establish a new framework for property valuation, recommending that national supervisory authorities develop specific evaluative criteria.

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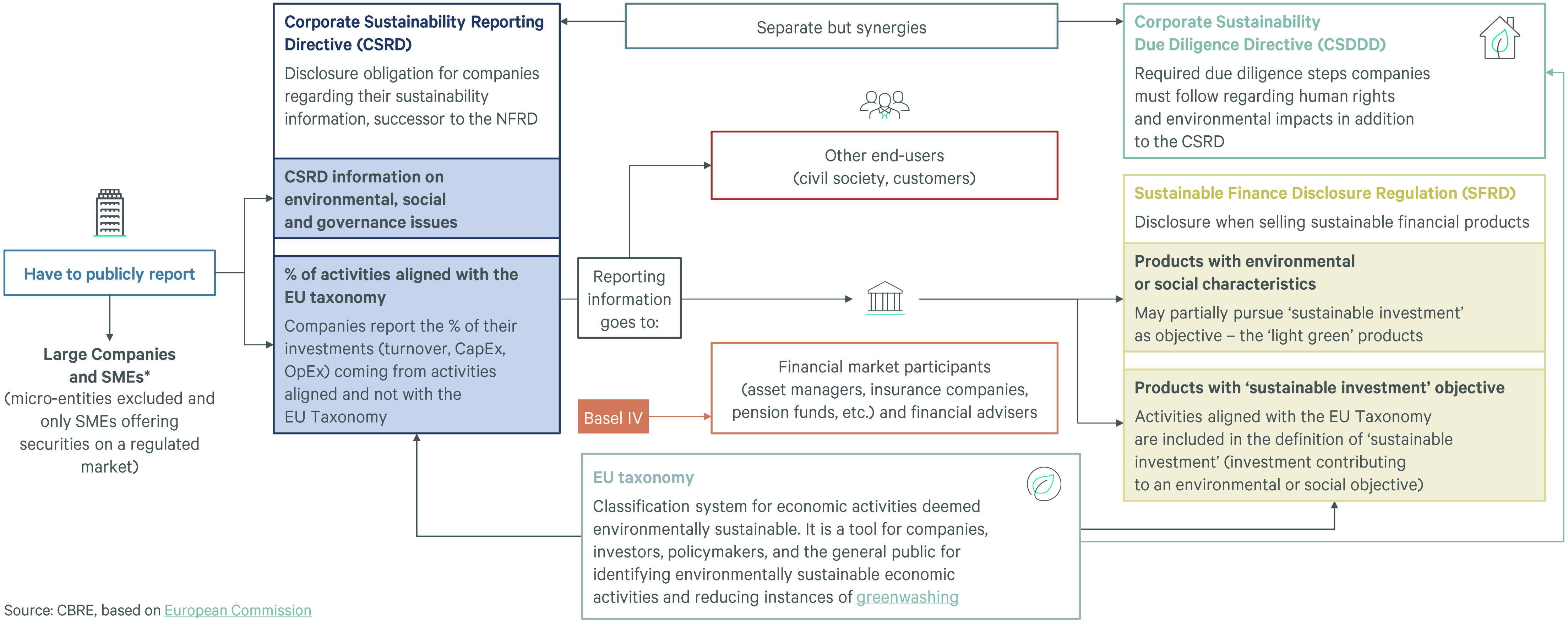
Sustainability

EU disclosure requirements for real estate investments

Figure 30: The regulatory landscape of corporate sustainability in the EU



Source: CBRE, based on European Commission
*Small and Medium-sized Enterprise

Contacts

Research

Jussi Niemistö
Head of Research, Nordics
jussi.niemisto@cbre.com

Jerkko Leikonen
Senior Research Analyst
jerkko.leikonen@cbre.com

Capital Markets

Jouni Levo
Head of Capital Markets, Finland

Ilpo Munster
Head of Investment Properties

Linda Anttila
Director
Residential Capital Markets

Jenna Häyrynen
Director
I&L Capital Markets

Valuation & Advisory

Olli Kantanen
Head of Valuation & Advisory

Vesa Kiviluoto
Director

Sustainability

Niklas Wiik
Sustainability Director

Advisory & Transaction Services

Niko Penttinen
Head of A&T

Jouko Lehtonen
Head of I&L Advisory, Nordics

Leena Braxenholm
Head of A&T Retail