

Helsinki Metropolitan Area (HMA) Office, H2 2015

Investment market continued strong in 2015

GDP
 ▼ -0.2% (Y-o-Y)

CPI
 ▼ -0.2% (Y-o-Y)

Unemployment
 ▲ 9.2%

QUICK STATS

H2 2015		H-o-H
Office sales volume (€ mil.)	ca. 533	↑
Share of total volume	22%	↑
Number of transactions (over €1 mil.)	19	↑
International buyers	52%	↓
Yields		↓

Office sales volume in the HMA in H2 2015 was up by ca. 53% from the corresponding period in 2014. The number of transactions only increased from 16 to 19 and therefore the growth is mainly due to larger transactions taking place.

Half the transactions were to an international buyer, representing 52% of the sales volume, which is down from 82% in H2 2014.

The prime yield level in the CBD is currently 4.25%, while the prime yield level elsewhere in the HMA is ca. 5.5%. These are down by 10 bps and 30 bps respectively from 1 year ago.

ECONOMIC OVERVIEW

Economic growth in Finland has been slow for a prolonged period, both historically and by international comparison. In recent years, growth has been depressed not only by the weak international economy, but also by sectoral and structural problems, mainly in the electronics manufacturing and forestry industries. Finnish exports have suffered a considerable loss of market share since 2009 and competitiveness has been eroded.

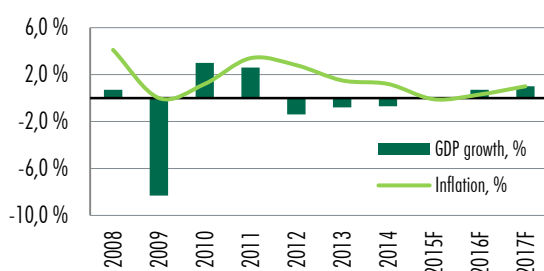
The economy is expected to start to growing modestly in 2016, driven by growth in exports. Finland's most important export destination is the rest of Europe, with a 59% share of goods exports in 2015. The majority of the most important trading partners are experiencing stronger economic growth at present, with the exception of Russia, therefore also benefiting Finland. Exports are expected to grow by 2.1% in 2016 and 2.7% in 2017.

Quarterly GDP was down by 0.2% from the previous year in the third quarter of 2015, a decline of -0.1% is expected for the whole year 2015. GDP growth is expected to slightly improve in 2016 to 0.7%.

Unemployment has continued to rise and was 9.2% in the end of 2015, up by 0.4% year on year. Only minor improvement in unemployment is expected in the short-term, ca. 0.2% in 2016 and 0.1% in 2017.

The weak employment market is impacting on private consumption, which grew by only ca. 0,5% in 2015.

Figure 1: GDP Growth and Inflation



Sources: Statistics Finland, Bank of Finland

Sources: Bank of Finland, Statistics Finland, Finnish Customs

INVESTMENT

Office investment demand in the HMA continued strong in H2 2015 with sales volume of ca. 533 million, which is up by 17% from H2 2014 and 53% from H2 2013.

The most sales activity took place in Helsinki outside the City Centre and in Espoo, due to limited stock availability in the City Centre. Investors are still favouring low risk assets, and most of the sold assets were Core or Core Plus assets, however increasing activity is also seen for Value Add and Opportunistic assets, which have also started to be of interest to international buyers.

BUYER AND SELLER PROFILE

Equity funds dominated the buyer profile, representing 77% of the investment volume in H2. Foreign funds from Germany, France and Switzerland were responsible for the largest transactions. The Finnish funds active in the market were mainly “special investment funds”, which are mainly open ended and open to private investors. Domestic pension funds were notably inactive buyers in the HMA office market during H2. Investment companies were the buyer in 16% of sales, developers in 5% and others in 2%, measured by share of total sales volume.

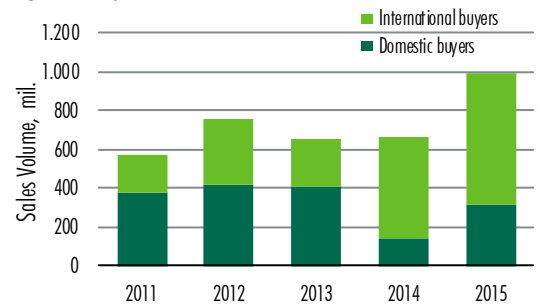
Half the deals in H2 had an international buyer, and these sales represented ca. 66% of the transaction volume. International buyers share for all of 2015 was 76%.

Equity funds also dominated the seller side, being behind 50% of the sales volume. Most of these sellers were international funds, mainly Swedish. Domestic pension funds accounted for a 17% share, followed by developers with 10% and other vendor types with a 23% share.

YIELDS

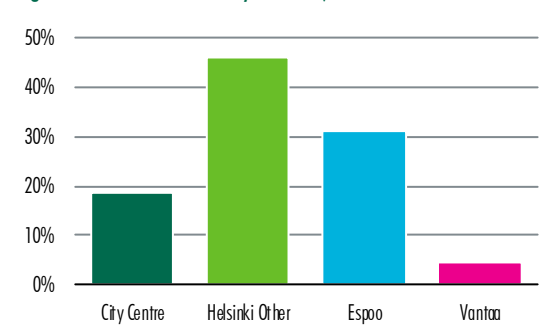
CBD prime yields are currently ca. 4.3%, which is 10 bps lower than 1 year before and at the same level as in the end of H1 2015. Prime yields outside the CBD are ca. 5.5%, down by 30 bps from 1 year prior and from the end of H1. The yield gap between prime and secondary is still wide. There is scope for yield compression for secondary assets, however prime yields are expected to remain stable in 2016.

Figure 2: Proportion of HMA Office Sales



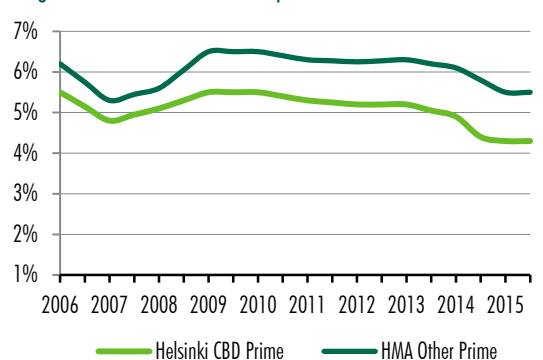
Source: CBRE Research

Figure 3: HMA Office Sales by Location, H2 2015



Source: CBRE Research

Figure 4: HMA Office Yield Development



Source: CBRE Research

VACANCY

After a period of rising vacancy, the office leasing market is beginning to show some early signs of improvement with leasing agents reporting an increase in the level of enquiries and vacancy falling in several established office markets, such as Ruoholahti, Keilaniemi and Aviapolis during the second half of the year. In Vallila, the vacancy situation remained stable and in the CBD vacancy increased slightly. Leppävaara reported a significant jump in vacancy due to the entire NSN campus being vacated. The overall vacancy improved slightly by 0.2% in the six monitored markets in H2. Secondary markets are continuing to struggle to attract tenants.

RENTS

Market rental level has remained quite stable in the CBD as well as in other prime office areas in HMA during H2 2015. The prime office gross rent level in the CBD is currently ca. €37/sqm/month and KTI reports a median office rent level of €27/sqm/month in September 2015.

Prime rents in modern properties in inner city areas such as Ruskeasu, Ruoholahti, Kalasatama and Sörnäinen are ca. €24-26/sqm/month.

In secondary areas and properties there has been some downward pressure on office rents. Incentives in the form of rent free months are becoming more common, and especially in new developments generous incentives can be available.

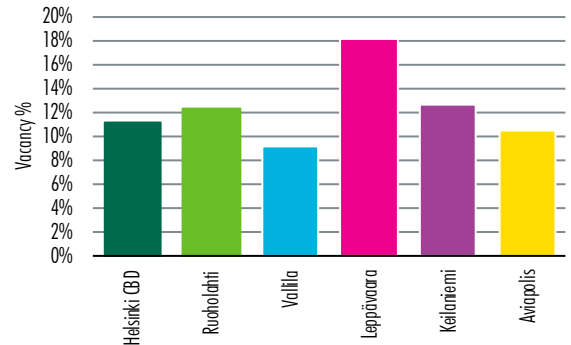
SUPPLY

New office completions in 2015 totalled ca. 113,000 sqm, which is slightly below the 10 year average of 125,000 per annum. The OP-Groups's new 58,000 sqm headquarters in Vallila accounts for a significant portion of the additions.

Only ca. 34,000 sqm of offices is currently under construction in the HMA, including the Ultimes Business Garden in Pitäjänmäki (10,850 sqm), Dixi's second phase (8,000 sqm) in Tikkurila and Aviabulevardi (9,000 sqm) in Aviapolis.

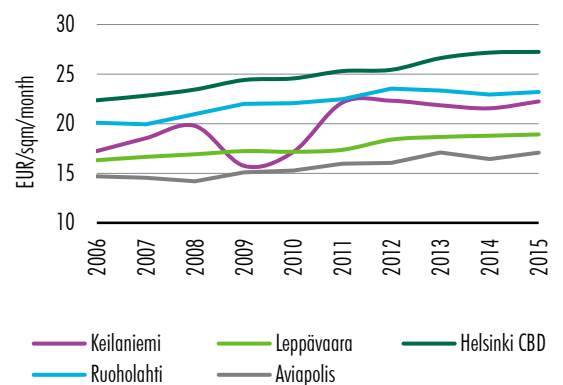
There is however a significant proposed development pipeline, which is contingent on securing sufficient leasing pre-commitments. The largest supply additions are planned for the Pasila/Ilmala, Kalasatama and Aviapolis precincts.

Figure 5 HMA Office Vacancy



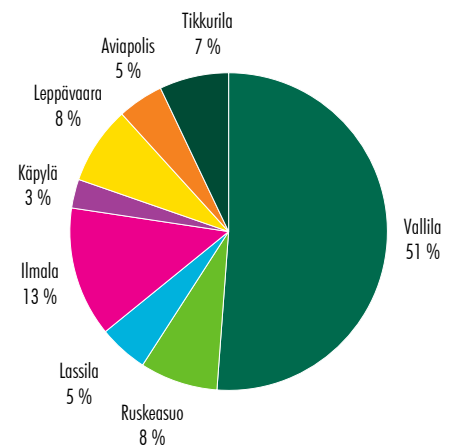
Source: CBRE Research

Figure 6: Average Office Gross Rents in HMA



Source: KTI

Figure 7: 2015 Office Completions



Source: KTI, CBRE Research

HMA OFFICE TRANSACTIONS H2 2015

Property	Property Location	NLA (sqm)	Price (EUR m)	Buyer	Seller
Vilhonvuorenkatu 11	Sörnäinen, Helsinki	24,000	60	Schroder Real Estate Kapitalverwaltungsgesellschaft MBH (GER)	Genesta Nordic Baltic Real Estate Fund I (SWE)
Sola Business Valley	Leppävaara, Espoo	16,936	70	RREEF Investment Gmbh (GER)	Veritas Pension Insurance (FIN)
Hämeentie 19	Sörnäinen, Helsinki	22,500	50	Antilooppi (FIN)	Auratum Kiinteistöt (FIN)
Alberga Business Park 2 buildings & Duetto Bus. Park	Leppävaara, Espoo & Käpylä, Helsinki	25,100	N/A	Amundi Immobilier (FRA)	Union Investment Real Estate GmbH (GER)
Säterinportti	Leppävaara, Espoo	31,000	34.2	Nordika (SWE)	Laura Finland Holdings I Oy (FIN)
Gradus Business Park	Meilahti, Helsinki	8,000	23.4	Schroder Nordic Property Fund (GB)	Pramerica (US)
Lönnotinkatu 11	Helsinki CBD	4,400	23	OP-Vuokratuotto (FIN)	YIT (FIN)

HMA OFFICE COMPLETIONS 2015

Property	Property Location	Area (sqm)	Developer
OP-Pohjola headquarters, Teollisuuskatu 1	Vallila, Helsinki	58,000	OP-Pohjola (FIN)
Ilmalanrinne Phase 1, Ilmalanrinne 1	Ilmala, Helsinki	15,000	Sponda Oyj (FIN)
National Institute for Health & Welfare, Mannerheimintie 166	Ruskeasuo, Helsinki	9,000	Senaatti-kiinteistöt (FIN)
Estradi, Phase 1, Aku Korhosentie 8	Lassila, Helsinki	5,700	Sponda Oyj (FIN)
Alberga Business Park, Bldg D, Bertel Jungin aukio	Leppävaara, Helsinki	5,300	NCC Property Developments (FIN)
Technopolis Helsinki-Vantaa expansion	Aviapolis, Vantaa	5,300	Technopolis (FIN)

HELSINKI METROPOLITAN AREA

The Helsinki Metropolitan Area consist of the cities of Helsinki, Espoo, Vantaa and Kauniainen. The combined population of the area is ca. 1.1 million residents. The total office stock is ca. 8.6 million sq m and the prime office submarkets are the Helsinki CBD and Centre, Helsinki Ruoholahti, Espoo Keilaniemi, Espoo Leppävaara and Vantaa Aviapolis. Other major submarkets include Vallila, Pasila, Pitäjänmäki and Herttoniemi.

HELSINKI – CBD AND CENTRE

The Helsinki CBD is the most sought after office location in the HMA and is part of Helsinki Centre. The total office stock in Centre is ca. 1.75 million sq m, including the properties in Töölönlahti in the northern periphery of the CBD. Total office stock in the most central and prime CBD area is ca. 320,000 sqm of lettable area.

HELSINKI – RUOHO LAHTI

Ruoholahti is a prime office area in close proximity to the Helsinki CBD, south-west of the CBD and next to the highway to the west. Ruoholahti attracts a variety of office users. The total office stock consisting mainly modern premises is ca. 360,000 sq m of lettable area.

HELSINKI - VALLILA

Vallila is an inner city suburb of Helsinki, located ca. 4 km to the north-west of the CBD. The area used to be a significant industrial/warehouse area, which has seen conversions/redevelopments into office or residential use since the 1990's. The total office stock is ca. 480, 000 sq m.

ESPOO – KEILANIEMI / OTANIEMI

Keilaniemi is a district in the south-eastern part of Espoo, which benefits from good transport connections, being located along the Länsiväylä highway, ca. 8 km west of the Helsinki CBD. Otaniemi is known of Aalto University's campus. The total office stock in Keilaniemi and Otaniemi (inc. Northern Tapiola) is ca. 395,000 sq m.

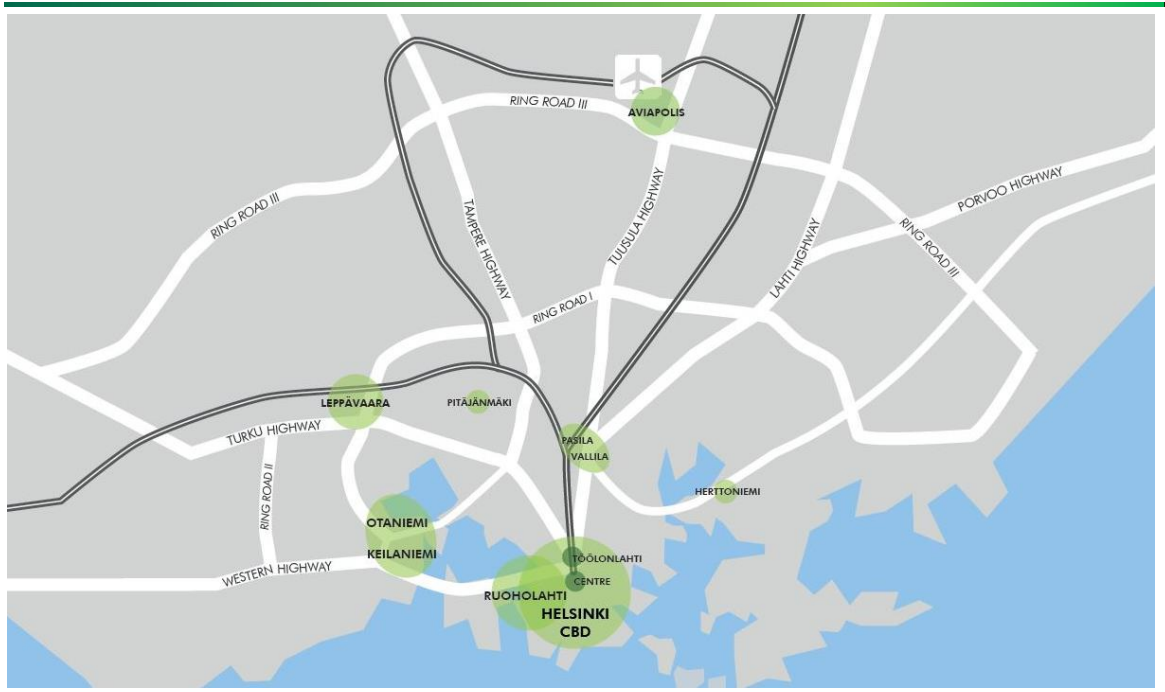
ESPOO – LEPPÄVAARA

Leppävaara is a major traffic hub in the HMA, with the Rantarata rail line and Ring Road I crossing in Leppävaara. The area includes several business park complexes and Sello, one of HMA's largest shopping centres. The total office stock is ca. 250,000 sq m.

VANTAA – AVIAPOLIS

The Aviapolis area is located south of the Helsinki-Vantaa Airport area. Traditionally an industrial area, office property stock in the area comprises predominantly modern office premises, mainly business parks. The total office stock ca. 179,000 sq m (exc. offices in industrial buildings).

Source: KTI, CBRE Research, Centre for Statistics



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