

Helsinki Metropolitan Area (HMA) Office, H1 2015

Strong sales volume expected in 2015

GDP
▼ -0.4% (Y-o-Y)

CPI
▼ -0.7% (Y-o-Y)

Unemployment
▲ 10.0%

QUICK STATS

H1 2015		H-o-H
Office sales volume (€ mil.)	ca. 458	↑
Share of total volume	20%	→
Number of transactions (over €1 mil.)	11	↑
International buyers	87%	↑
Yields		↓

Office sales volume in the HMA in H1 2015 was up by 45% from the corresponding period in 2014. The number of transactions only increased from 10 to 11 and therefore the growth is mainly due to larger transactions taking place.

Six of the 11 transactions were to an international buyer, representing 87% of the sales volume, which is up slightly from 85% in H1 2014.

Increased competition and low interest rates have put minor pressure on yields, and the prime yield level in the CBD is currently ca. 4.3% while the prime yield level elsewhere in the HMA is ca. 5.7%.

ECONOMIC OVERVIEW

Economic growth in Finland is lagging behind the Eurozone due to several factors, including loss of international market share and declines in the traditionally significant electronics and forestry industries. Monthly GDP figures were down by an average of 0.4% for the first 6 months of 2015, and the Bank of Finland is forecasting only 0.2% growth for the year. The forecast for 2016 is better already at 1.2%.

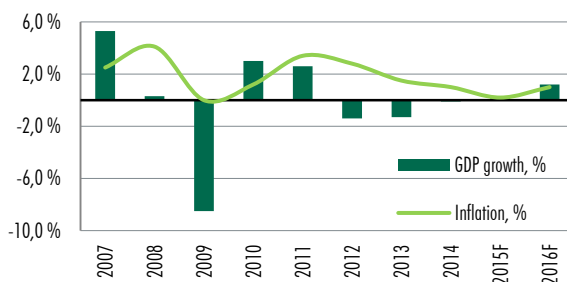
There was a change in government in May 2015, and the new 3 party government is currently exploring ways to improve Finland's competitiveness against our key competitors and thereby grow exports. The prolonged weak economic situation is showing in the rapidly rising level of public debt, and significant cuts to public spending were announced soon after the election.

Unemployment has continued to rise and was 10.0% in June, up by 0.8% year on year. The forecast for 2015 is 9.1%, and improvements to this are expected to be very gradual, ca. 0.2% in 2016 and 0.5% in 2017.

Growth in exports is required to improve employment, and a real improvement is not expected until 2016, when exports are expected to rise to ca. 3.3%, after 0.6% growth in 2015.

The weak labour market is impacting on private consumption which is expected to grow by only 0.2% in 2015. This is despite being boosted by banks offering principal payment free months for home loans which many people took advantage of in H1, enabling these funds to be spent elsewhere.

Figure 1: GDP Growth and Inflation



Source: Centre for Statistics, Bank of Finland

INVESTMENT

Investment demand has continued to improve in 2015 as more capital flows into commercial real estate, which has become an increasingly attractive form of investment in the current record low interest rate environment. Office sales volume in the HMA was ca. €458 million in H1, which is up by 45% from the corresponding period in 2014.

Activity was focused in the CBD and CBD fringe areas, which are the prime office locations. Investors are conscious that office vacancy in the HMA is relatively high and leasing prospects in prime locations are significantly better than in secondary locations.

BUYER AND SELLER PROFILE

Equity funds dominated the buyer profile, with 5 of the 11 purchasers falling in this category. These sales represented 36% of the investment volume. All except one were foreign entities from Sweden, Germany and Denmark. Pension/insurance funds accounted for a larger 53% share of sales volume, however this only relates to two sales, including one large sale of AMF acquiring a 50% share of an office portfolio sold by Ilmarinen.

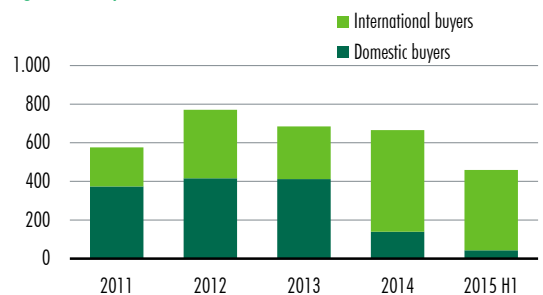
87% of the sales volume related to sales to foreign entities, and the majority of the sales to domestic buyers were development or owner-occupied properties.

Finnish pension/insurance funds were the largest seller group by volume, with a 67% share. However this only related to 3 sales, in 2 of which Ilmarinen was the seller. Finnish pension/insurance funds have begun to diversify their real estate investments more than previously, looking for more indirect and foreign investments. The second largest seller group was the public sector, with 3 sales accounting for a 14% share of sales volume.

YIELDS

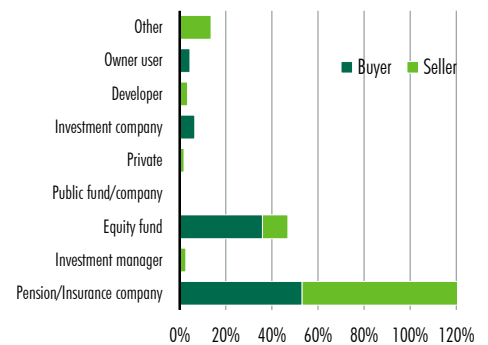
Increased competition and record low interest rates have put downward pressure on office yields. This is particularly evident in the prime end of the market. Investors are still cautious about very secondary assets, given the subdued economic outlook and oversupply of office accommodation. Prime yields in the CBD have fallen by ca. 30 bsp from H1 2014.

Figure 2: Proportion of HMA Office Sales



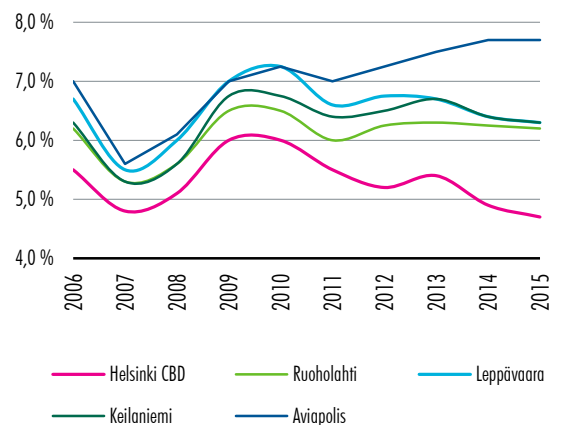
Source: CBRE Research

Figure 3: Buyer/Seller Profile, H1 2015



Source: CBRE Research

Figure 4: HMA Average Office Yields



Source: CBRE Research

VACANCY

Office vacancy has generally been rising and is now ca. 10% in the Helsinki CBD and estimated at ca. 14% in the whole HMA.

There is a trend of tenants moving to premises offering a superior standard of accommodation and/or a better location, therefore increasing vacancy especially in secondary quality buildings and locations. A significant amount of office stock in the HMA is quite old and no longer meets tenants' requirements as tenants search for open/multi plan and efficient space.

The vacancy trend has been upwards in most areas during the first half of 2015, including the CBD. In Ruoholahti, the trend is however down as Varma has secured several major tenants to fill up Itämerenkatu 11-13 during 2016, bringing vacancy down to ca. 14%.

Vacancy in Leppävaara on the other hand will nearly double in Q3, when a single large tenant vacates their premises. Vallila continues to have lower than average vacancy of ca. 8%, with the area benefiting from its proximity to the CBD, good transport connections and affordable rent levels.

RENTS

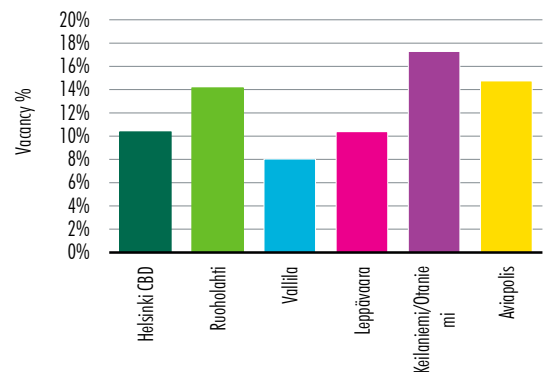
Market rental level has remained quite stable in the CBD during H1 2015, after prime rents experienced some growth in 2014. The prime office gross rent level in the CBD is currently ca. €37/sqm/month. The gap between prime and secondary rents has increased, with KTI reporting a median office rent level of €27/sqm/month in H1.

Prime rents in modern properties in inner city areas such as Ruskeasu, Ruoholahti, Kalasatama and Sörnäinen are ca. €22-26/sqm/month.

Incentives in the form of rent free months and landlord's building works are becoming increasing common, although rent free months are still generally at a reasonable level of ca. 1 month per 1 lease year, and are often not even offered for smaller premises.

There has been some downward pressure on office rents in secondary locations, where vacancy is higher. However landlords are often reluctant to reduce the rental level and will often offer better incentives than previously instead.

Figure 5 HMA Office Vacancy

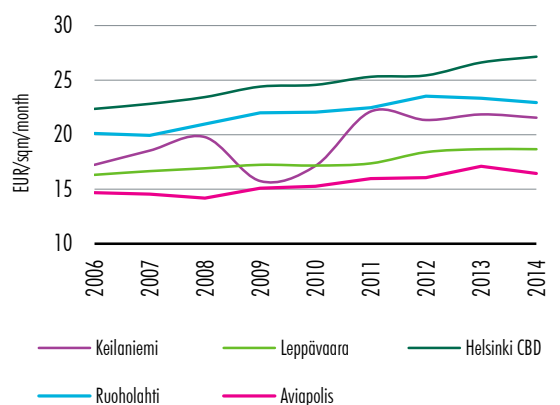


Source: CBRE Research

VACANCY FORECAST

- CBD
- RUOHOLAHTI
- VALLILA
- LEPPÄVAARA
- KEILANIEMI
- AVIAPOLIS

Figure 6: Average office gross rent levels in HMA



Source: KTI

SUPPLY

New office completions in the HMA in 2015 are expected to exceed the 2013 and 2014 level. Over 86,000 sqm has already been completed in 2015, in comparison to 101,500 sqm in 2014 and 84,000 sqm in 2013. At least 24,000 sqm of further additions are still expected in 2015. The 10 year average for office completions has been ca. 125,000 sqm. The largest addition in 2015 will be the completion of finance company OP-Group's new 58,000 sqm headquarters in Vallila.

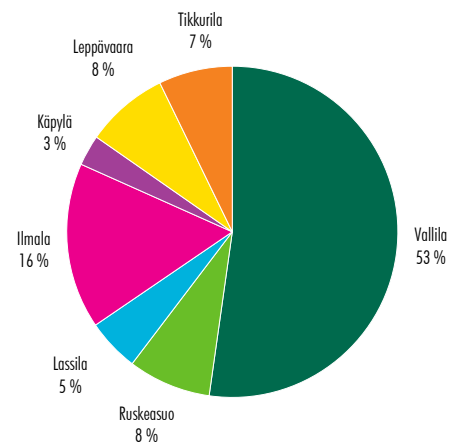
New office construction starts on the other hand have been slowing down, with only ca. 56,000 sqm of projects due to commence in 2015 identified. The majority of these are in the Aviapolis precinct.

Office development activity is expected to pick up somewhat in 2016, although planned projects are dependent on securing sufficient pre-commitments.

The largest additions are planned for the Pasila/Ilmala precinct, where large scale residential and retail development will also take place. The 114,000 sqm identified for this precinct only includes offices in the early stage of the area's redevelopment.

Source: Statistics Finland, KTI, CBRE Research

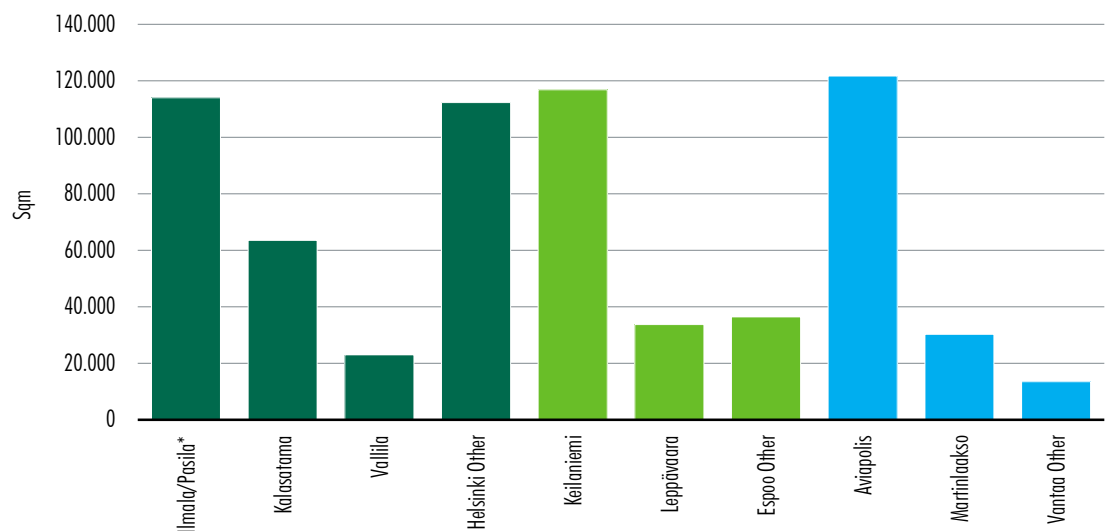
Figure 7: 2015 Major Office Completions



There is limited scope for further development in the Helsinki CBD due to a lack of suitable sites. We have identified only one new 16,850 sqm planned office development in the CBD.

The largest suburban additions are planned for the Aviapolis and Keilaniemi precincts, where ca. 122,000 and 117,000 sqm respectively are in the planning stage. The timing of many of these developments is still uncertain though.

Figure 8: Planned Office Developments



*Only part of the Tripla office space included, total area is not yet known.

Source: KTI, CBRE Research

HMA OFFICE TRANSACTIONS H1 2015

Property	Property Location	NLA (sqm)	Price (EUR m)	Buyer	Seller
EY Office building	CBD	10,888	93.3	Unilmmo (GER)	Etera (FIN)
15 Property portfolio	Various HMA	125,000	400+ ¹	AMF (SWE) (50%) & Ilmarinen (FIN) (50%)	Ilmarinen (FIN)
Park Vallila	CBD Fringe	16,500	43.5	Deka Immobilien (GER)	Sveafastigheter Fund III (SWE) & HGR Property Partners (FIN)
Antinkatu 1 & Bulevardi 21	CBD	21,300	36.3 ²	Genesta Nordic Real Estate II Fund (GNRE II) (DK)	Senate Properties (Finnish government)
Kasarmikatu 21, Pohjoinen Makasiinikatu 9	CBD	14,000	21.5	Ahlström Capital (FIN) & HGR property Partners (FIN)	City of Helsinki
Niittymäentie 7	Suburban (Espoo)	10,464	15.7	Lidl Suomi Oy (GER)	Ilmarinen (FIN)

¹ Whole sale price reported as being in excess of €400 mil. Only the portion sold to new buyer AMF has been included in the transaction volume.

² Sale is still subject to Parliament approval.

FORECAST

Sales activity is expected to continue strong in H2 and sales volume is forecast to exceed €4 bn. Investor interest is mainly on prime stock, however due to the limited prime stock available, interest in more secondary markets is expected to continue improving. Investors are likely to remain cautious of high risk assets though, given the prevailing economic situation and oversupply of office accommodation in many areas.

The occupier market is expected to continue weaker than the investment market, and vacancy is expected to rise further in many markets, particularly outside the CBD. New stock is expected to enter the market at a modest rate in the near future, pulling tenants from inferior standard buildings and further increasing vacancy in older buildings.

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. 470, 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.

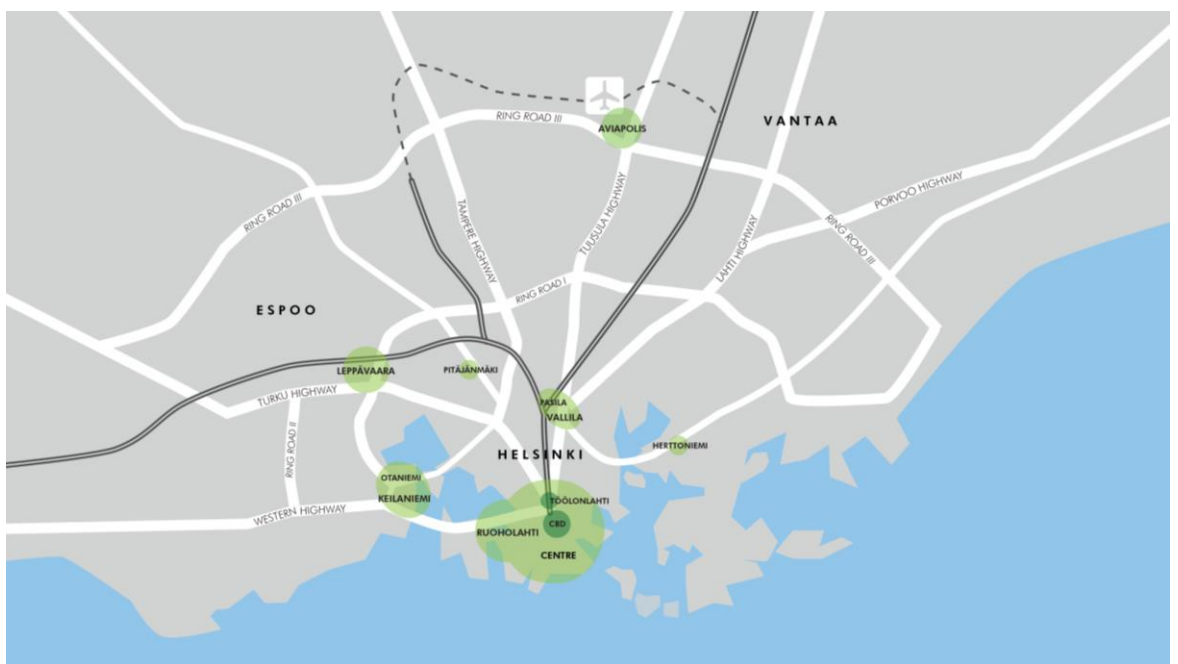
ESPOO – LEPPÄVAARA

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. 170,000 sq m (exc. offices in industrial buildings).

Source: KTI, CBRE Research, Centre for Statistics



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