

Helsinki Metropolitan Area (HMA) Office, Q4 2014

# Yield Compression is evident in the prime end of the market

▼ GDP 0.9% (Nov Y-o-Y)

▼ CPI 1.0% (2014 Y-o-Y)

▲ Unemployment rate 8.8% (Dec)

**QUICK STATS**

Q4 2014		Q-o-
Office sales volume (€ mil.)	ca. 150	↓
Share of total volume	18%	↑
Number of transactions (over €1 mil.)	4	↓
Foreign buyers	84%	↑

**KEY POINTS**

The number of office sales in the HMA in Q4 was quite low with only 4 sales reported (over 1 million). The tight yields achieved for the 2 largest properties prove strong demand for very prime properties.

Total investment volume nationally for commercial property and large residential investments was ca. 4.2 billion in 2014, up by 82% from 2013.

Office sales volume in the HMA remained at the same level in 2014 as in 2013, at ca. 0.67 billion. The number of sales was up slightly by 11%.

**ECONOMIC OVERVIEW**

The Finnish economy continued weak in Q4 and many economic indicator estimates were downgraded. GDP for 2014 is expected to be close to zero, largely because of a weak export market. GDP is generally expected to improve in 2015 with estimates ranging from close to zero to ca. 1%.

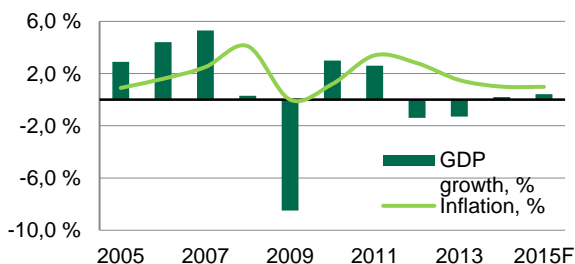
Inflation in 2014 was 1.0%, which is down from 1.5% in 2013. In December, inflation was down to just 0,5%, largely because of a reduction in oil prices globally. Inflation in the Eurozone was -0,2% in December, raising concerns of deflation. In January 2015, the European Central Bank announced a record large bond purchase program to help stimulate the economy and bring inflation closer to the targeted range.

Unemployment in Finland was 8,8% in December 2014 and the average monthly change in Q4 from the previous year was +0,7%. The average monthly unemployment in 2014 was 8,7%. This is expected to rise further slightly in 2015, by ca. 0,2%, before the employment market starts improving in 2016.

The employment situation, low income growth and economic uncertainty have started to impact private consumption to an increasing degree. Based on preliminary statistics, inflation adjusted retail sales were down by 1,4% in December, which is the most important month of the year for retailers.

The low interest rate environment is helping both private and business investments and in fact funding availability is better in Finland than in many other Eurozone countries. Despite this, the residential property market has been in a decline, with negative price growth nationally for older stock since Q2 and slowing price growth for new stock even in Helsinki.

Chart 1: GDP Growth and Inflation



Source: Statistics Finland (actual)

**DEMAND**

Investor demand for prime office properties remains strong and sales activity is constrained by limited stock available for sale. There has been clear yield compression for very prime properties, especially in the CBD, since these rarely become available for sale and are of interest to both foreign and domestic investors.

The prime office yield in the Helsinki CBD is currently at a level of ca. 4.4%. A yield of 5,8% was also reported for the former Nokia headquarters in Keilaniemi in Espoo which sold in Q4 and demonstrates that low yields are also achievable in prime office areas outside the CBD. Demand however drops off significantly for secondary assets, which is reflected in the investment parameters.

**VACANCY**

The office vacancy rate in the Helsinki CBD has been quite stable and this trend is expected to continue. The biggest challenges are in secondary office areas outside the CBD, where vacancy is still rising. Office vacancy is highest in the HMA area in the city of Espoo. The oversupply of office accommodation in the HMA has resulted in an increase in conversion projects into residential and hotel use. The estimated vacancy rate for the HMA in Q4 2014 is ca. 12,5% and for the Helsinki CBD ca. 6 %.

**RENTS**

Rents in the Helsinki CBD and in new premises in prime areas have been increasing slightly, although this growth now appears to be slowing.

Prime gross rents in the Helsinki CBD are currently ca. EUR 37/sqm/month and are expected to rise very slightly in 2015. Elsewhere in the HMA, rents are either stable or declining. Landlords are often unwilling to lower rents and would rather wait to lease the premises at the asking rent, and therefore the “true” current market rental level tenants are willing to pay in some buildings is not always shown in the statistics. Incentives, mainly in the form of rent free months, have also become increasingly common.

**SUPPLY**

Office construction is slowing down due to the current economic situation and office vacancy rate. New office construction starts in the HMA in 2014 amounted to ca. 64,735 sqm, compared to 76,500 sqm in 2013, equating to a reduction of ca. 15%. Notable developments underway include OP-Pohjola Group’s office campus in Vallila (58,000 sqm), Ilmalanrinne office building in Pasila (15,000 sqm) and Ultimes Business Garden in Pitäjänmäki (11,000 sqm).

Chart 2: HMA Office Yields (average)

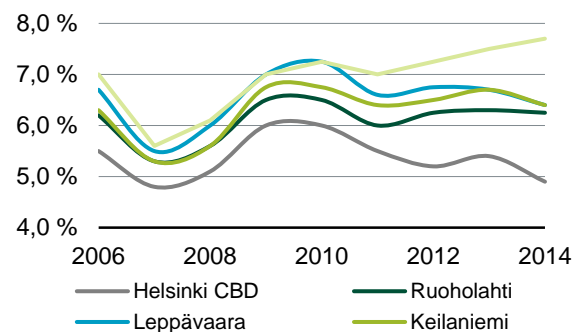


Chart 3: Office vacancy development

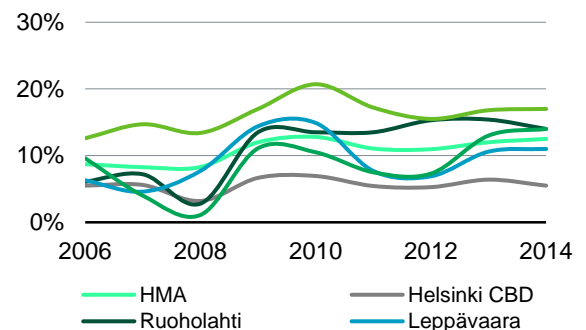
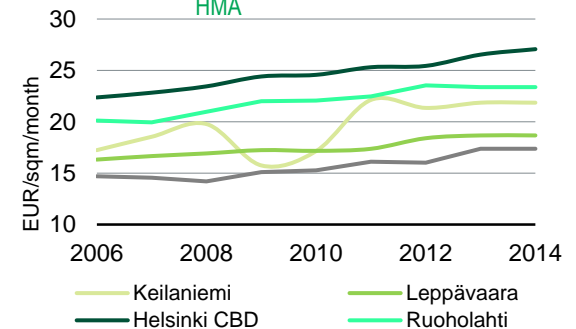


Chart 4: Average office gross rent levels in HMA



Source: KTI, CBRE Research

**NATIONAL TOTAL INVESTMENT**

Transaction volume nationally in Q4 2014 was EUR 0.83 billion, and sales for the whole of 2014 totalled EUR 4.2 billion, which is the highest since 2008. This is due to both increased demand from foreign investors as well as re-structuring of domestic institutions' portfolios. Some significant sales are still in the pipeline for 2015.

The most traded asset class in Q4 was Retail, which represented 43% of the total volume. This was followed by Office at 22%, Other at 22% and Industrial at 13%. The Other category mainly relates to residential sales.

**HMA OFFICE INVESTMENT**

Prime grade HMA offices continue to be in good demand by both domestic and foreign investors. Ca. 84% of the office sales volume in the HMA area in Q4 related to sales to foreign buyers, which mainly related to two large sales.

There has been some downward pressure on prime yields in Q4, as evidenced by the sales of the Brondankulma complex in the Helsinki CBD and the FG-Building in Espoo, both of which sold to foreign buyers.

Property funds were the most active buyers of HMA offices in 2014, representing 77% of investment volume, while property funds, owner-occupiers and developers were the most active seller groups, with 39%, 28% and 18% shares respectively.

**OFFICE DEALS**

Major office deals in the HMA area in Q4 2014 include:

• **AXA Real Estate acquired an office building in Espoo for EUR 64,8 million**

The property known as FG-Building is located in the Keilaniemi district of Espoo and it is the former Nokia headquarters. The property sold with a long lease to Microsoft Mobile Oy at a reported initial net yield of 5,8%. The building has a lettable area of 17,076 sqm. The property was sold by Exilion.

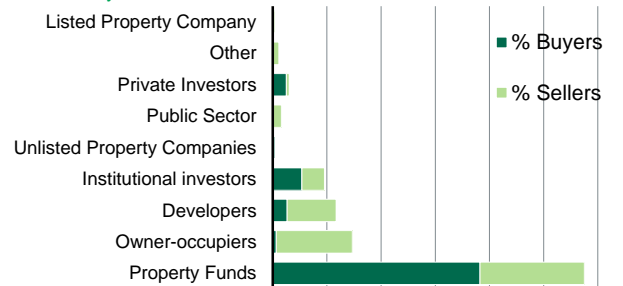
Source: Europe Real Estate Media – 2nd December 2014

• **Swiss pension fund manager AFIAA purchased a prime office building in the Helsinki CBD for in excess of EUR 60 million**

The property known as Brondankulma has a lettable area of 8,230 sqm and it also includes a retail component. The asset recently underwent an extensive refurbishment and re-leasing campaign and the major tenant is law firm Hannes & Snellman. The property attracted strong interest during the marketing campaign.

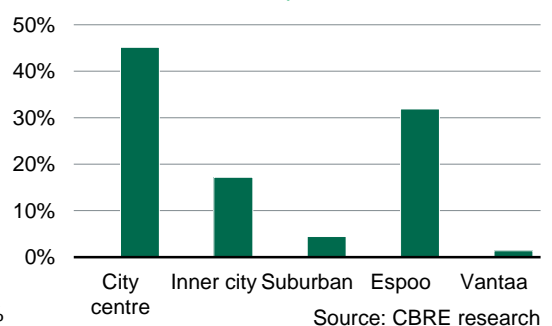
Source: AFIAA's press release – 18th December 2014

Chart 5: Buyer/Seller Profile HMA Offices, 2014



Source: CBRE research

Chart 6: HMA Office Sales by Location, 2014



Source: CBRE research

## HMA OFFICE TRANSACTIONS Q4 2014

Property	City	Property type/Sector	NLA (sqm)	Price (EUR m)	Buyer
Brondankulma complex	Helsinki	CBD Office/Retail	17,076	Over 60	AFIAA (SWI)
FG-Building	Espoo	Suburban Office	8,231	64,8	AXA Real Estate (FRA)
Mäkkylän virkatalo	Espoo	Suburban Office	12,855	18,3	JM-Suomi (FIN)
Eerikinkatu 7	Helsinki	CBD Office	2,500	N/A	Private Investor (FIN)

**FORECAST**

The number of office sales in the HMA in Q4 was quite low with only 4 sales reported (over 1 million). The tight yields achieved for the 2 largest properties prove strong demand for very prime properties.

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Minor rental growth is expected only in the Helsinki CBD and there is pressure for rental declines in many other markets.

**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. 8.5 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. Many properties in the heart of the Helsinki were built in the late 1800's and early 1900's. 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.

**HELSINKI - RUOHOLAHTI**

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. 400 000 sq m.

**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. 390 000 sq m.

**ESPOO - KEILANIEMI / OTANIEMI**

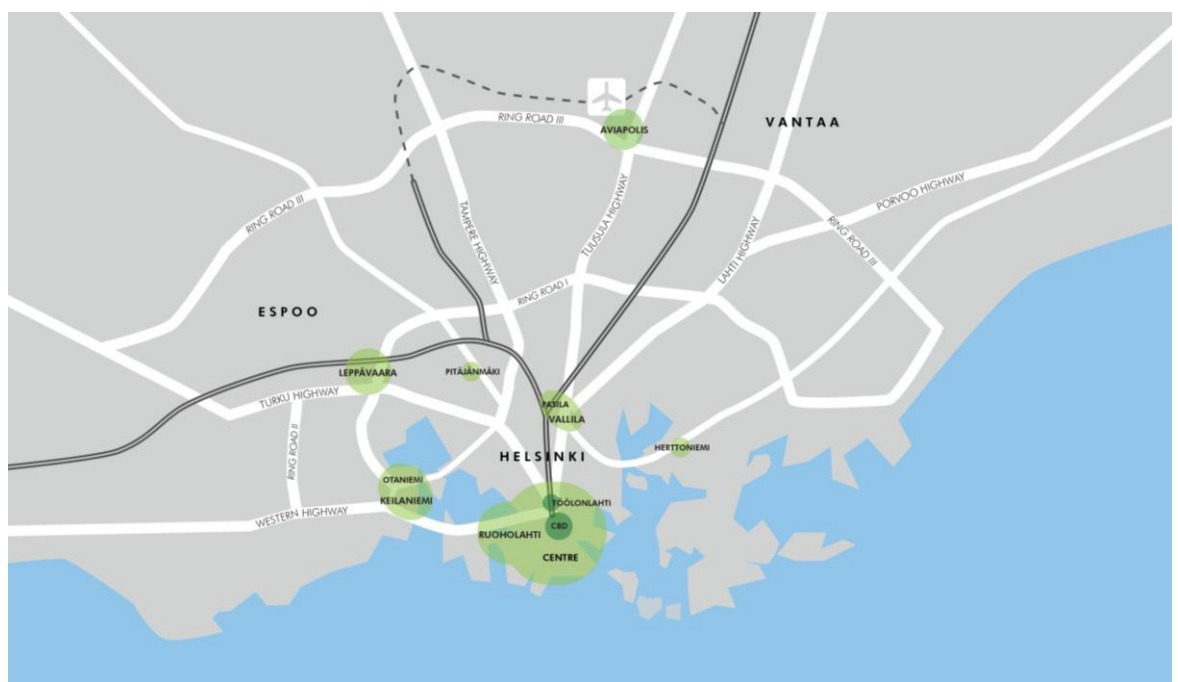
Keilaniemi is a district in the south-eastern part of Espoo, which benefits from good transport connections, being located along the Länsiväylä highway, ca. 8 km west of the Helsinki CBD. Otaniemi is know of Aalto University campus. The total office stock in Keilaniemi and Otaniemi area is ca. 330 000 sq m.

**ESPOO - LEPPÄVAARA**

Leppävaara is a major traffic hub in the HMA, with the Rantarata rail line and Ring Road I, the busiest road in Finland, crossing in Leppävaara. The area includes several business park complexes. The total office stock is ca. 266 000 sq m.

**VANTAA - AVIAPOLIS**

The Aviapolis area is located south of the Helsinki-Vantaa Airport area. Office property stock in the area comprises predominantly modern office premises, including business parks. The area benefits from good transport connections in both east-west and north-south directions. The total office stock ca. 250 000 sq m.



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