

Market Report:

Finland Construction Activity

Research Analyst: Stefano Charrey
 stefano.charrey@timberfinance.ch

1. Finnish Residential Construction Activity

As in other European countries, construction activity has slowed down, but the severity of the reduction in building permits and construction starts has been extraordinary. On a 12-month average basis, permits have fallen from almost 4'000 in 2021 to less than 1'500 at the beginning of 2024.

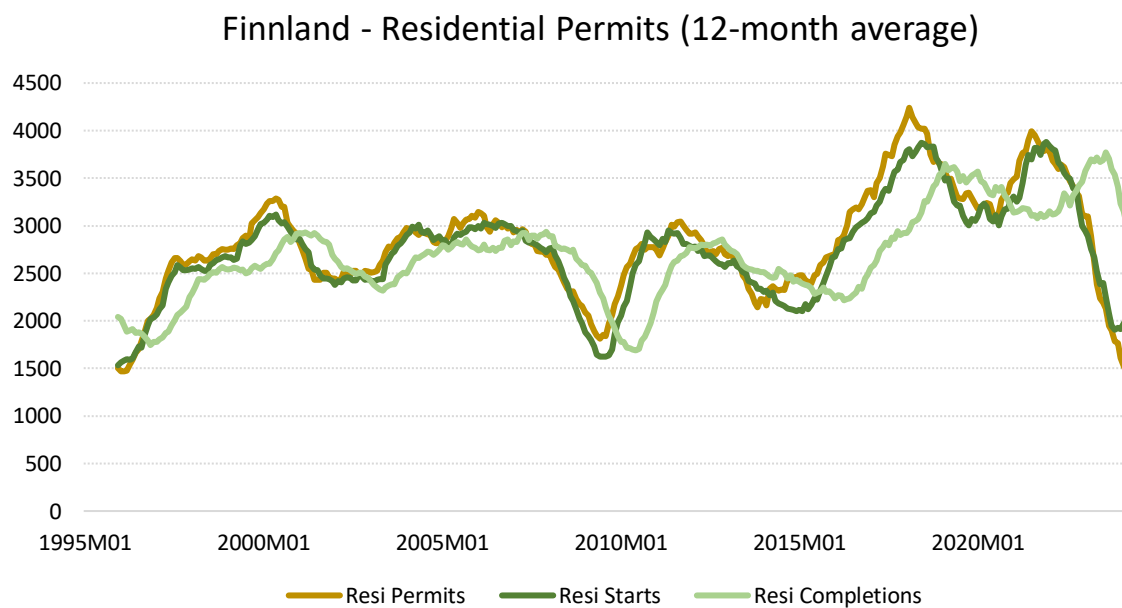


Figure 1: 12-month average permits, starts and completions. Source: Statistics Finland

The underlying real estate market in Finland is also weak, although it is following a very different pattern compared to previous downcycles. At the time of the great financial crisis, the slowdown in construction was strong (albeit not as strong as now) while real estate prices (as tracked by the official index) were only marginally lower. In the 1990s Finland suffered a severe economic crisis after a bubble phase, with a dramatic rise in unemployment¹. Unfortunately, official data on housing starts is only available starting in 1995, which approximately corresponds with the beginning of the

¹

<https://www.europarl.europa.eu/document/activities/cont/200912/20091216ATT66587/20091216ATT66587EN.pdf>

recovery from the depression that concluded in 1993, so we don't have a comparison. But over the last 30 years, since the 1990s crisis, the current slowdown is by far the largest that has been experienced.

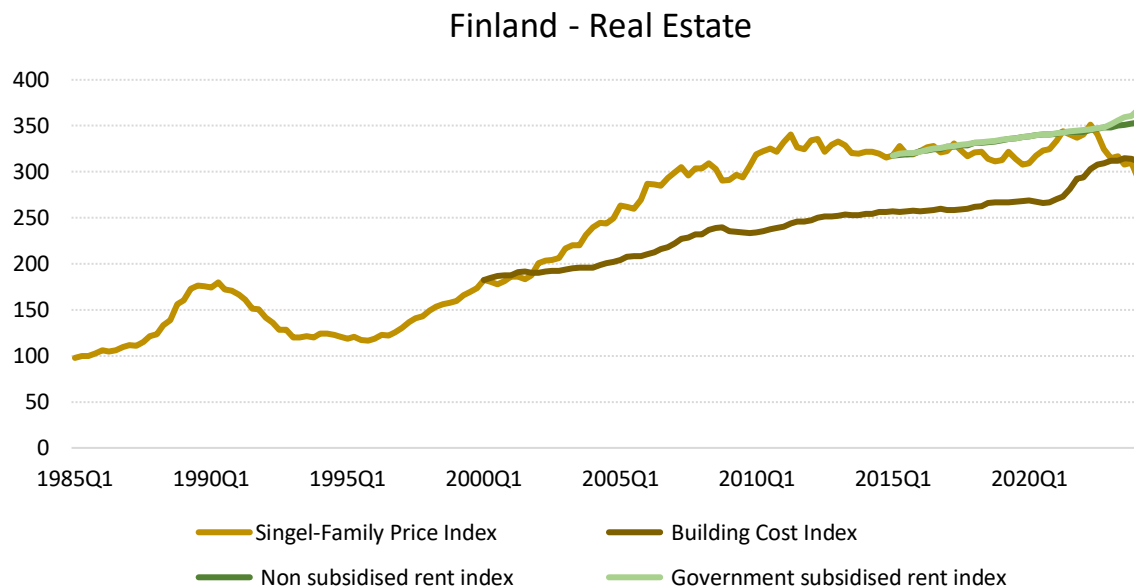


Figure 2: Finnish real estate indices. Source: Statistics Finland

Finnish rents have been on a steady rise in the last decade. As we will see below, the growth in the population over 2022-2023 was strong, and this should support demand for housing at a time when new construction has been collapsing. We see similar dynamics in Germany, and unless immigration is reversed, there should be a strong need for new housing units in the short- and medium-term. Construction costs are still high, having only stabilised after the post-covid jump – this, combined with higher interest rates, makes investment and construction decisions more difficult until either rents compensate for these higher rates or long-term interest rates fall and stabilise. However, at prime yields of 4.50% as reported by CBRE in 1Q24² vs. 10-year Finnish government yields of ca. 3.1% at the time of writing (down from the peak of 3.5% in 2023), yield spreads are reasonably positive and should reactivate investment, all-else equal.

2. Finnish Demographics

Finnish demographic trends are positive, driven by very strong immigration in 2022-2023. While Ukrainians were reported to be the largest group, immigrants from Asia also had a large share of net immigration³. Finland is reportedly supportive of policies boosting immigrant workers, as it recognises the negative organic growth trends (driven by strongly declining birth rates) that would otherwise negatively affect its economy and labour availability⁴.

² <https://mktgdocs.cbre.com/2299/e413939b-8158-45c8-b907-273240c56031-2543712770/v032024/figures-finland-residential-q1-2024.pdf>

³ <https://etias.com/articles/finland-immigration-2023-update>

⁴ <https://nairametrics.com/2023/11/20/finland-to-increase-work-based-migration-to-30000-per-year/>

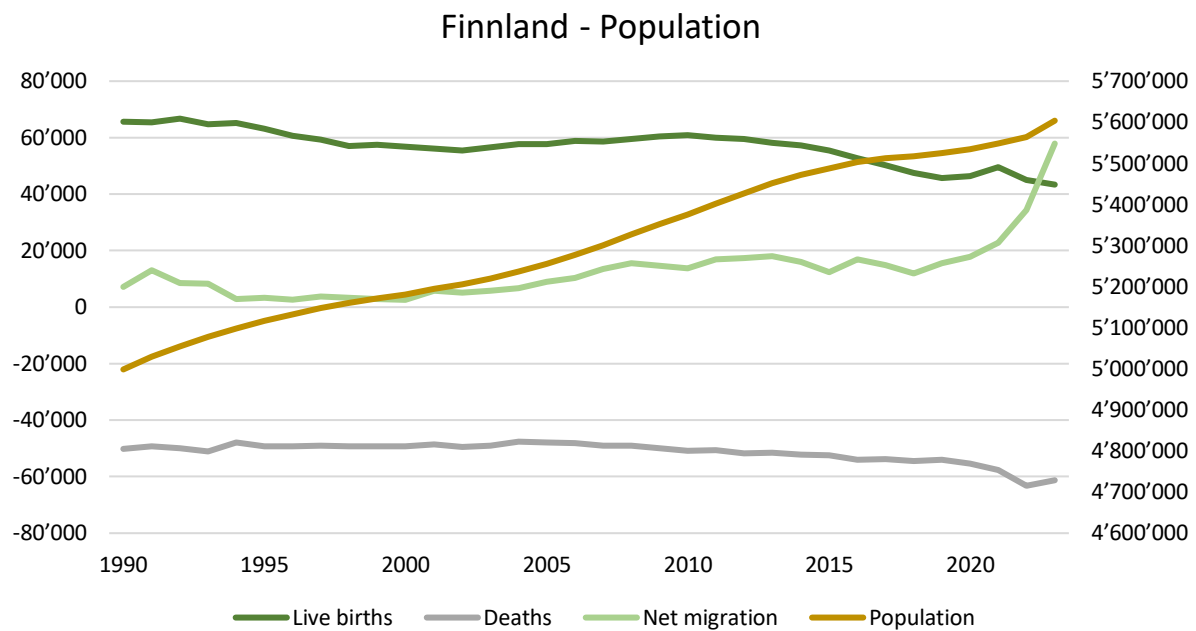


Figure 3: Finnish population. Source: Statistics Finland

3. Disclosures and Conflicts of Interest

Some or all the companies mentioned in this report may be included in the Timber Finance Forest-Based Construction Basket tracker and are part of the Timber Finance Carbon Capture & Storage Index. Timber Finance Management and/or the Timber Finance Initiative may have commercial relationships or be in discussions with some of the companies mentioned in this report. Specifically, Stora Enso is a member of the Timber Finance Initiative association.

Please note that this research is prepared for information purposes and targeted to institutional investors in Switzerland. They do not represent investment advice and do not take into consideration the individual requirements, risk tolerance and goals of an investor. Recipients who are not Swiss institutional investors should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

The information presented in this report is obtained from several different public sources that we consider to be reliable. Nevertheless, we cannot guarantee the accuracy of the presented information. The information used may change quickly and we are not committed or obliged to modify the reports base on new information. The opinions and views expressed in this report reflect those of the author at the point in time of its compilation and may vary at any time. Valuation methods like DCF and any other analysis or expert judgement do not provide any guarantee that the target price or fair value will be reached, for example because of unforeseen changes in financial or economic conditions.

For more details and questions, please do not hesitate to get in touch with us at info@timberfinance.ch or:

Timber Finance
Ausstellungsstrasse 36
CH-8005 Zürich
Tel. 044 991 13 44

General disclaimer © 2023 Timber Finance Management AG ("Timber Finance"). All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of Timber Finance. Timber Finance Management AG makes no representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and Timber Finance Management AG and its third-party licensors shall have no liability for any errors, omissions, or interruptions of any index or the data included therein. All data and information is provided by Timber Finance "as is". Past performance is not an indication or guarantee of future results. This document does not constitute an offer of any services. It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments offered by third parties that are based on that index.

Copyright © 2023 Timber Finance Initiative. All rights reserved.