

Spring | 2025 Market Review

TREVIAN

This market review reflects the views and evaluations of Trevian Asset Management's team of real estate professionals on the development of the real estate markets in Finland. The evaluations are based on market data, trends visible in our business activities, and our long-standing experience in the real estate sector.

The Finnish professional real estate market is heading toward better times. Domestic pension companies now have new opportunities to leverage debt in their real estate investments, which strengthens the conditions for both market growth and stability. At the same time, global economic shifts signal change: in the US officials have been ordered to return to their offices, along with a large Swedish bank's decision to bring all employees back to the workplace, highlights broader changes in the global economy. In Europe, we expect the ECB to lower interest rates several times this year, which will provide additional support to the economy. While 2024 did not meet all expectations, there are now several signs that a recovery in both the economy and the real estate market is on the horizon.

Last year, we grew accustomed to waiting in many respects, including in transaction processes. The processes we were involved in often dragged on for various reasons, but the key factor was simply that no one was in a rush. In 2024, financing margins decreased. This year, we expect interest rate hedging prices to fall further as the key interest rate declines, presenting new opportunities for utilizing debt leverage—even in the lowest-yielding assets. As the year progresses, it will be interesting to see how pension companies choose to apply the opportunities available to them for using debt in their real estate investments.

The year 2025 marks a turning point. Finland is entering a recovery phase, along with the other Nordic countries. We expect capital flows to strengthen, particularly in residential, logistics, and commercial properties. An increasing number of international investors are recognizing Finland as a prime destination for infrastructure investments. With the return of investment liquidity and the improvement of loan terms, the conditions are favorable for further investments. Both new and existing investors are entering the market with diverse strategies.

We are already seeing a rise in interest from core investors, while the market has shifted toward a greater focus on value-add. Finland offers attractive opportunities for a wide range of real estate investment strategies this year.

In the long term, Finland's fundamentals remain strong, and yields are typically higher than in Sweden, for example. For office properties in particular, we expect the yield gap to be wider than ever, while no similar differences are expected for retail properties. Yields tend to level out over time when financing conditions are comparable. This creates attractive investment opportunities, particularly in downtown office spaces, where the yield shift favored by investors can be significant.

RETAIL MARKET SHOWS RECOVERY, ESPECIALLY IN SHOPPING CENTERS

Commercial properties have made a strong comeback as an attractive investment class, with shopping centers standing out as top performers. Sales figures in these centers have risen, signaling positive news for owners. Trevian-managed shopping centers have seen historically high occupancy rates and increased visitor traffic. In city-center shopping centers, the role of beauty and health services continues to expand, supporting the growth of specialty retail. Additionally, restaurants, entertainment, and leisure services are becoming increasingly important sectors, further enhancing the appeal of specialty retail properties to investors.

The year ahead will also be significant for the rental housing market. With tightening income limits for subsidized housing, high-income tenants are expected to move toward non-subsidized housing. This shift, combined with the near halt in the construction of non-subsidized housing—only around 2,000 non-subsidized apartments were started last year in Finland—presents landlords with a substantial opportunity to increase rents in the coming year. This figure includes both owner-occupied and rental housing. We hope that CFCl's prediction of up to 7,500 non-subsidized apartments being built this year proves accurate.

Trevian is also actively engaged in housing construction, with several projects underway. This year, we will be building single-family homes intended for rental use, designed and equipped to the highest standards. Our goal is to create homes where tenants feel comfortable and enjoy their lives. This strategy aligns with the growing demand for high-quality rental properties and allows us to respond directly to market needs.

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FEATURE

Author: Jukka-Pekka Joensuu

INFRASTRUCTURE PROJECTS ATTRACT INTERNATIONAL INVESTORS

Finland's appeal for data center investments is growing rapidly. Both Microsoft and Google have announced significant investments in locations such as Muhos, Kajaani, and Kirkkonummi, among others. Additionally, data center investments worth approximately two billion euros are planned for Pori and Seinäjoki. The global development of artificial intelligence and the resulting surge in investments are key drivers behind the increasing demand for data centers.

Finland's attractiveness for large-scale infrastructure projects will increase further in the coming years. The abundant supply of renewable energy sources, combined with a safe and investment-friendly environment, will draw even more international investors to the market.

The European data center market has been concentrated in Ireland and the economic hubs of Central Europe (the so-called FLAP, i.e. Frankfurt, London, Amsterdam, Paris), driven by the concentration of business activity and Ireland's favorable investment policies. While Finland still lags behind these central regions in this market, its appeal is rapidly increasing.

This is primarily due to the untapped potential that technology giants are now focusing on. Finland's cool climate, affordable and reliable renewable energy sources, and efficient regulatory processes are recognized as significant competitive advantages. Additionally, data centers that integrate their own energy production or storage solutions present compelling investment opportunities.

The state is facilitating data center project planning and permitting processes. Another key advantage in Finland is its robust data network infrastructure and Fingrid's strong main grid, which allows large data center operators to secure electricity alongside renewable energy sources.

The transition from fossil fuels to renewable energy has introduced challenges around stable electricity pricing and raised concerns about electricity supply adequacy. This has led to the emergence of a new segment in the energy market: energy storage. Several Battery Energy Storage System (BESS) projects are currently underway.

One challenge in these projects is the unpredictability of the electricity reserve market's saturation, which creates uncertainty in forecasting both current and future returns. Nevertheless, the electricity networks of local public operators and energy power plants remain attractive targets for infrastructure investors.

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INVESTMENT

LEASING

SECTOR	PRESENT	FUTURE	PRESENT	FUTURE
RESIDENTIAL	Consumer activity in the new residential property market remains low. While portfolio sales have been steady since last summer, their volume has been smaller compared to previous years.	Lower interest rates are facilitating transactions by making it easier for buyers and sellers to come together. Additionally, an increase in comparable sales is driving trading volume, driven by completed properties.	Underutilization remains historically high, but recent trends show improvement.	The decline in new construction is expected to drive up occupancy rates this year and gradually push rental levels higher. Regional developments will play a significant role.
OFFICES	There is currently minimal demand for office properties, and many investors are looking to reduce the office weight in their portfolios. While there are few buyers, sellers hesitate to sell too far below the valuation reports. The first office sales suggest that a significant gap remains between the valuation reports and actual transactions in the market.	Demand for quality office properties is gradually recovering, but the supply side still dominates the market. This year, sellers will likely need to price their properties well below the valuation reports to close deals. Polarization between high-quality and lower-quality areas and properties continues to increase.	Occupancy rates and rent levels have remained stable in the most sought-after office locations. Demand for city-center properties has strengthened across various regions. In less desirable locations, offering more flexibility, incentives, and lower rent levels are necessary to maintain occupancy rates.	Office spaces with prime locations and good public transport accessibility will remain in demand. The importance of flexibility in terms of contracts and premises, as well as sustainability, will continue to grow. For more challenging properties, profitability will be difficult to achieve after rent reductions, tenant renovations, and capital expenditures (CAPEX).
LOGISTICS	Transaction volume has decreased less compared to other property types. Interest remains in both core and value-add properties in the market.	The transaction market is expected to remain relatively liquid. Data points are more readily available compared to other sectors, and there is a wide range of active players in the market.	In logistics properties, rent levels are influenced by indexation. Significant variations can exist in rental rates for similar properties on the market. Occupancy rates remain high in prime locations.	Tenants are placing increasing emphasis on ESG measures. Declining construction costs are facilitating the development of new properties. However, strong supply growth is contributing to a slight rise in the vacancy rate of less desirable properties.
RETAIL	Grocery properties with long leases continue to attract investors, while more demanding properties are also seeing growing interest. The retail sector overall has remains active, with a plentiful supply of properties on the market. Actively managed shopping centers in prime locations with high occupancy rates are particularly appealing.	Interest in retail properties is increasing, partly due to the weak outlook for the office sector. Even high-quality retail properties can offer significantly higher yields than those in the beds, sheds & meds category, which is currently attracting most investors.	Occupancy rates remain generally high. In shopping centers, rental levels are influenced by factors such as visitor numbers, sales growth projections, and sector-specific consumer demand. The fashion industry is increasingly focusing on large and medium-sized shopping centers. In smaller centers, specialty stores are finding synergies, particularly with beauty and health services, as well as restaurants and cafes, which help drive visitor traffic. Grocery stores continue to attract strong foot traffic, and demand for retail space in larger stores remains high.	The demand for retail space is increasingly influenced by the synergy within the surrounding neighborhood and the development of visitor flows. Daily transaction-driven clusters and centers continue to perform well, with specialty stores increasingly concentrated at street level along high-traffic areas. The role of services within shopping centers is growing, providing added synergy for retail operators. Additionally, the sale of used goods has become an integral part of the retail space market.

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Trevian Asset Management is a Finnish real estate investment and asset management company focused on office, retail, residential, logistics and data centres, owned by its key personnel. We offer full-service asset management and structured investment services throughout the whole investment lifecycle. The services are focused especially for institutional real estate investors, banks, and other professional investors. Trevian's assets under management is 1.2B€. www.trevian.fi/en

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