

Does the pandemic bring new opportunities for property investors?

Aktia



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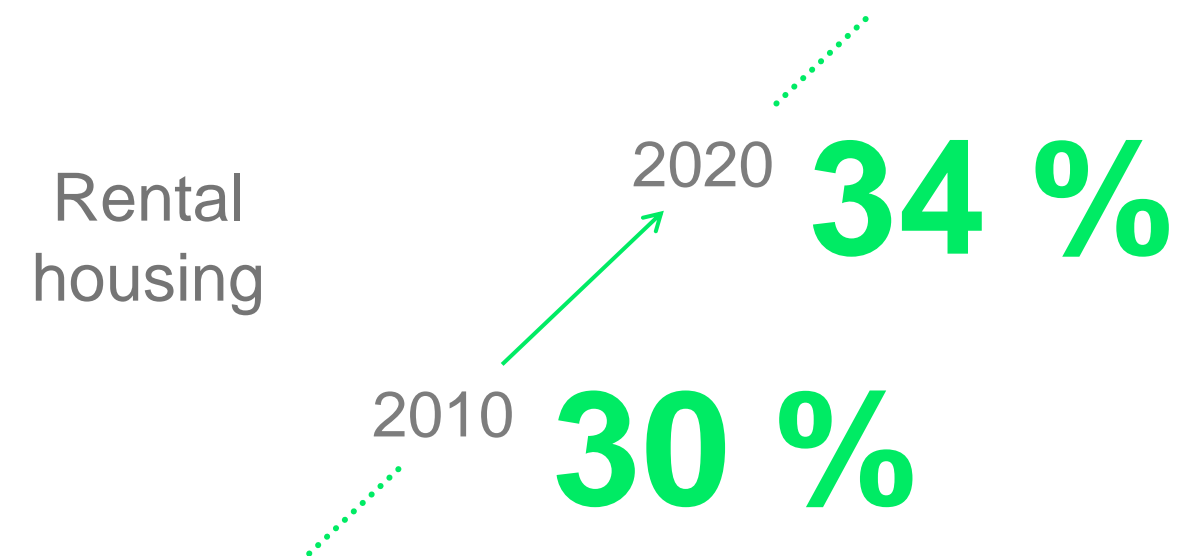
The housing rental market in Finland has gone through exceptional changes during the pandemic. For example, the increase in the rents of one-room flats in apartment blocks in the Helsinki Metropolitan Area has calmed down significantly, and the market is now a tenants' market. At the same time, throughout the country, the difference in rent growth between one-room flats and apartment block flats with three rooms or more has diminished. This phenomenon is interesting, and we see several factors suggesting that the market for larger rental flats in growth areas is picking up.

Rental housing is becoming more common, especially amongst larger households

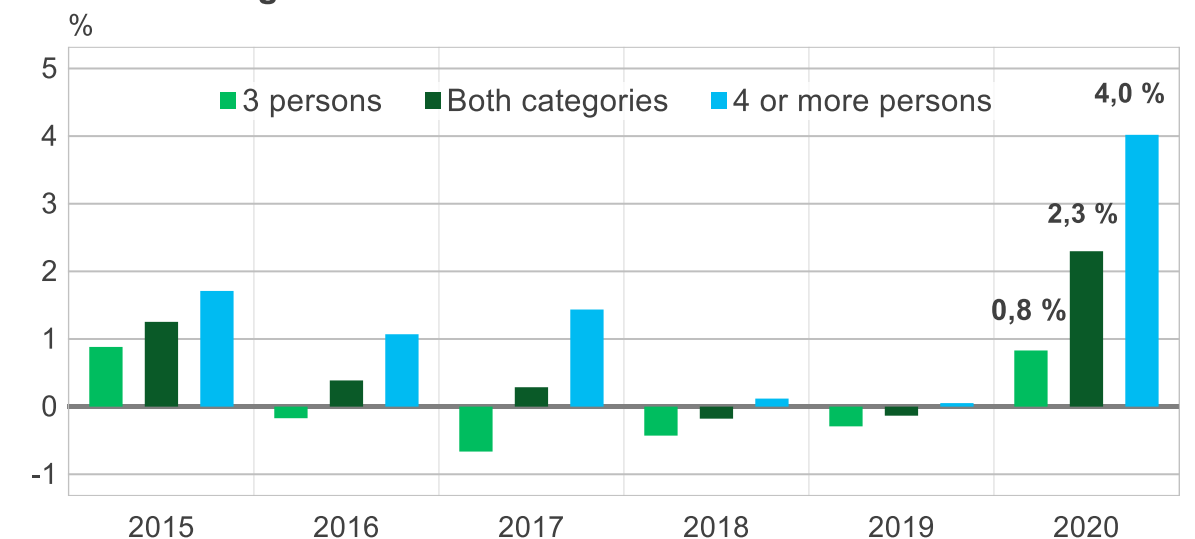
The number of households including three persons or more and that are living in rental housing clearly increased in 2020, the first year of COVID.

This growth particularly emphasised households with four or more persons. The number of households in this category increased by 4% in 2020. This growth was the fastest ever measured. The number of households of three persons increased by less than one per cent. In previous years, the increase in rental housing has mainly occurred in households of one person, which is why the trend in 2020 differs from the general trend in recent years.

In general, rental housing has increased for the past ten years – in 2020, 34% of all households lived in rental housing, compared to 30% in 2010. The increase in the popularity of rental housing has been the strongest in households with under 40-year-olds, although the trend has been similar in all age groups up to the age of 75. Over the same period, the popularity of owner-occupied housing has decreased moderately.



Change in number of households with 3 or more persons living in rental housing

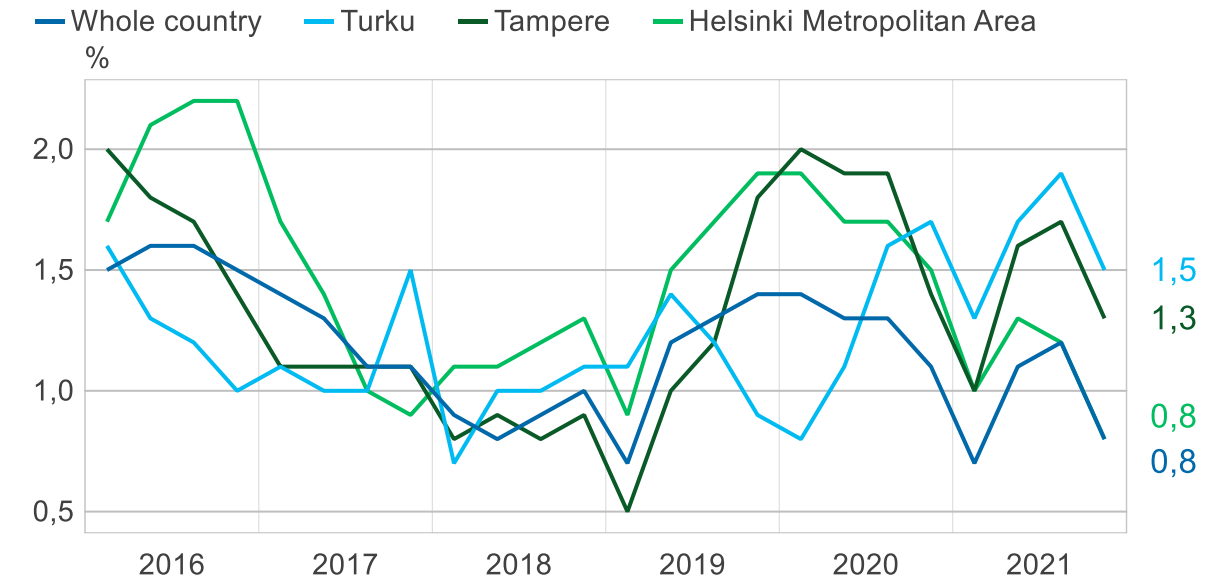


Source: Aktia, Macrobond and Statistics Finland.

Rents for one-room flats have in recent history increased faster than rents for larger flats

In Finland, the rents for privately funded flats have increased steadily over the past few years.

Rent growth in privately funded flats with 3 rooms or over



Source: Aktia, Macrobond and Statistics Finland.

At the time of COVID-19 in 2020, the growth of rents clearly slowed down and despite a slight recovery, uncertainty has not disappeared. It is noteworthy that during COVID-19, the difference in rent growth between one-room flats and apartment block flats with three rooms or more has disappeared. Last year, rents for large apartments rose momentarily even faster than rents for

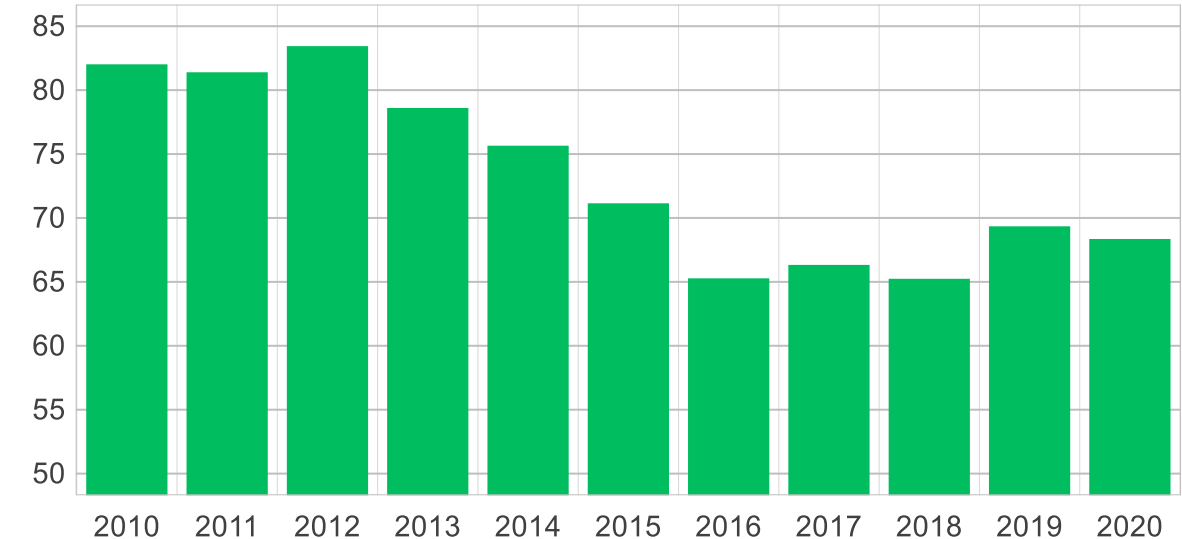
one-room flats. Towards the end of the year, rents for one-room flats and three-room flats rose just as fast.

There are differences in the development of rents between growth areas. For example, in Tampere and Turku, the growth of rents for three-room flats has accelerated significantly faster than in the Helsinki Metropolitan Area.

Building permits for blocks of flats indicate a decrease in the flat sizes

In the light of the statistics, the average size of new flats has decreased in the construction of apartment blocks.

New construction permits, average flat size in apartment blocks
Square meters



Source: Aktia, Macrobond and Statistics Finland.

In the issued floor size permits, the average size of a flat was 82 square metres in 2010, compared to 68 square metres in 2020 and in the first ten months of 2021. This development is quite natural, as the number of households consisting of one person, both rental occupants and owner-occupants, have increased

steadily over the past ten years. In this case, also the demand for smaller flats has increased and steered production. If the demand for larger rental flats remains at a good level, the existing housing stock in growth areas may not be able to respond to this, which puts upward pressure in rents.

The final form of remote work defines the market

There are several reasons for the increase in demand for larger rental flats.

Remote work is most likely the biggest. In this case, the demand for larger rental flats will originate from at least two sources. Firstly, households that are already renting may move to larger housing due to the need for additional space. The second group could be households that are still in the decisionmaking process when it comes to remote work. Instead of buying a larger home immediately, people want to test the need of additional square

metres in the form of a rental flat, prior to making the actual purchase decision.

Although the final extent of remote work is still seeking its final form, there is one thing we can be quite certain about – there is no return to the pre-COVID rate of office work. People who are permanently doing a lot of remote work are most likely considering moving to a bigger home.

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The prices of flats may increase the pressure on rental housing

At the same time, housing prices have increased sharply, especially in growth areas, which may well increase the popularity of rental housing.

Not everyone necessarily has the will or economic opportunities to buy a large flat in an area of their choice.

In 2020, the prices of old three-room flats in apartment blocks increased on average by 2.7 per cent and the prices of one-room flats by 2.2 per cent. It is not uncommon that the prices for larger flats in growth centres

increase more than 5 per cent per year. The prices of apartment block flats with three rooms and above increased by 3.3 percentage points faster than the prices of one-room flats in the third quarter of last year. The difference was the greatest since 2000. This trend reflects an increase in the popularity of larger flats.



Picked up birth rate also supports the market for larger homes

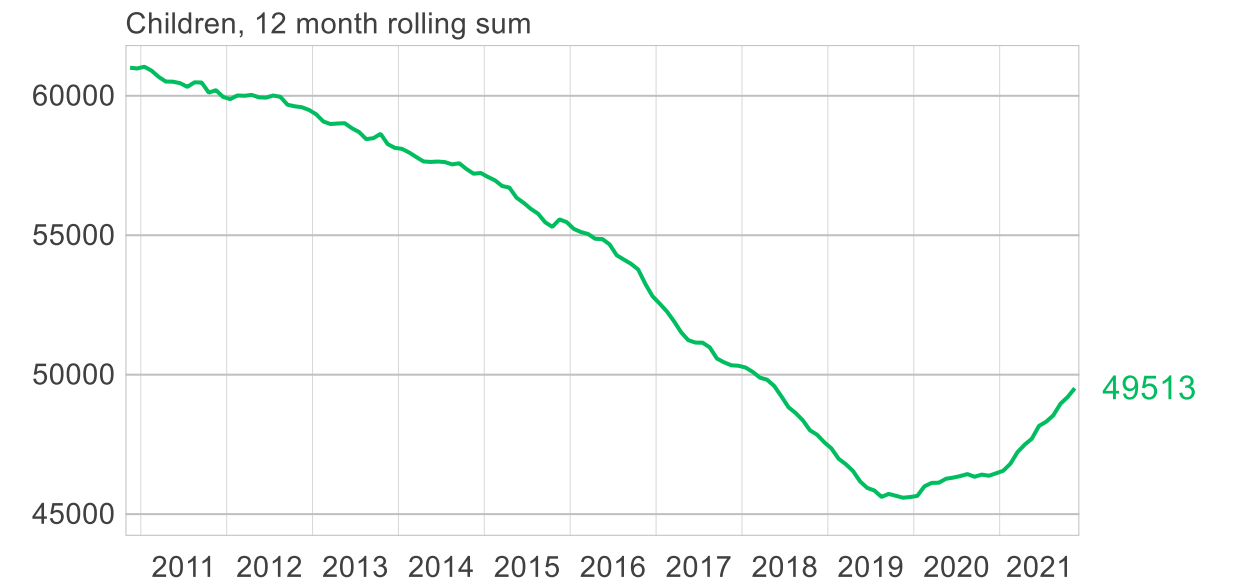
In Finland, the birth rate has been on a declining trend for a longer period.

However, the development has shifted during the pandemic. In 2019, just under 46,000 children were born in Finland. Last year, the number of children born was almost 50,000. In addition, the trend is currently pointing upwards. Of course, larger

families need larger housing. If the birth rate develops in an upward direction, it will contribute to strengthening the demand for larger housing, some of which will certainly be directed towards rental housing.



Live births in Finland



Source: Aktia, Macrobond and Statistics Finland.

Prices for larger flats in growth centres may increase more than

5 %

per year

The apartment block – the primary housing alternative when living close to services

People living in large rental homes usually also have children who influence the family's choice of housing.

Households with children need different services (such as schools and nurseries), which mostly have a better availability in larger cities and growth areas. Furthermore, these services cannot be arranged remotely – comprehensive school and nursery cannot be completed through Teams. In larger cities

and growth areas, larger rental homes are mainly situated in blocks of flats. For this reason, the need for larger rental housing should be reflected particularly in the rents for apartment block flats in larger cities.

At the end of December, over 90% of the flats that have three



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rooms or more and that are being rented in cities with more than 100,000 inhabitants are in blocks of flats. Approximately 5% of these are in terraces houses. As a result, there are relatively few alternatives in terms of building type for those who want to live in the city close to the services. The better the location, the more valuable the land, and the more likely that there will be blocks of flats on it.

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Does the pandemic bring new opportunities for property investors?

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Over the past few years, the focus of property investors has clearly been on smaller housing, such as one-room flats. However, the COVID-19 pandemic has changed the development of the rental market. What the final changes will be remains to be seen in the future as the pandemic is not yet over. However, many factors suggest the market for larger rental flats in growth areas picking up long-term.



Thanks!

Lasse Corin

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Lasse Corin has functioned as Aktia's Chief Economist since spring 2020 and in this role, he monitors and analyses the development of macroeconomics and the investment market. Lasse Corin has an extensive experience of expert positions in the banking sector and his goal is to focus especially on domestic economy and to discuss how changes in the world economy affect Finland and Finnish households.

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