

**Housing**  
Staying down

**Non-residential**  
Dependent on public funding

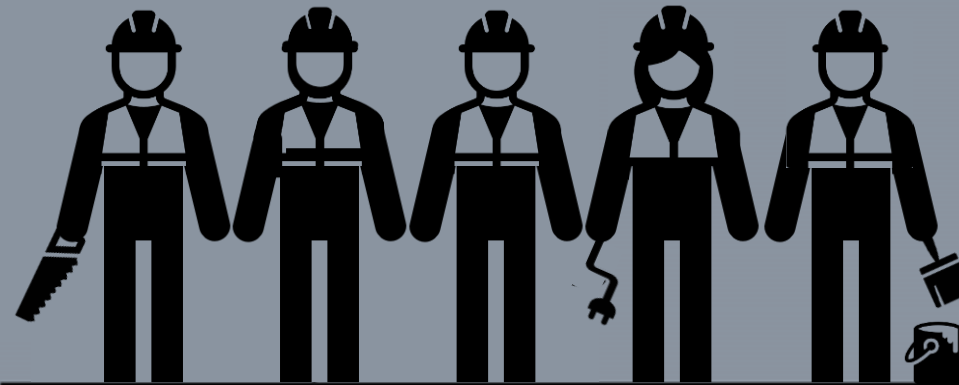
**Renovation**  
Growth missing

**Infrastructure**  
Next year on track

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## Over the hump

The construction crisis continues. Housing production is staying down. The industrial investment boom is not visible in construction statistics, at least not yet. The track in affordable housing and economic growth is at risk of being lost. There are few market-based solutions to fix the situation right now.



# Over the hump

First, the good news. The understanding about the need to support housing construction is now shared widely. The authorisations for state-subsidised housing production have been raised to a record-high level. ASO right-of-residence production will continue. The asset transfer tax is moving in the right direction. First-home buyers are assisted with better ASP system conditions. There are initiatives to start infrastructure projects early. The goal is to make planning and permit processes genuinely more flexible. Finland has a government that understands the importance of housing and construction.

Then, the bad news. Unfortunately, things are getting to the point of how many construction companies that the banks can and want to finance will exist next year. The historically rapid increase in costs and interest rates, tighter credit policy and financial regulation have reduced the leeway and funding of construction companies to almost non-existent. In addition, the housing market has been paralysed by domestic special features.

In this difficult situation, construction companies have reacted with vigour. New housing projects are frozen, but companies cannot do anything about the substantial ongoing and completed production. There are now plenty of apartments available, but the foreseeable level of production with long lead times lead to a housing shortage. There are few market-based solutions to the situation right now.

Against this background, talk about creative-destruction solutions are seen as short-sighted in the sector. For the same reason, finding political solutions is more difficult than, for example, during the financial crisis.

So, the difficult question is: how can we support non-subsidised housing construction with as little tax money as possible, in a situation where there is plenty of supply, so that the completion of housing takes place at the right time? The constructors' answer is unambiguous. The large number of flats available is not the society's problem. It's the constructors' problem. Statistics show that most of the time, supply is scarce. This is what decision-makers should be worried about. The society's response should be considered from the perspectives of urbanisation, economic growth and affordable housing.

While the situation is more hopeful in the construction of premises, there is still no sign at all of the publicly celebrated investment boom in the statistics, at least not yet. Many good projects are now stuck. The industrial green transition market is currently being distributed. Investors have many good alternatives in and outside Europe. The same project is subject to a cold-blooded tendering process between countries. Finland cannot afford to rely on pious intentions. It would now be worthwhile for the state to move big projects forward in the same way that Sweden has successfully done.

In practice, the collapse of the construction sector was solely responsible for the shrinking of the Finnish economy by one per cent last year. The Bank of Finland recently estimated that the continued recession in housing construction would be the biggest threat to the economy this year. Our forecast for housing construction for this year and next year is really depressing, because there is no clear turn in sight. We very much hope that we are wrong. The most undesirable thing would be being right alone.

“The construction crisis continues. There are few market-based solutions to fix the situation right now”

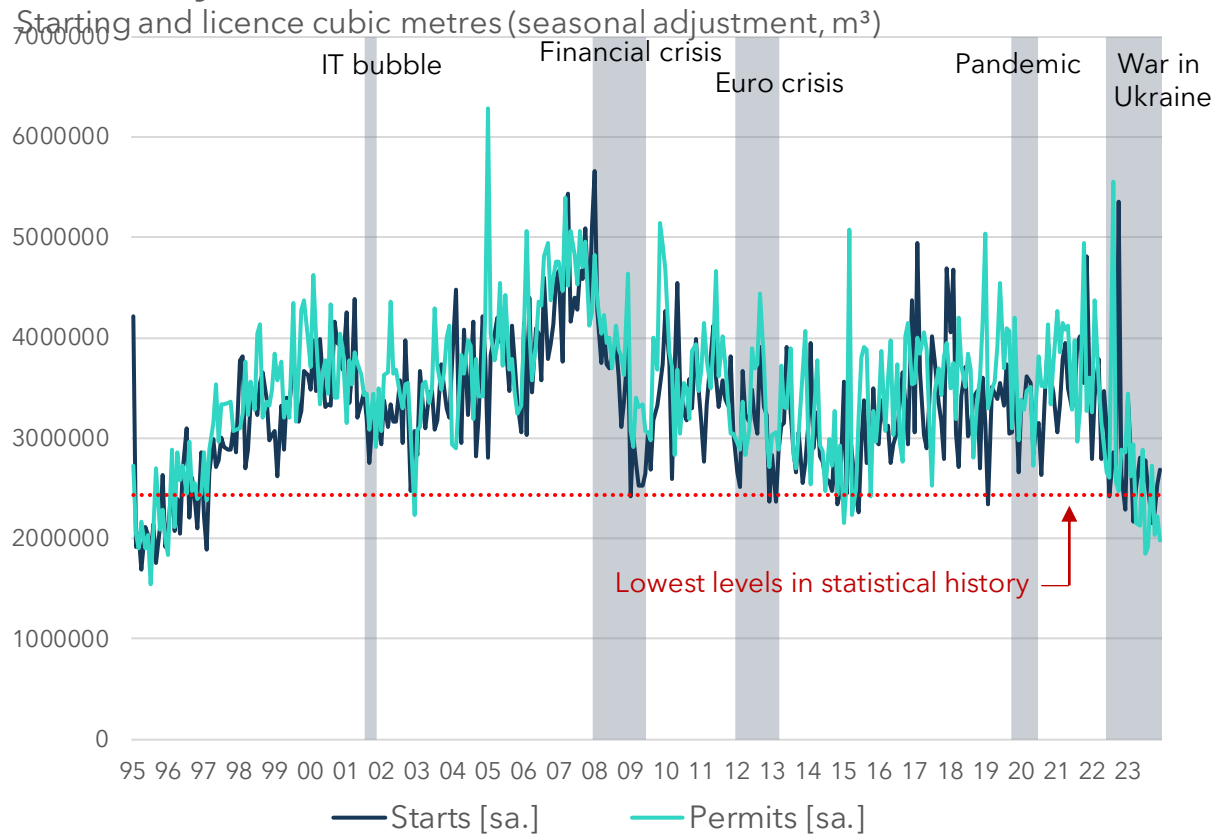


**Jouni Vihmo**  
Chief economist  
jouni.vihmo@rt.fi  
+358 50 5201636  
X: @jounivihmo

# Weak construction remains biggest threat to economy

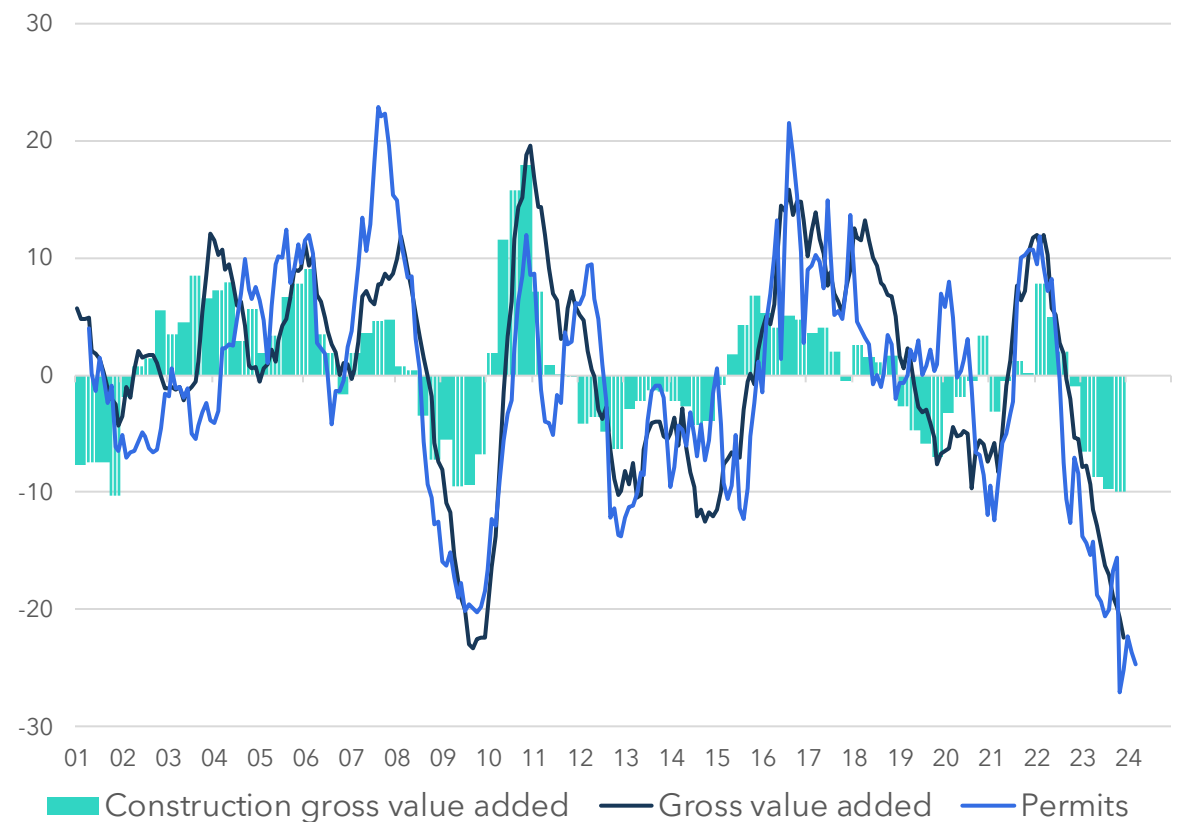
The collapse of construction was solely responsible for the economic downturn in Finland last year

## Construction swimming in historically deep waters statistically



## Construction pulls the economy to recession

Annual change in key construction indicators (%)

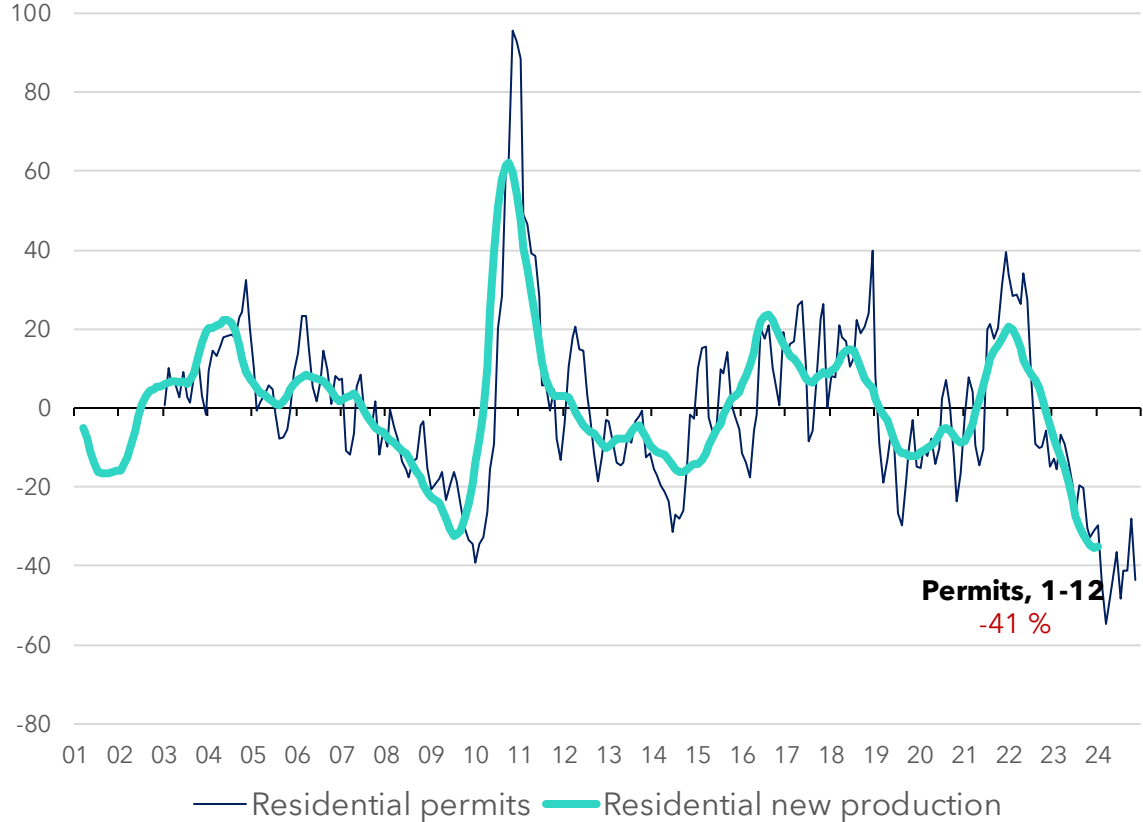


# No signs of recovery in new construction

Housing construction going down throughout the year - there is still a declining hope in premises

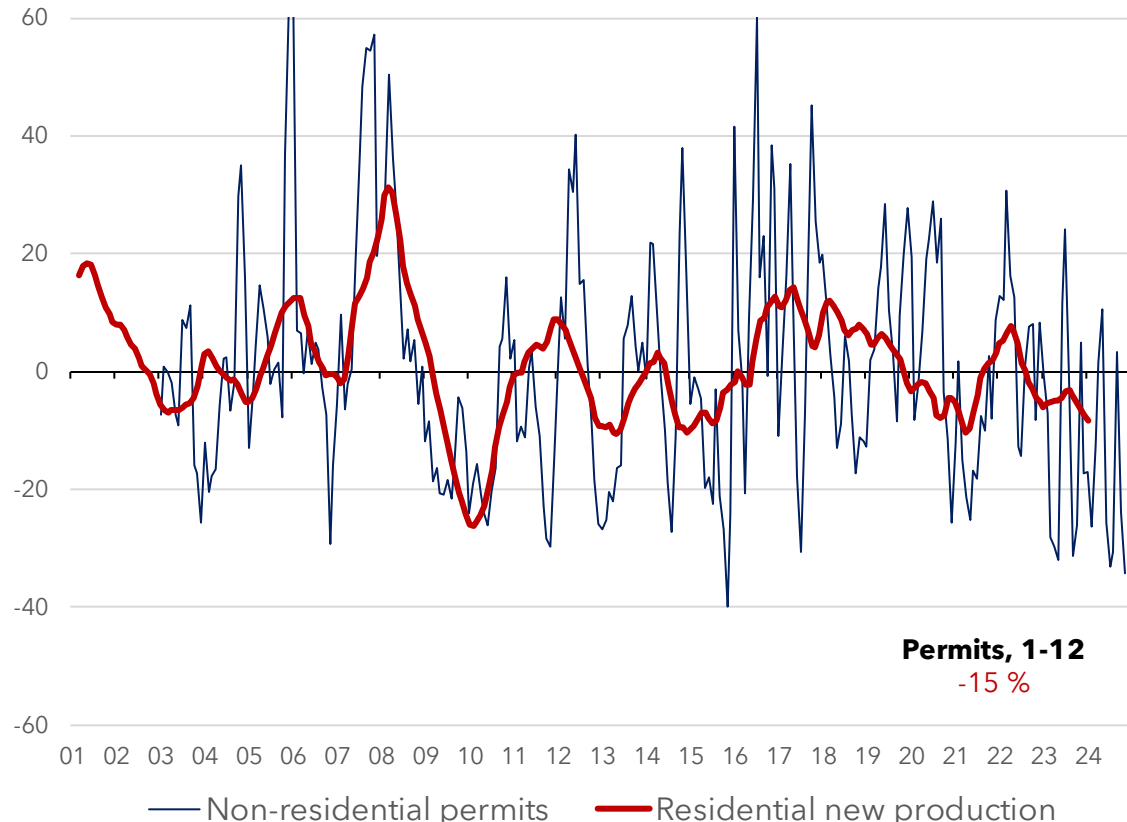
## Housing falls more than in the financial crisis

Annual change in permits and new construction (%)



## No investment boom in sight

Annual change in permits and new construction (%)

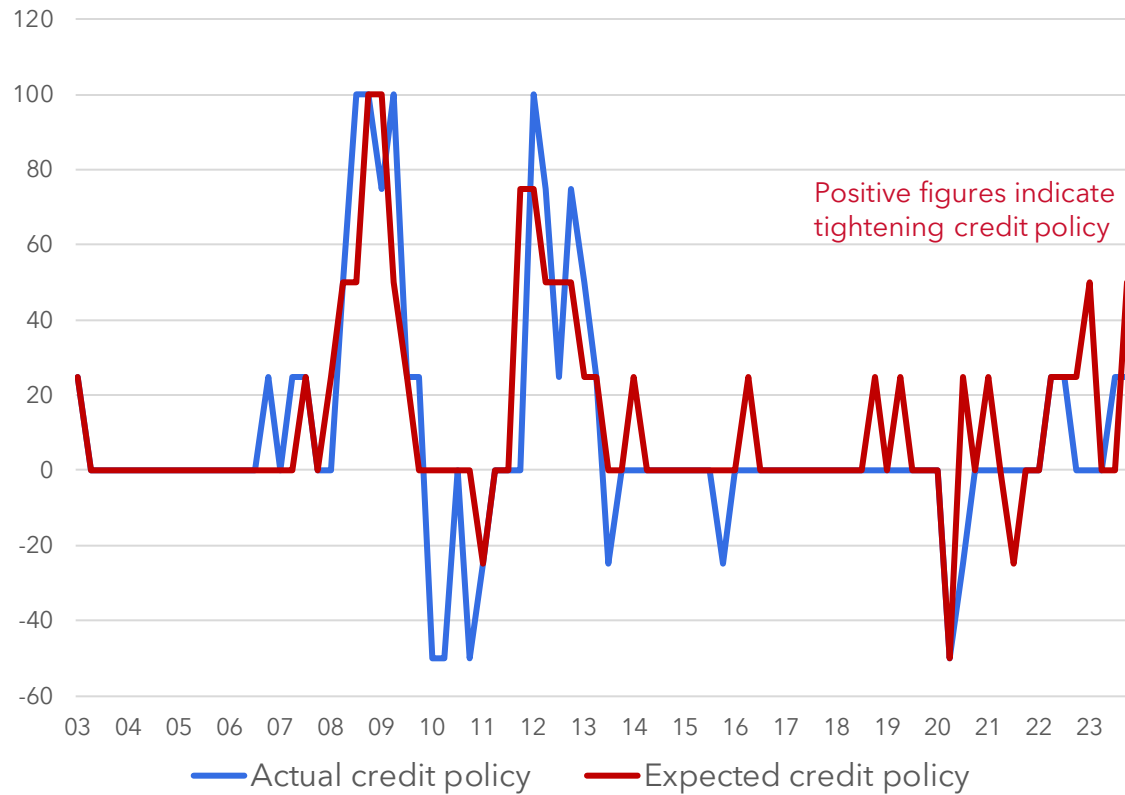


# The overall tightening of credit policy turned off the tap of financing

Based on banks' risk tolerance and view of future risks

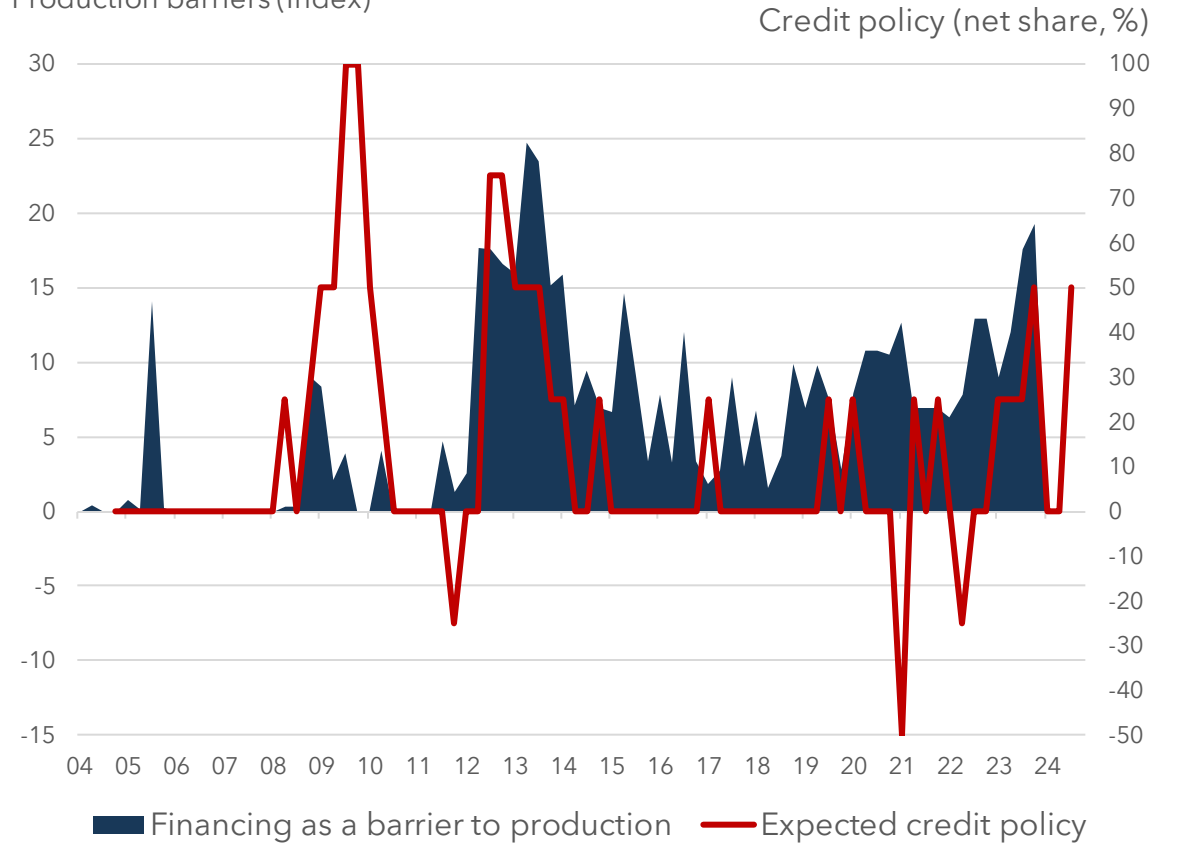
## Banks' credit policy continues to tighten

Changes in corporate credit policy (net share, %)



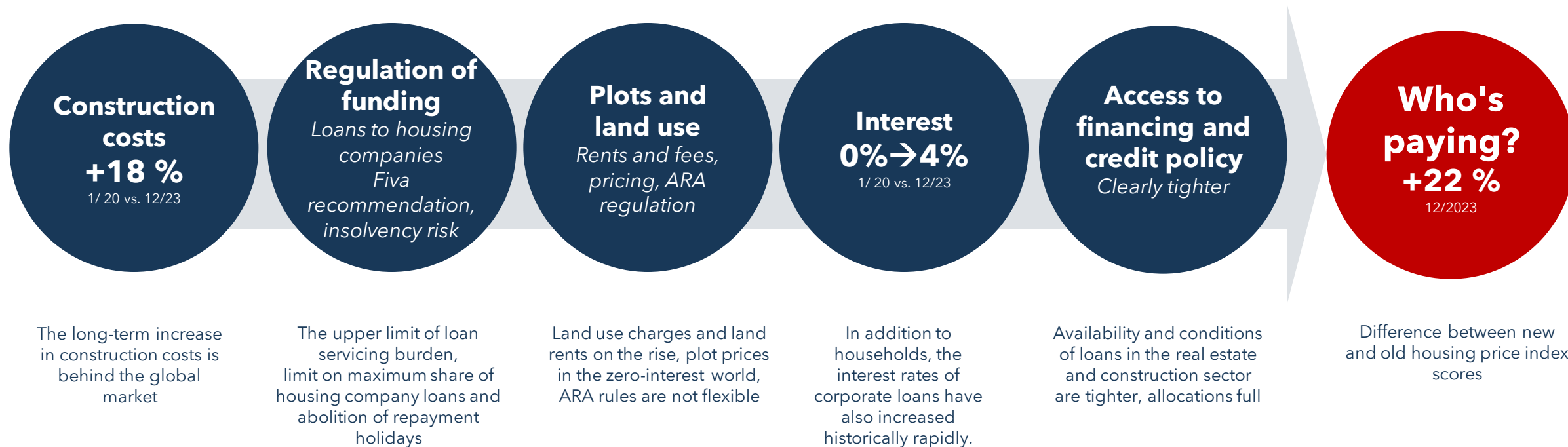
## Funding tighter than in the financial crisis

Production barriers (Index)



# Construction at the forefront of the global cost crisis

Construction is at the mercy of money market, financial policy and regulation



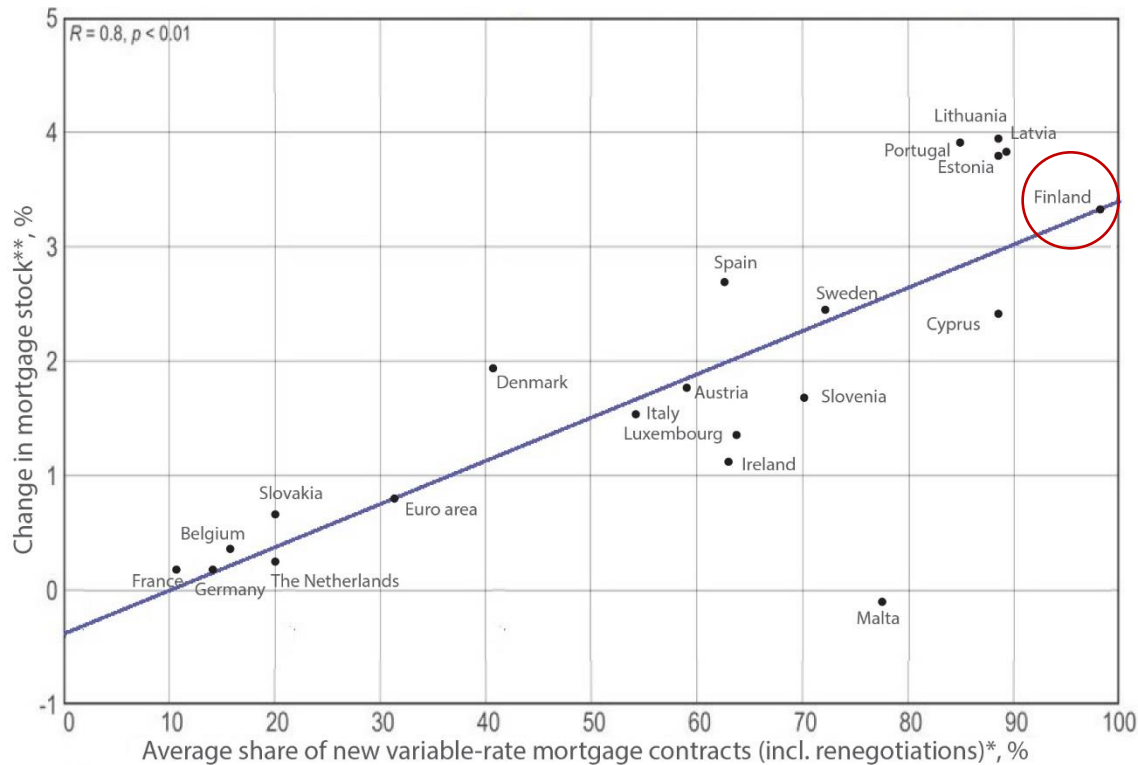
**For these reasons, the profitability equation for business premise construction is equally challenging**

# Finnish special features are quickly visible in housing demand

Finns do not take out fixed loans nor tolerate a high debt burden or a high price level in the housing market

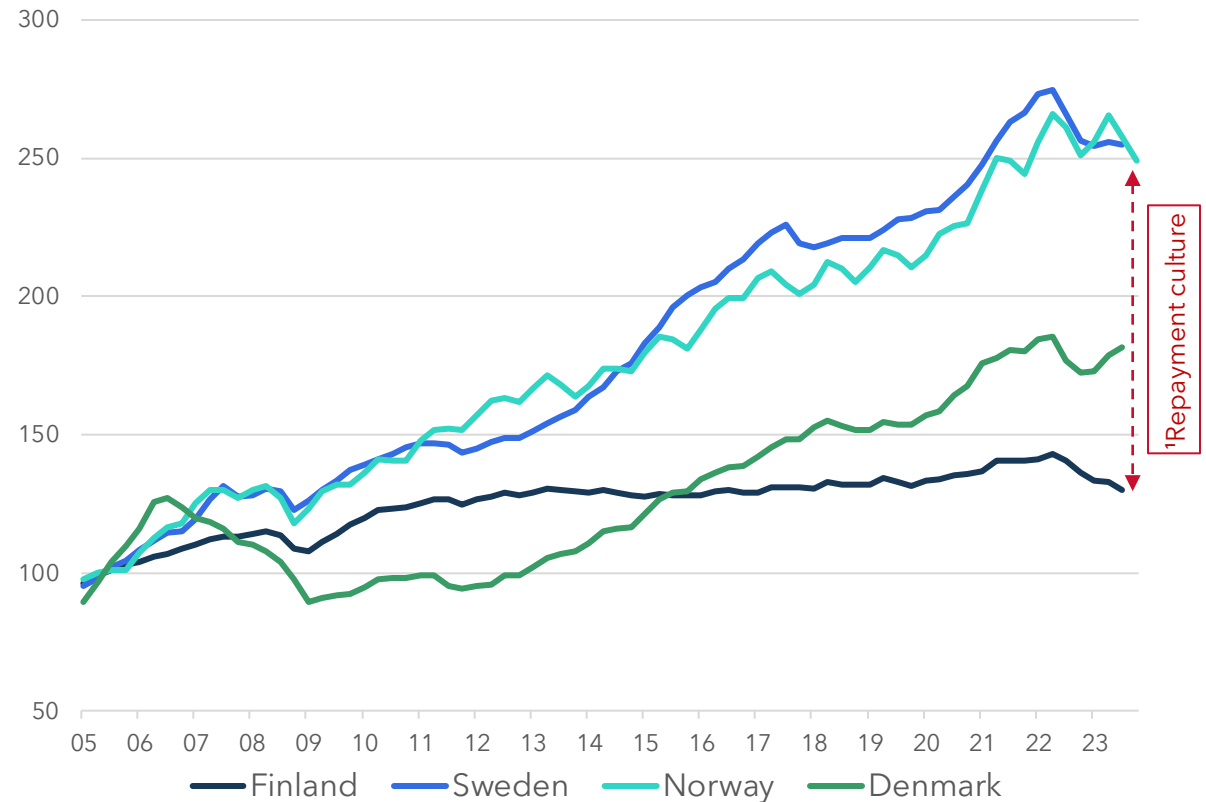
## Finnish interest rates rose higher than in other countries

Change in the interest rate of the housing loan stock and the share of variable-rate loans (%)



## Price development of housing in Finland is non-existent

Housing prices in the Nordic countries (index 2005=100)



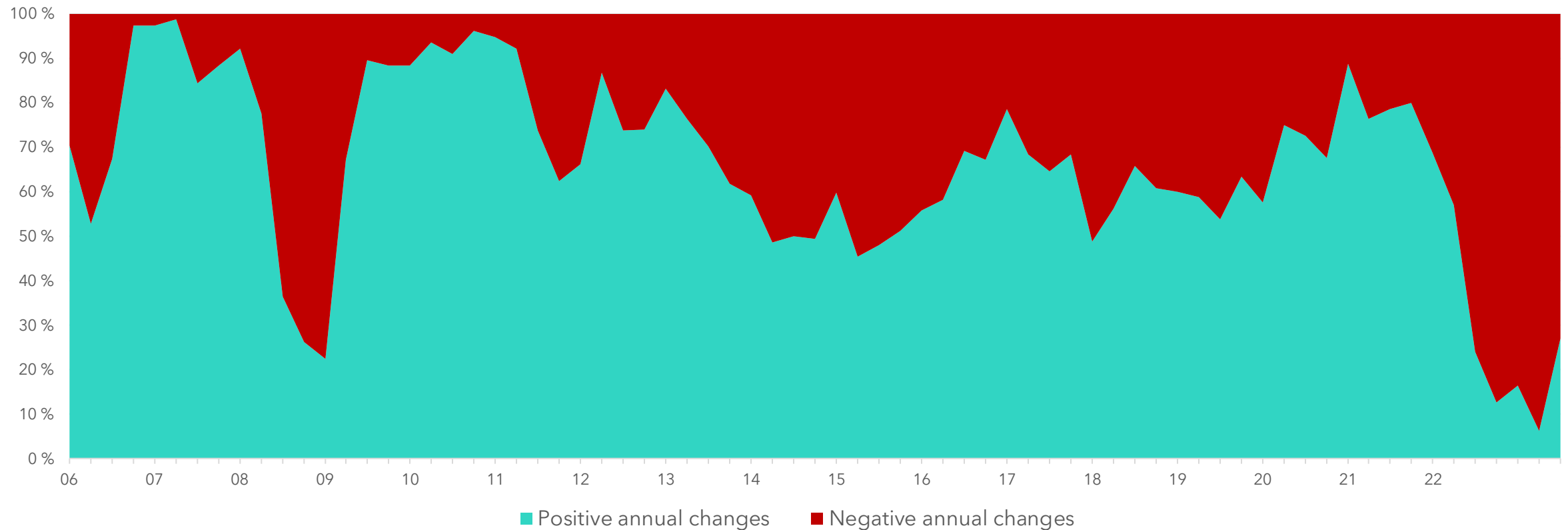
<sup>1</sup> Repayment culture = loan period + repayment rate. The Nordic countries clearly differ in their mortgage repayment culture. The repayment rate typically affects the price level and thus the ability and willingness to buy an apartment.

# Housing market adaptation is incomplete

The decline in housing prices has continued for more than a year and a half

## The fall in housing prices swept across Finland

Prices of existing apartments by region (annual change)



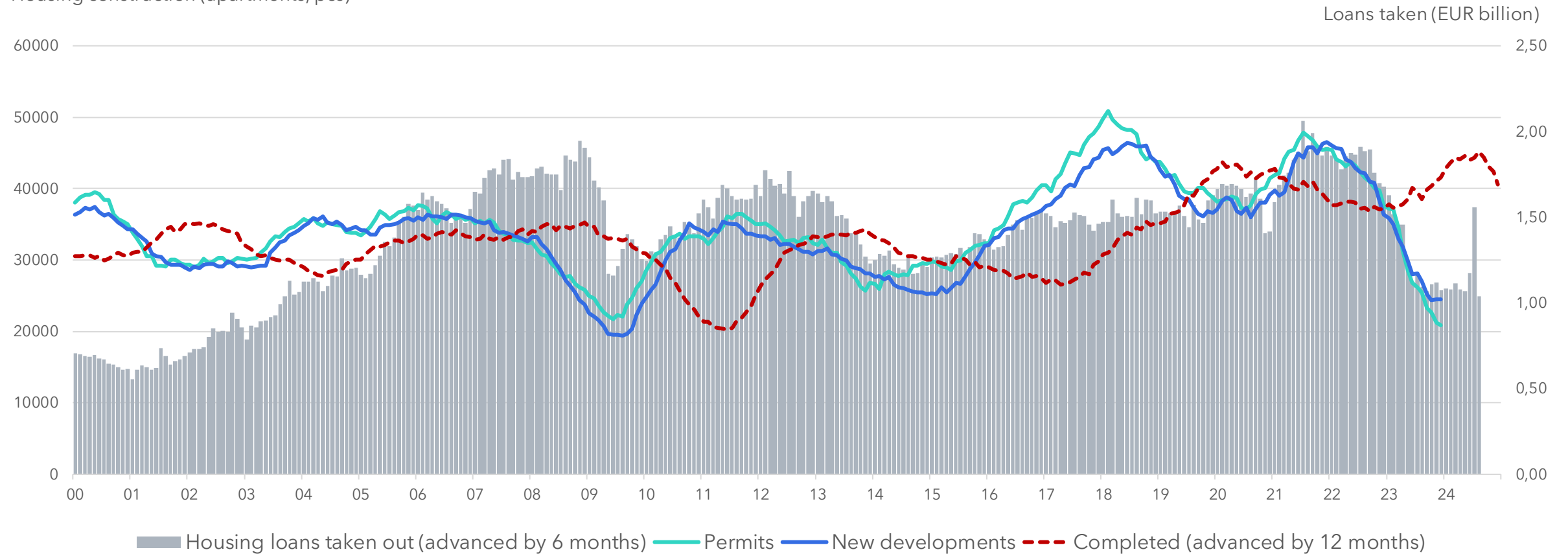


# The response time in the construction sector is long

Despite the rapid response of companies, nothing can be done about the ongoing production

## The loan market fell from under constructors

Housing construction (apartments, pcs)

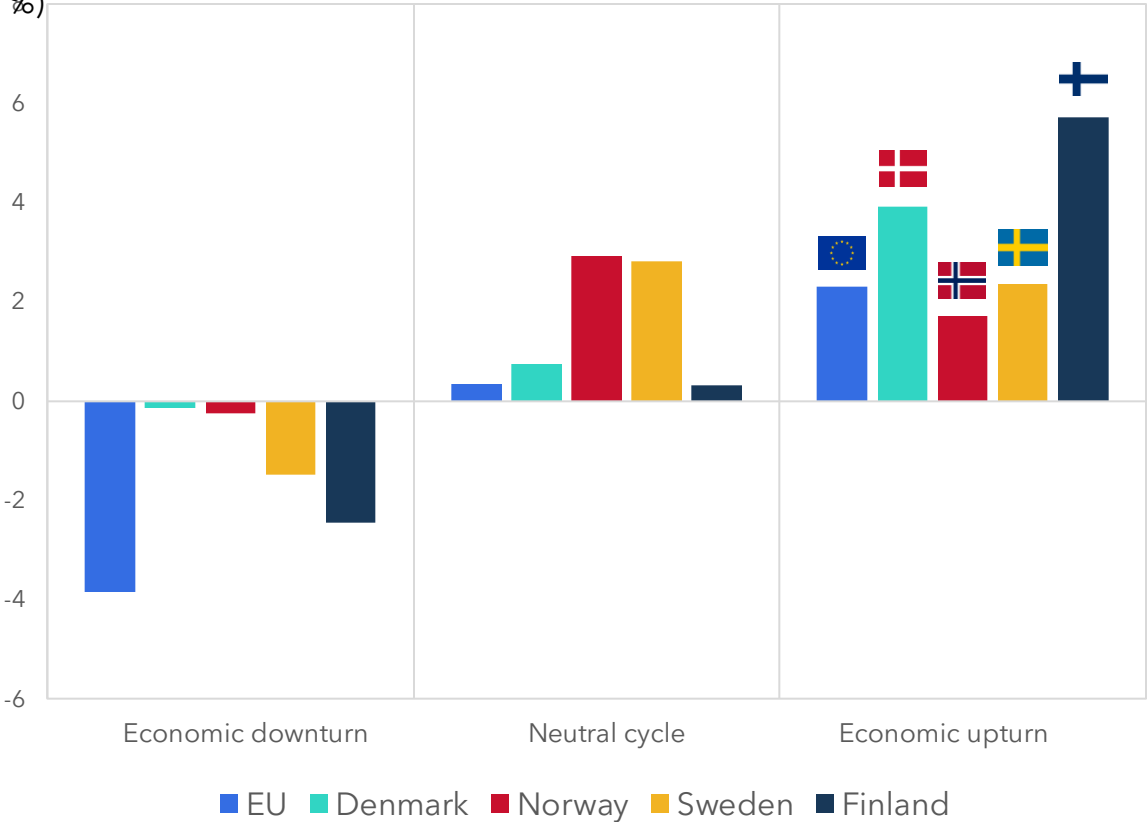


# Finnish features are visible in production and the labour market

Production develops through extremes and there is always a chronic shortage of labour

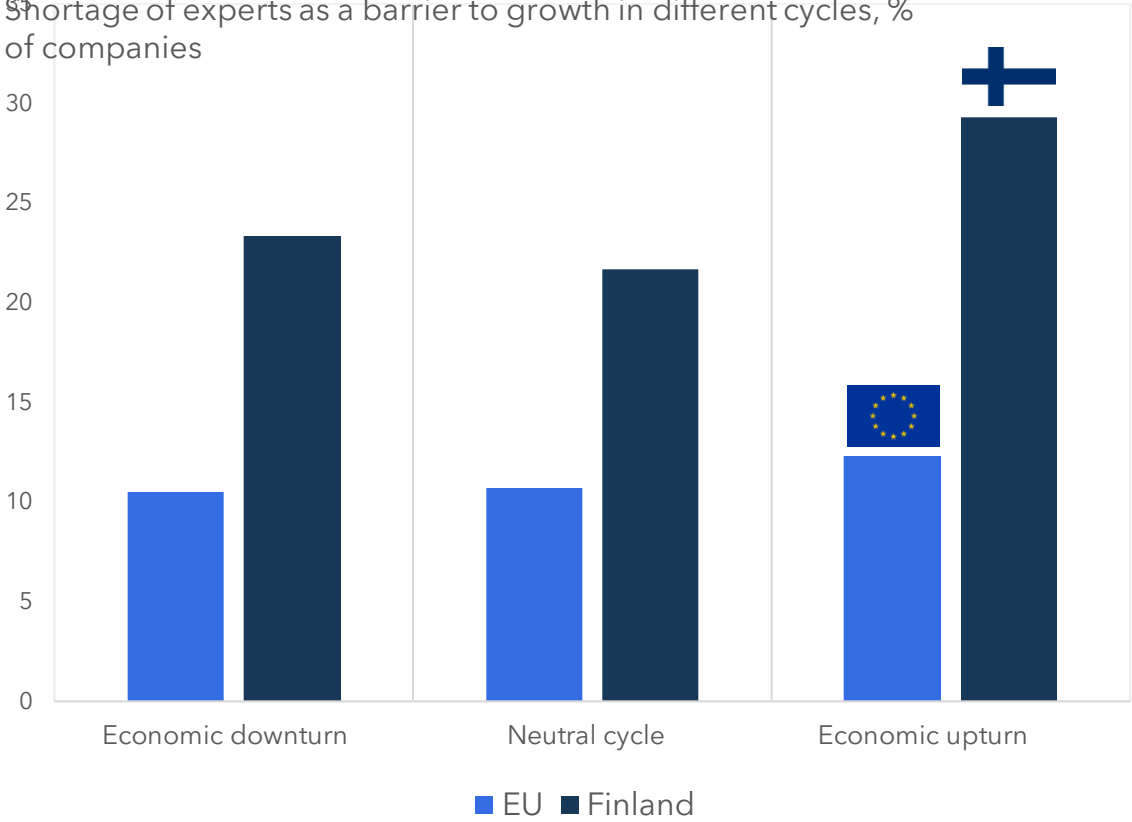
## Construction in Finland is volatile

Value added in construction in different cycles (annual change, %)



## Chronic shortage of experts in the construction sector in Finland

Shortage of experts as a barrier to growth in different cycles, % of companies

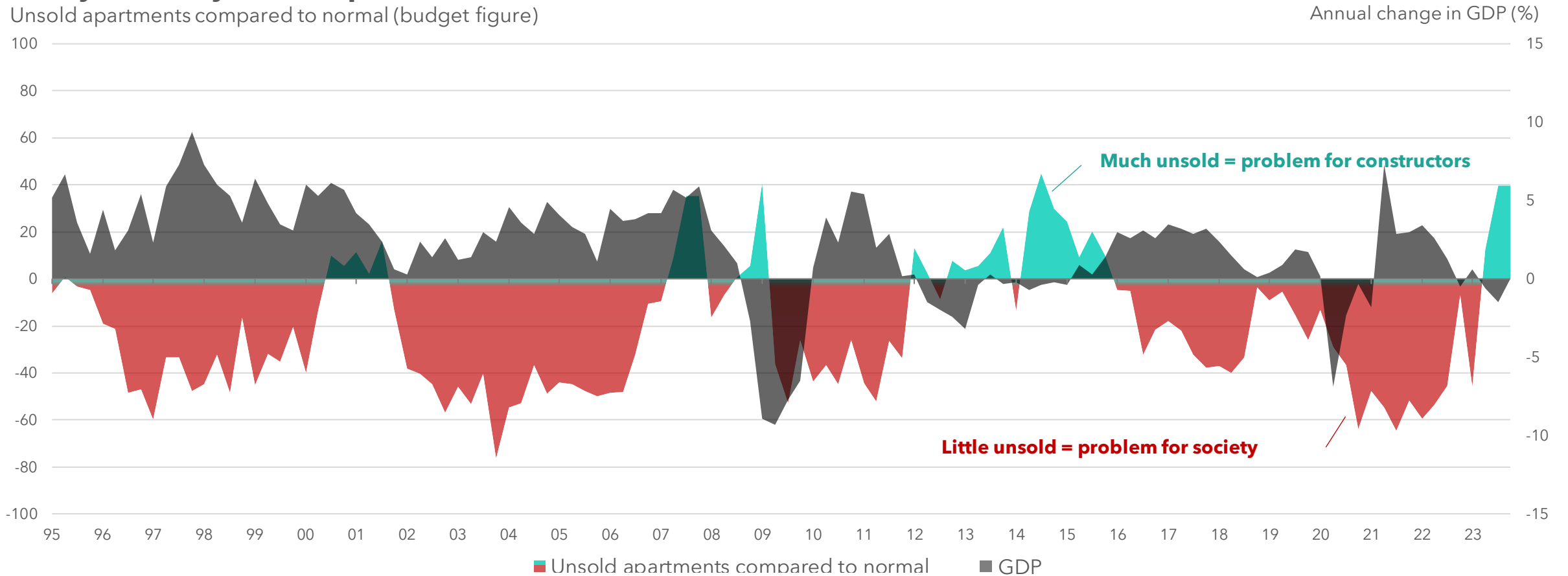


# Scarcity is the biggest problem in housing construction

There is plenty to sell in relation to the cyclical situation only for a while

## Rarely too many unsold apartments

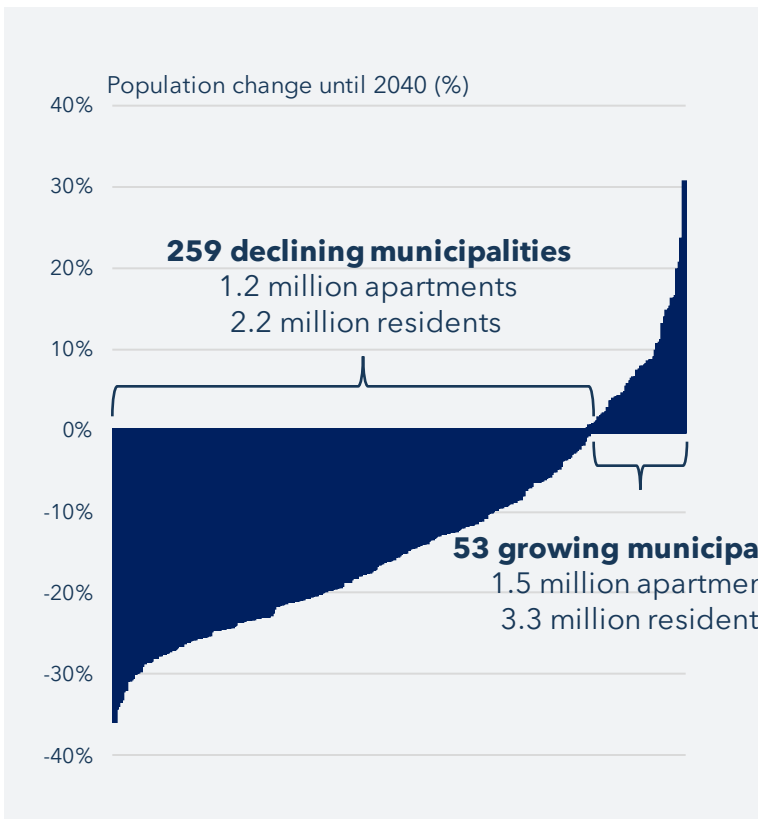
Unsold apartments compared to normal (budget figure)



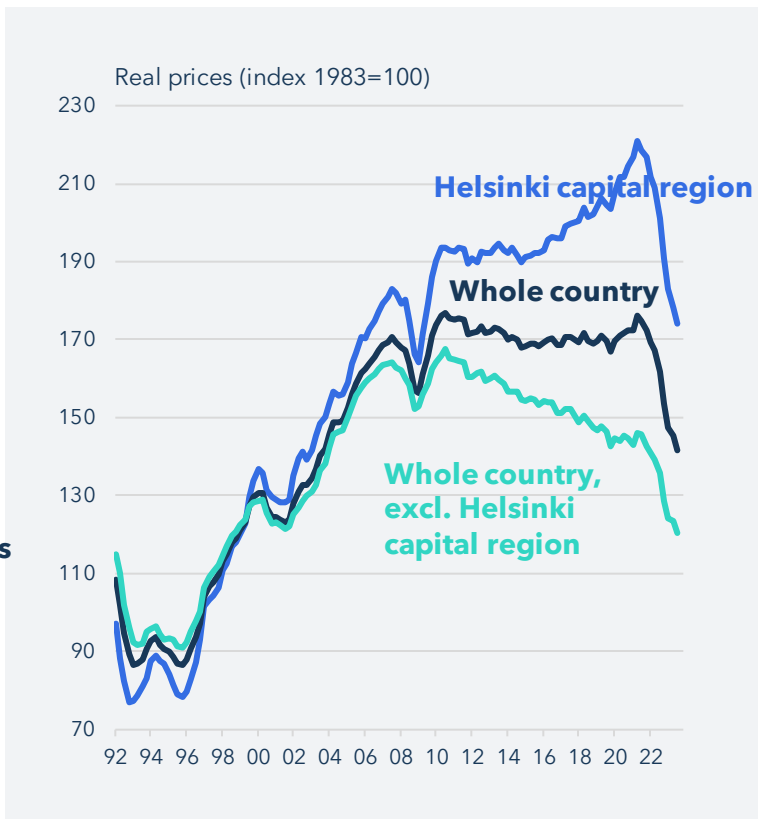
# The need for housing has not disappeared

New construction is needed in growth centres, the rest of the country needs at least renovation, and the whole of Finland must be connected logistically

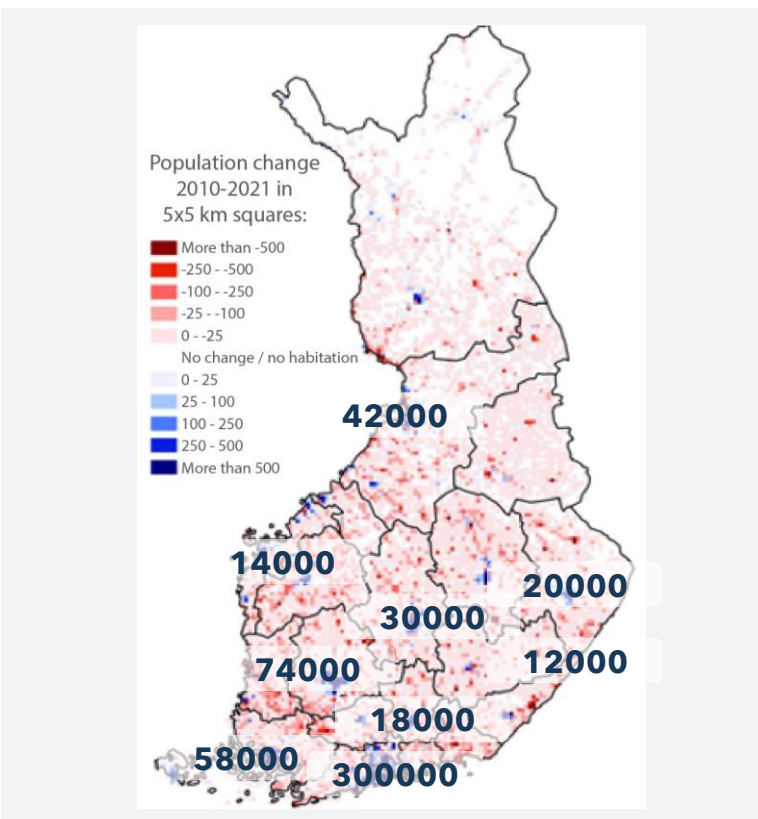
**Urbanisation continues**  
 "Half the housing is in wrong places"



**Insufficient collateral**  
 Housing markets are becoming polarised

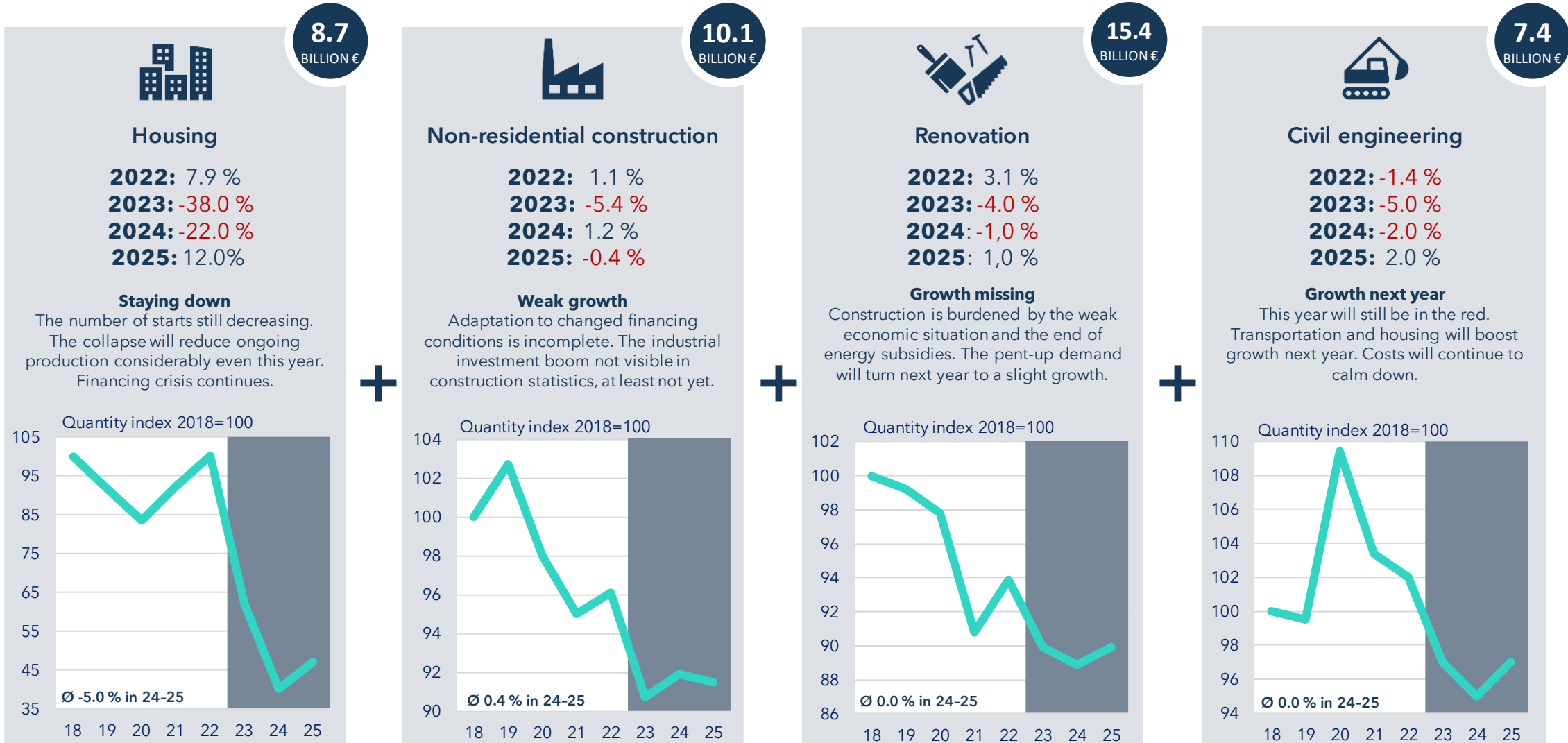


**600,000 apartments by 2040**  
 90 per cent in 9 growth centres



# Construction outlook 2024-25: crisis continues – construction remains threat to economic growth

2022  
in total  
**41.5**  
BILLION €



\*Fixed price added value

Source: Statistics Finland, RT forecast March 2024