HYPO REGIONAL RATING

3Q2025 Publication: Regional Housing Market Risks and Outlooks

Urban Growth Separates the Wheat from the Chaff

- In Hypo Regional Rating, **a total of 13 municipalities reach the A-class**. In the last update, 15 municipalities achieved an A rating. The big picture remains: 247 municipal areas are rated BB or below. 63 municipalities fall into the red-tinted C-series. Long-term population growth is a key indicator of change, even as economic cycles fluctuate. The rating reflects regional risks and crisis resilience, so changes are not abrupt, even if an acute crisis hits. The outlook - positive, stable, or negative - complements the rating, indicating its strength and risk of change as economic cycles move up or down.

Housing Price Forecast
2025: -1.5%
2026: 2.0%

- **Growing Helsinki and Pirkkala (preparing for the expansion of the Tampere tram) reach the A-class with a positive outlook.** Housing issues are increasingly tied to the needs of the foreign-language population which is supporting population growth. The average size of new apartments is increasing, and ensuring sufficient construction enables migration chains for those moving closer to city centers, especially for foreign-language residents currently concentrated on city outskirts. **Tampere's growth relies most on domestic migration among large cities, but immigration will become more significant in the future.**

- Housing market areas differ significantly even within vibrant municipalities. **BB-rated areas within the largest A-group growth centers are typically on city outskirts with weaker transport connections or suffer from segregation**. However, even the most remote part of a highly rated municipality benefits from a sustainable municipal economy and performs better than the average Finnish municipal area. Regional rating's themes include payment ability, liquidity, collateral values, municipal economy, safety, health, migration, future prospects, and environment. (*more on page 10).

HYPO REGIONAL RATING A-CLASS

- Helsinki (A+)
- Pirkkala (A+)

- Espoo (A)
- Kempele (A)
- Lempäälä (A)
- Tampere (A)

- Kangasala (A-)
- Kauniainen (A-)
- Kirkkonummi (A-)
- Naantali (A-)
- Oulu (A-)
- Turku (A-)
- Ylöjärvi (A-)

CHANGES AND OUTLOOKS

- 73 areas saw an upgrade by one notch.
- 15 areas saw a downgrade by one notch.
- The economic trough creates conditions for a price upturn in growth centers, but also temporarily across the country. **A more precise picture of stormwater flood risk areas is reflected in slight rating increases outside major cities.** However, differences between growth and shrinking areas remain large.

HYPO DISTRICT RATING

- **Hypo District Rating** is published for the fourth time, with postal code-level accuracy for the capital region, Tampere, and Turku,** with most up-to-date information on area development and future change potential. The importance of good location and transport connections is emphasized even within cities as competition between areas intensifies with Finland's population growth slowing.

Capital Region Prices
2025: -1.5%
2026: 3.0%

- **Good location continues to support areas dominated by small apartments, but demand is shifting more towards slightly larger homes.** Owner-occupied areas continue to stand out, while growth areas with adabtability face rising demand. **Five percent of residential floor area are in stormwater risk areas.** Preparedness is a must in high-risk areas.

JUHO KESKINEN

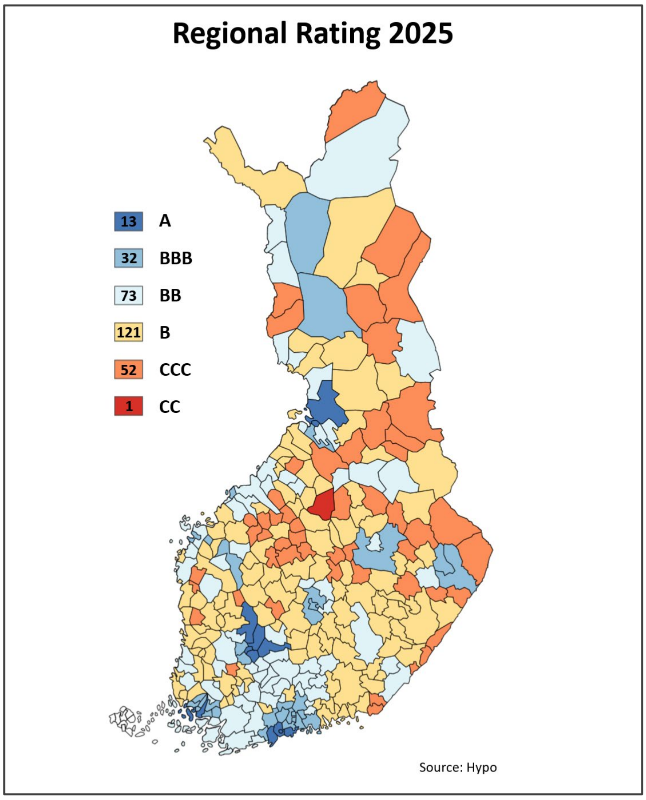
Heavy rains soak homes more often than before

In this update of Hypo Regional Rating, 73 areas' ratings increased by one notch, while in 15 municipalities in mainland Finland, the rating decreased by one notch. The rating remained unchanged in 204 municipalities. The ratings now range from the third highest possible A-class to the third lowest possible CC-class. None of the areas, when examined by municipality, reach the highest AAA or second-highest AA class, nor do any fall into the two lowest possible C or D classes. The average rating for the country's housing stock remained at BBB, so the rating of the average Finnish home did not change. Public finance challenges have not eased, but from a housing market perspective, the economic trough has been reached and falling interest rates and rising transaction volumes already support the development of collateral values in the near future.

The big picture remains intact, but environmental risk assessment has been refined and updated to include stormwater areas in addition to previous freshwater and seawater flood risks. More precise mapping of residential floor area in flood-prone areas is reflected in a slight leveling of rating differences between the largest cities and smaller municipalities.

On average, lower stormwater flood risk than in large cities, diversified owner-occupied housing financed by wage income, and low inflation reduces risks especially in areas dominated by detached houses, but the best-performing, blue-shaded areas still consist of familiar growth cities. Over three million Finns and over 1.8 million homes are in 45 municipalities with at least a BBB rating, representing only about 15% of mainland municipalities. The population share of municipalities with at least a BBB rating is 58%. By municipality, B-class remained the most typical rating, while the largest population is in the 13 municipalities with A-class ratings. The housing market downturn has generally increased the risks lurking in market areas, but the rating looks to the future over varying economic cycles. Structures and trends are of interest to the rating agency rather than temporary market turmoil – as a mortgage is taken out for years or decades ahead. The rating is built to measure the crisis resilience of different areas, so when a crisis hits, the ratings do not change much. From the perspective of a housing financier, the most interesting thing is to predict the direction of future change, which the past development of housing sales and prices only explains to a limited extent. At the same time, the rating is also renewed as legislation and the world change.

Helsinki and Pirkkala reach the A+ rating. Espoo, Kempele, Lempäälä, and Tampere receive a stable A rating. Vantaa drops to BBB. The blue growth triangle stands out, while the red-tinted higher-risk areas are concentrated in Central Finland, Eastern Finland, and Kainuu. Differentiation occurs not only at the municipal level but also within municipalities.

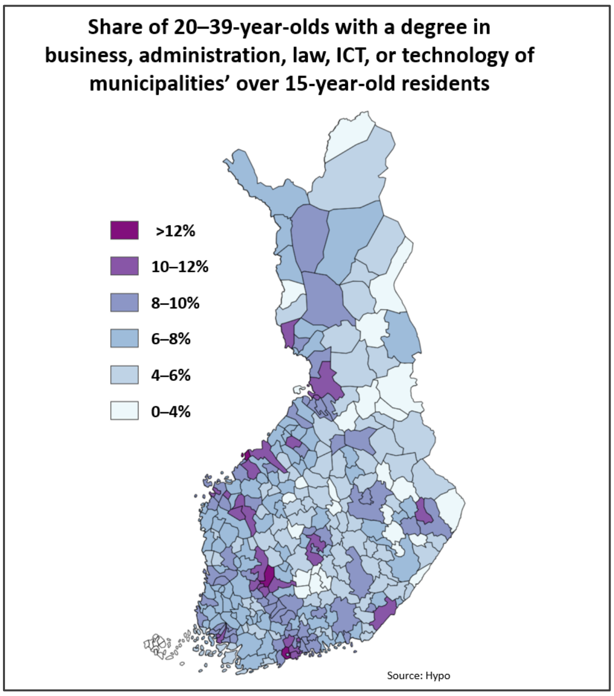


Hypo Regional Rating examines all housing market areas in mainland Finland based on their risk levels, using standard housing finance metrics. Housing market risks are known to vary across the country, and a financier must take these differences into account. The system uses a familiar ten-step scale from the credit rating world, ranging from the best AAA class to the weakest D class. A BBB rating is still above average, but the C series forms the most significant risk group in the housing market. The rating also includes the area's future outlook on a scale of positive (+), stable, and negative (–), which helps assess the risk of a rating change in the future.

Urban population is growing rapidly

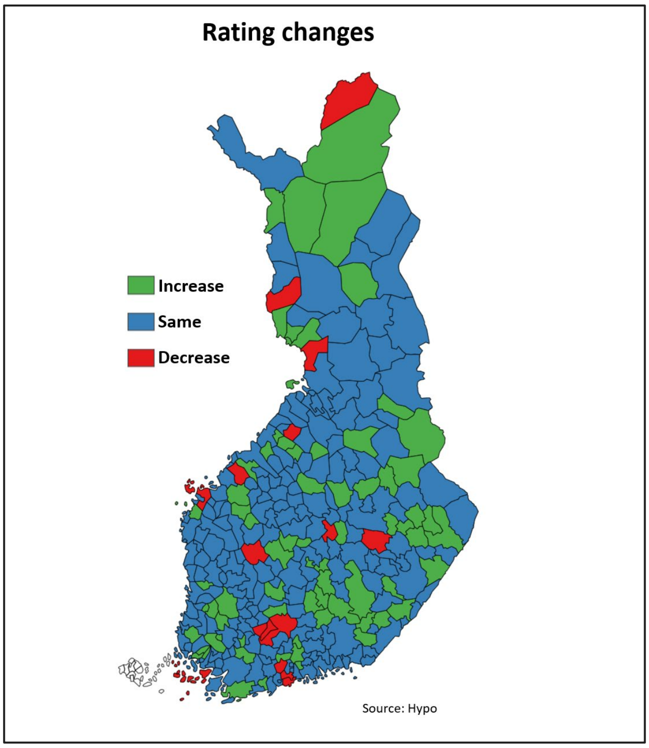
A-class areas are characterized not only by strong population growth but also by a higher-than-average proportion of highly educated people, young people, and young women. Finland's population grew by 0.6% last year, with the increase concentrated in the capital region and the Turku–Tampere corridor; Oulu, Kuopio, Jyväskylä, and Vaasa also strengthened. The fastest relative growth was in Kaskinen as well as Espoo, Turku, and Tuusula, about 2% or more, and in Tampere, Vaasa, and Vantaa, about 1.5–2%. The population declined most clearly in small municipalities in Eastern and Southeastern Finland, Kainuu, and Ostrobothnia. Among large cities, Savonlinna, Kouvola, and Kotka, for example, saw population decreases.

Jobs are often created when highly educated people generate new growth opportunities around them, gradually creating new jobs even in low-wage sectors.



In addition to population growth and straightforward population forecasts, the future of the housing market is also predicted by regional birth rate trends and regional economic outlooks. Defense investments are significant for regional economies. NATO's headquarters in Mikkeli, which has reached the BB class, and the rotation troops in Rovaniemi (BBB class) and Sodankylä (now in the B series) bring permanent and periodic personnel to these areas. This increases demand for security, ICT, and logistics services and tightens the rental market, especially in Lapland, while in Mikkeli the effect is more moderate and supports owner-occupied housing. At the same time, Lapland's steel industry suffers from the trade war, while icebreaker orders bring jobs to Helsinki and Rauma. Public spending cuts are likely to be targeted at areas where each euro spent has benefited a relatively smaller group of service users. The pressure for savings in wellbeing services counties was anticipated already a year ago, when the analysis was refined to examine municipal finances' dependence on public money, not only through state subsidies but also through cost pressures transferred to wellbeing services counties. Wellbeing services counties are aiming for a total reduction of 2,000–3,000 employees in co-determination negotiations that started this autumn.

The rating increased by one notch in a total of 73 housing market areas and decreased by one notch in 15 areas.



The housing market downturn has been reflected nationwide in falling prices and sluggish transactions, but the basic setting between growing and shrinking areas has remained unchanged. Finland's economy – especially public finances – is in poor condition, and the discussion about a possible rating downgrade has already been reflected in the general rating outlook. At the same time, the forward-looking rating sees the market cycle bottoming out, and in the coming years, a correction in housing prices is expected nationwide. The outlook for collateral values is also improved by the turnaround in the working-age population: increased immigration reversed the decline in the number of people aged 20 – 64 in 2022, after twelve consecutive years of decline. Caution is needed with population forecasts, and the latest forecast from Statistics Finland should not be taken at face value. As the difficult economic phase ends, there will be more hands available in the domestic labor market than before, especially in the largest cities.

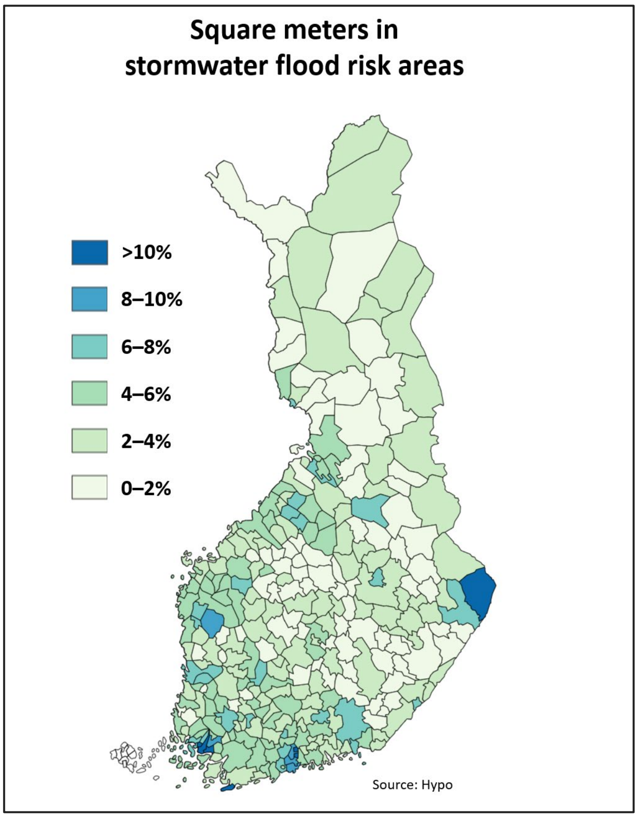
Helsinki, which last year had a negative outlook in the AA class, drops to the A+ class with a positive outlook and shares the rating with Pirkkala, which is awaiting the tram. High prices increase vulnerability to interest rate shocks, and at the same time, the largest cities are also challenged by managing growth – the era of tiny studios is giving way to family homes and diverse housing for the foreign-language population. The slump in construction will inevitably be reflected in rising prices in desirable areas in the coming years, and attention should be focused on securing the conditions for growth and construction.

The price gap between Helsinki and Kainuu remains vast, but interest rates now settled at higher levels than at the latter half of the 2010s, construction difficulties, and investor caution have also narrowed the rating distribution; one-notch increases are now also seen in Lapland and Central Finland.

Stormwater floods are becoming more common – are you ready?

In September 2021, Hypo Regional Rating examined Finnish residential properties using data on lake, river, and seawater floods. As extreme weather events become more frequent, financiers, homeowners, municipal decision-makers, and legislators are increasingly interested in stormwater floods caused by heavy rainfall and the properties affected by them.

Every twentieth square meter of residential floor area is located in a stormwater flood risk area.



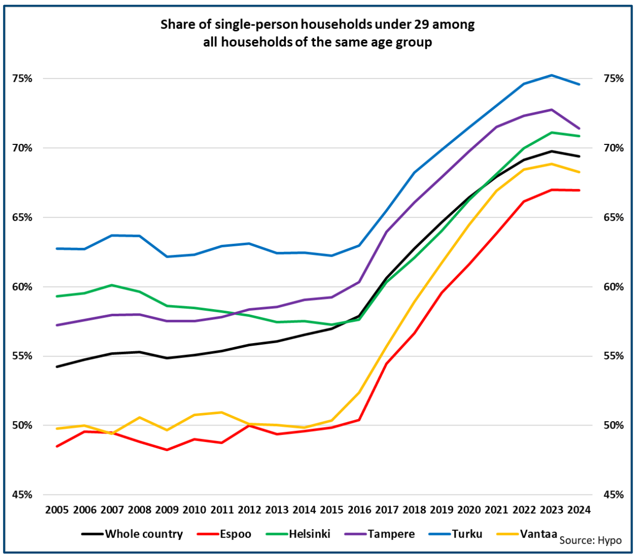
Flood risks are increasingly affecting the development of property values and habitability. According to the Finnish Environment Institute, average rainfall is expected to increase by 10% by the end of the century. Heavy rains are becoming more common, but in many areas, infrastructure is designed for yesterday's weather – risks of basement flooding and moisture damage are increasing, and resale value suffers. The Flood Risk Management Act implements the EU Floods Directive and obliges municipalities to assess flood risks in their area and to prepare their own plans for managing these risks. At the same time, flood risk has not yet been systematically assessed at a local level in many places, and municipal preparedness remains quite inadequate. For homeowners, this means a direct financial risk, while for municipalities, emergency measures and repair debt inflate costs and weaken vitality. The good news is that prevention is clearly cheaper than repairing damage: reserving flood routes and delay solutions in zoning, updating stormwater regulations, and ensuring plot-level infiltration and proper dam heights significantly reduce risk. That's why every homeowner and municipal decision-maker should take floods as seriously as employment or municipal finances – as they will increasingly be reflected in prices, rents, and tax revenues. At the same time, it's important to avoid overregulation, as preparedness also comes at a cost. The benefits of preparedness and regulation must outweigh the costs of preparedness. Ultimately, the responsibility for preparedness lies with the property owner or shareholders. Open analysis and information about risk areas lead to the most effective and properly targeted measures in areas where risk is real and preparedness is appropriate.

Stormwater risks exceed other flood risks

A new variable has been added to the Regional Rating: the share of ground-floor area of residential properties by municipality and postal code area that would be flooded by an exceptional rainfall of 52 millimeters per hour, taking into account terrain, soil absorption, impermeable surfaces, data on culverts from the Finnish Transport Infrastructure Agency, and digitized water flow routes from municipalities. In the risk scenario, the rain is assumed to continue for one hour, but the total water volume is calculated over two hours from the start of the rainfall event. The share of square meters of residential floor area is based on Hypo's own calculations using stormwater area data from the Finnish Environment Institute and terrain and building data from the National Land Survey of Finland.

While one in a hundred square meters of residential floor area is located in traditional freshwater or saltwater flood risk areas, the number of square meters of residential floor area exposed to stormwater areas is as much as five times higher. About five percent of the ground-floor area of Finnish residential properties faces the risk of heavy rainfall. The shares are on average higher in large cities, where there is a lot of asphalt and buildings densely packed into a small area. The highest share is, surprisingly, in Ilomantsi, where a large part (28%) of the central area's properties are located in a significant flood risk area; Järvenpää, Turku, Kerava, Raisio, Kaarina, and Hanko also exceed a ten percent share. The corresponding share is just over 9% in Helsinki, just under 9% in Vantaa, and just over 7% in Tampere. The smallest percentages are typically found in Central, Eastern, or Northern Finland. However, no municipality is completely protected from moisture damage caused by rain.

What happens to small apartments?



The share of single-person households increased slightly again last year, but this rise is explained by the change in over 60 years olds. Among people under 29, the share of those living alone decreased for the first time since statistics began in 2005. Last year, the proportion of young people living alone decreased in all major cities: Espoo, Helsinki, Tampere, Turku, and Vantaa. Single living among the older population does not support demand for the very smallest apartments in youthful districts like Kallio, Sörnäinen, or Etelä-Haaga, as recent changes to housing allowance this year further reduce demand for small apartments especially among young people. When studio prices surged more strongly than two-bedroom apartments in major cities since the financial crisis, the gap has disappeared over the past five years in Oulu, Tampere, and Vantaa. Helsinki and Turku are approaching the same trend, while in Espoo the situation has already shifted in favor of two-bedroom apartments.

Recent research by Hypo also shows that population growth is increasingly relying on the foreign-language population, who tend to have larger families on average, thus increasing the need for slightly larger apartments – both in the rental market and for owner-occupied homes. As the population structure changes, the need for a more diverse housing stock becomes more pronounced, even though there is still a place for small studios. For this reason, the regional distribution of apartment types is examined in more detail this time in connection with Hypo district rating. Further research on the housing of immigrants will also follow.

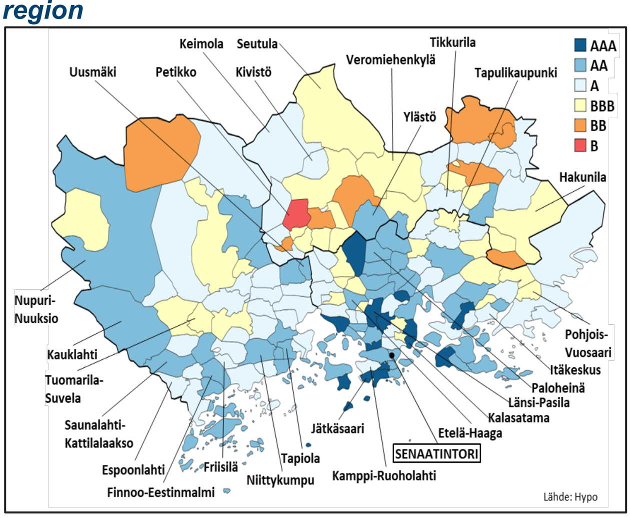
Location, investors, and extreme weather events affect collateral values

The housing market varies significantly not only between municipalities but also within them. Now published for the fourth time, Hypo District Rating** describes the development prospects of the housing markets in the capital region, Tampere, and Turku at postal code level. Planned new construction typically increases also the value of the existing housing stock as the general appearance is renewed and new services emerge in the area. The rating describes the outlook for the development of housing values through traditional price and transaction trends, but also delves into population structure, environmental aspects of living, social segregation, and housing production forecasts. The development of transaction volumes primarily indicates the liquidity of the housing market and predicts the development of collateral values. Housing demand is linked to population growth as well as the education and age structure of the population. As rising interest rates have hit highly leveraged investors the hardest, the rating also considers the risk related to the form of housing tenure in different areas. Each area receives a rating on the familiar ten-step scale from AAA to D. This approach allows for the comparison of individual postal code areas with other municipalities in the country, for example, comparing the rating of Herttoniemi in Helsinki with that of Kuopio. The ratings of postal code areas are tied to the overall rating of the municipality and change accordingly. Even the weakest area in a highly rated municipality outperforms most other municipal areas in Finland in terms of housing market risk analysis.

Large apartments – threat or opportunity?

Of the 81 postal code areas assessed in Helsinki 14 reach the highest AAA rating. Three areas rise to the top rating, with stronger than average income development, with steady level of housing transactions in the free market, and lower unemployment rate than in comparable areas. The average size of apartments is not the smallest, which better meets the needs of today's buyers in areas where income levels provide security against fluctuating energy prices. Again, location remains a key factor in Helsinki's ratings. Among owner-occupied areas, one maintains its position in the highest class, three areas continue to grow and rise, while another stands out with a higher portion of owner-occupiers compared to its peers. Investor risk and small studios still trouble the BBB rated Sörnäinen-Harju area. In Helsinki, the share of residential floor area in stormwater risk areas rises above 15% in four areas. However, these areas are protected from seawater flood risks typical of coastal areas.

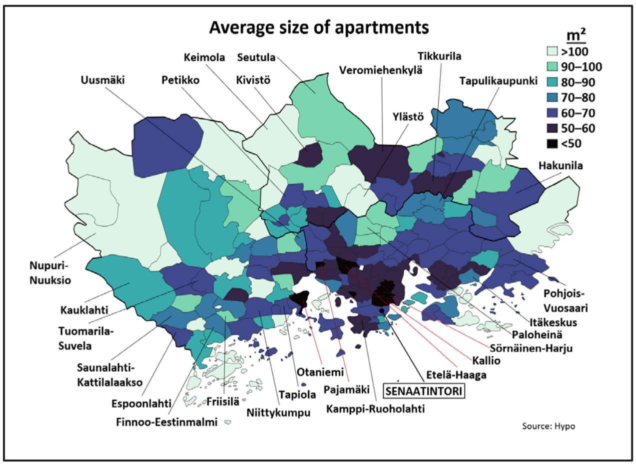
Areas are differentiating even within the capital region



Of 36 areas in Vantaa, three areas reach the AA rating. One of them ranks first in Vantaa in terms of income, another is supported by the level of commerce, owner-occupiers, and the most energy-efficient housing stock in Vantaa. In the third area homes are also most commonly owner-occupied, and in addition, the unemployment rate has been declining and is at the lowest level in Vantaa. Tikkurila, rated A, outperforms Vantaa's overall BBB rating, but the sluggish rental market weighs down the investor-driven Vantaa center. The rise in interest rates has perhaps hit Vantaa hardest among the major cities, with the number of transactions dropping to less than half of the pre-pandemic level at its lowest. Population growth is filling the gap, but immigrants are simultaneously demanding larger apartments, which is already reflected in the increase in the average size of granted building permits for apartments. Smaller residential floor area brings security from inflation and energy price risk but at the same time demand is shifting toward larger apartments. Domestic migration has been negative in Vantaa for four years. In Vantaa, the share of residential floor area in stormwater risk areas rises above 13% in three areas.

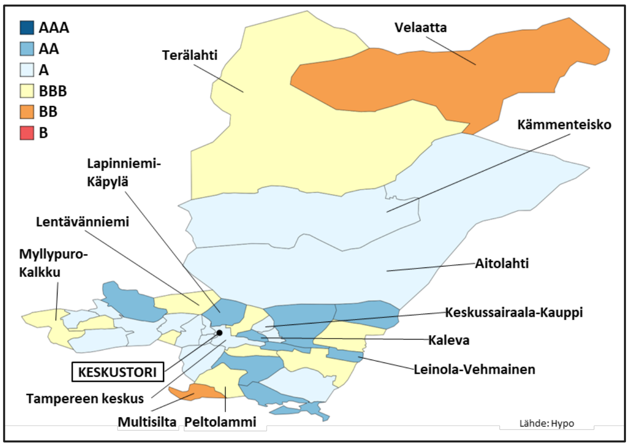
Of 45 areas in Espoo, 16 reach the AA rating. Some are successful, owner-occupied AA-class areas, while others stand out for their growth. Only seven areas fall into the B series: In one are population development and the housing stock from the 1960s–1970s raise concerns, and another also risks being left behind from the city's overall growth. Espoo is a city of three centers and one of them is not keeping pace with the other two due to, eg. weaker housing market trends and higher unemployment. Overall, Espoo's growth outlook is strong, and last year's increase of nearly 7,000 residents was, even in relative terms, among the highest in the country. The share of residential floor area in stormwater risk areas rises above 10% in four areas.

Small apartments are suffering from weaker demand



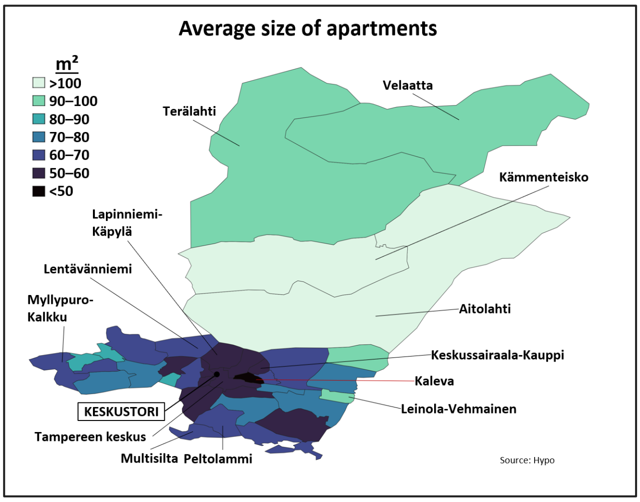
In the non-subsidised owner-occupied and rental housing stock, the highest proportions of studios in are found in Helsinki: Torkkelinmäki (over 70% of apartments), Harju (60%), and Alppila (55%). The pictures illustrate the average size of the entire housing stock by postal code area, including detached houses and state-subsidized apartments. A good location will continue to support housing demand in the future, and small apartments are still needed, but at the same time, population growth is increasingly based on immigrants who, on average, require larger apartments. Changes to the housing allowance also encourage shared living more than before. For some, price per square meter is still too high, even if the location is attractive. With interest rates settling at around two percent, the return for investors is also weaker than in previous years. No area with an average apartment size under 50m² reaches the highest AAA rating. While just under 25% of free-market housing stock in Helsinki consists of studios, the corresponding share is 12% in Espoo and about 15% in Vantaa. Espoo's five most studio-dominated areas have studio shares of 20–35%. In Vantaa, two areas exceed the 30% mark, and two others exceed 25% mark.

Tampere is growing by all measures

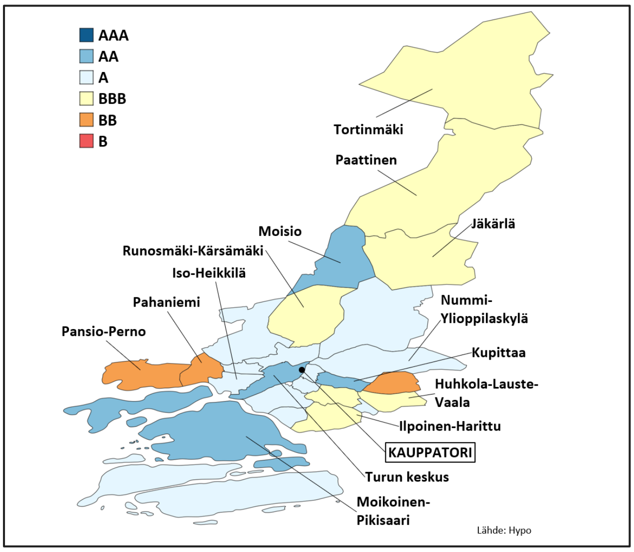


Last year, Tampere ranked second in Finland, right after Helsinki, in the number of internal migrants, with net migration exceeding 2,500 people. In northwest Tampere, an area is being developed along the tram line, and another area continues to attract young and educated residents. Areas that reached the AA rating have eg. seen price increases, are energy-efficient, or offer detached housing. One area in the city center stands out for its stormwater flood risk, while the smallest apartments in Tampere are found in the student-dominated area. Tampere stands out from other major cities specifically for its internal migration, even though most of the growth also in this Pirkanmaa center will in the future be based on the foreign-language population.

The average apartment size is the smallest in Kaleva

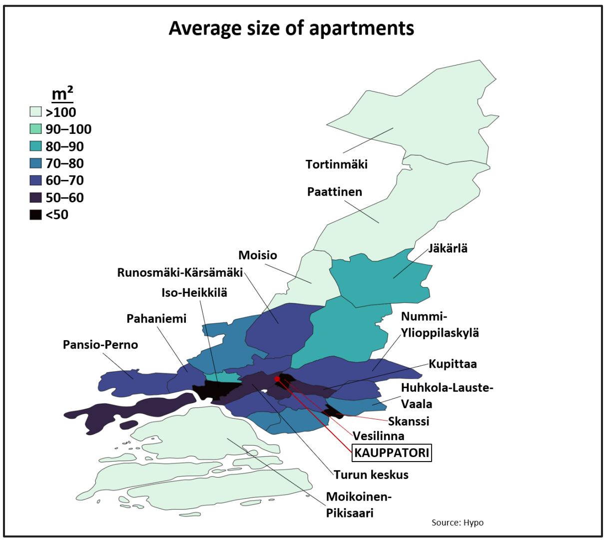


The maritime city center is the most sought-after area in Turku



Of 26 areas in Turku, four reach the AA rating. The price development in Turku's center indicates long-term demand, while in one area also valuable detached houses have been built in the 2000s. A youthful area and a well-educated area continue to perform well as usual. The challenges of unemployment and segregation are concentrated in three suburbs. Population in Turku increased strongly by more than 4,000 people last year, and this positive development is expected to continue. Shipyard orders bring vitality, but the tram project is still stuck in the planning phase. Small apartments are concentrated in Turku's A-class areas, while the share of residential floor area in stormwater risk areas rises above 15% in two areas.

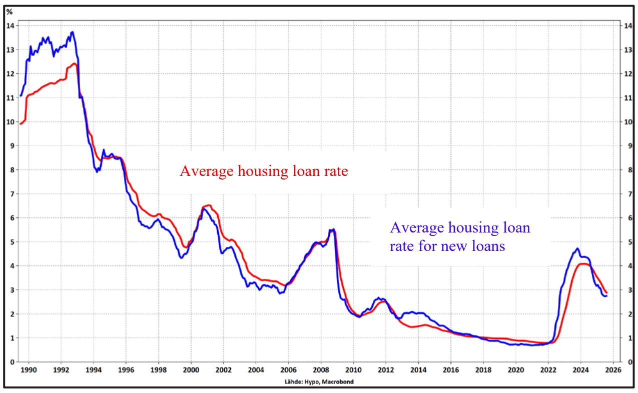
Family apartments are also needed in prime locations



The average interest rate for borrowers settles below three percent

The annual change in housing prices will remain negative this year, even though price increases have already been seen in major cities such as Espoo, Tampere, and Oulu. The decline in loan interest rates is still being reflected in borrowers' finances, and purchasing power is increasing, but abundant supply is holding back price development this year. The growth in housing transactions will push up prices in growth centers with a longer-than-usual delay, as even old apartments are now being listed for sale much more actively than before. A couple of years ago, properties sold by real estate agents in the capital region moved in about two months and elsewhere in the country in less than three. Now, selling times are above four months across the board. However, price expectations are converging day by day, and even long-stalled housing transactions are finally being completed. Household savings buffers and additional loan repayments made support the market. Housing prices are expected to rise next year across the country and in the capital region more than at any time in the past 15 years, if the hot years of the pandemic are excluded.

The decline in interest rates brings borrowers a billion euros a year



Housing construction will not pick up significantly even next year, as supply continues to flood the market. This year, fewer apartments will be completed than in any year since statistics began in 1995. However, new construction accounts for less than half of all building activity, and renovation construction has declined much less – in euros, renovation now surpasses new construction. The rise in construction costs has leveled off, and the growth of the repair backlog supports the initiation of renovation projects next year as well.

Hypo Regional Rating

- **The housing market varies greatly by region in both current conditions and outlooks – Hypo Regional Rating provides insight into local risks from the perspective of a housing financier.**
- **Risks are of interest not only to homebuyers and banks but also to municipal decision-makers and investors – every other housing loan serves as collateral for a covered bond.**
- **The analysis is published openly every year; this is now the 6th Hypo Regional Rating and the 94th Hypo Housing Market Review.**

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*Background of Hypo Regional Rating and **District Rating

Hypo Regional Rating examines all housing market areas in mainland Finland based on their risk levels, using the familiar ten-step scale from the credit rating world. The rating is compiled from 28 variables, which form nine thematic categories: payment ability, liquidity, collateral values, municipal economy, safety, health, migration, future prospects, and environment. For the capital region, Tampere, and Turku, a District Rating is also compiled at postal code level. The District Rating is constructed separately from 22 variables and describes the regional risk levels of the housing market using the same ten-step scale. The calculation principles are the same for all areas, which means that the ratings of different postal code areas can be compared both to each other and to the ratings of municipal areas – for example, comparing Herttoniemi in Helsinki to the center of Tampere or Jätkäsaari to Hämeenlinna. Moves typically occur to a nearby postal code area, so the review focuses mainly on internal city comparisons. The rating also includes the area's future outlook on a scale of positive (+), stable, and negative (–), which is used to assess the risk of a rating change in the future. The outlook is marked separately after the rating for areas with a positive or negative outlook. No rating is calculated for white areas due to missing data. The sources for the ratings include data from the Housing Finance and Development Centre of Finland (ARA), Kela, the Association of Finnish Local and Regional Authorities, the National Land Survey of Finland, the University of Oulu's Department of Geoinformatics, the Finnish Environment Institute (SYKE), the Finnish Institute for Health and Welfare, Statistics Finland, and the Ministry of Finance. Additional sources include municipalities' own data sets and housing programs, for example, to assess the building stock and planned housing construction.

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