

## Demand for rentals should mitigate real estate slump

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*Uncertainty in the housing markets further increases the already heightened demand for rental accommodation. While the real estate market cools down, rents threaten to climb beyond what households can afford.*

resulting drop in demand has turned the current supply of houses for sale into a glut.

Last week the Finnish builders' trade publication Rakennuslehti announced that the sales of new houses and flats outside of the capital area had fallen by 30 per cent since May. The publication also stated that the number of unsold new houses and flats had risen by roughly a fourth since this spring.

### Rental shortage

Although the amount of housing loans year-to-date is still slightly higher than last year, there are clear signs that the market is slowing. In August new home loans were 16 per cent less than last year. Home prices have also begun to turn downward. In the spring the average price for old flats in the Helsinki metropolitan area was 3,110 euros per square metre, down a little over two per cent.

The scarcity in rental accommodation, however, has not abated in the least. By some measures the supply of older rentals has fallen as buildings have been converted from rental flats to owner-occupied dwellings. The

### The afflicted rental market awaits a supply of unsold homes.

The growing number of unsold homes in the real estate market and the ever-increasing demand for rentals are two problems which could be used to solve each other. Indeed, many families who fell into the trap of being too quick to buy a new home before the first was off their hands have already resorted to negotiating with the bank about placing the unsold home on the rental market. With this method, burdened home owners can wait until demand for real estate picks up before putting their property back up for sale.

The moods of the real estate and rental markets are entirely opposite. As the economy weakens and conditions on new mortgages become stricter, the

demand for rental flats has risen to the point where bidding wars have broken out among desperate people trying to find homes.

Statistics Finland announced in the beginning of August that rental costs were rising at a five per cent rate in the Helsinki area. Over the past several years rental prices have increased at the same rate. In Finland as a whole rental prices were climbing only slightly slower.

### **Unsold homes into rentals**

These two developments of high demand by renters and low demand by buyers are finally beginning to moderate each other. Some home owners trying to sell have tired of paying interest and expenses on properties that have already been on the market for some time. They have decided to rent their homes out for a few years rather than having to settle for less than their asking price.

“The rental market is taking on these new properties with open arms. New construction is a very slow remedy for excess demand in the rental market, but if we can get a significant supply of the houses currently up for sale onto the rental market, that demand could be met much more quickly. At the same time, you'd start to see less upward pressure on rents as demand cools off,” predicts Timo Metsola, chairman of the real estate agency Vuokraturva.

Demand for rented homes is set to increase even further as a new group of families who have already sold their first home, but are wary of buying their next in uncertain economic times, enter the rental market.

David J. Cord - HT

Minna Raitavuo - Lehtikuva