The Finnish Property Market 2012

KTI

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Preface

The Finnish Property Market 2012 aims to satisfy the information needs of international investors and other players interested in the Finnish property market. KTI Finland has published the report annually since 2001.

The report provides a comprehensive overview of the Finnish property market structure and practices. KTI Finland can also provide more detailed information and analysis on the individual sub-markets for specific needs, upon request.

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KTI Finland also publishes a monthly electronic newsletter, Finnish Property Monthly, which covers the latest news from the Finnish property market. To receive this newsletter via e-mail, please subscribe to it at kti@kti.fi.

The report is also available in PDF format at www.kti.fi. We hope you find this worthwhile reading.

Hanna Kaleva
KTI Finland

KTI Finland is an independent research organisation and service company providing information and research services for the Finnish real estate industry. KTI maintains extensive databases on returns, rents, transactions, operating costs and customer satisfaction measures in the Finnish property market. Based on these databases, various kinds of benchmarking and analysis services can be provided. For more information, please call +358 20 7430 130 or visit www.kti.fi

1. Basic facts about Finland

Geography	
Total area	338,000 square kilometres
Distances	1,160 km north to south, 540 km east to west
People	
Population	5.40 million Density: 17,6 inhabitants per square kilometre Uusimaa region (southern Finland): 222,6 per km2 Lappi region (northern Finland): 2 per km2
Languages	Two official languages: Finnish, spoken by 90.0% Swedish, spoken by 5.4% Foreign nationals: 3.1% of population
Religions	Lutheran 78.2% Orthodox 1.1%
Capital city	Helsinki, 595,000 inhabitants Helsinki region, 1.35 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo, 252,000 Tampere, 215,000 Vantaa, 203,000 Turku, 179,000 Oulu, 144,000 Jyväskylä, 132,000 Lahti, 102,000 Kuopio, 97,000
Economy	
GDP per capita	€33,608 (2010)
Most important industries	Metal and engineering products Forest industry products Chemical industry products Electronics and electrotechnical goods
Currency	Euro (since 2002)
History and governance	Independent democracy since 1917
	Member of the European Union since 1995
Head of State	President of Republic, Sauli Niinistö (elected in 2012, starting from 1.3.2012)
Parliament	One chamber, 200 members, elected for 4 years. Current parliament elected in 2011. Biggest parties: National Coalition Party (44 seats), The Social Democratic Party (42), The Finns Party (39), The Center Party (35)

2. The Finnish economy

2.1 The structure of the economy

Within a few decades, Finland has transformed itself from a society largely based on primary production and agriculture to one of the richest and most multifaceted economies in the world. The deregulation of the financial markets in 1980s, as well as reforms made following the deep recession in the early 1990s, contributed to the transformation. As a result, the structure of the economy is now internationally competitive and balanced.

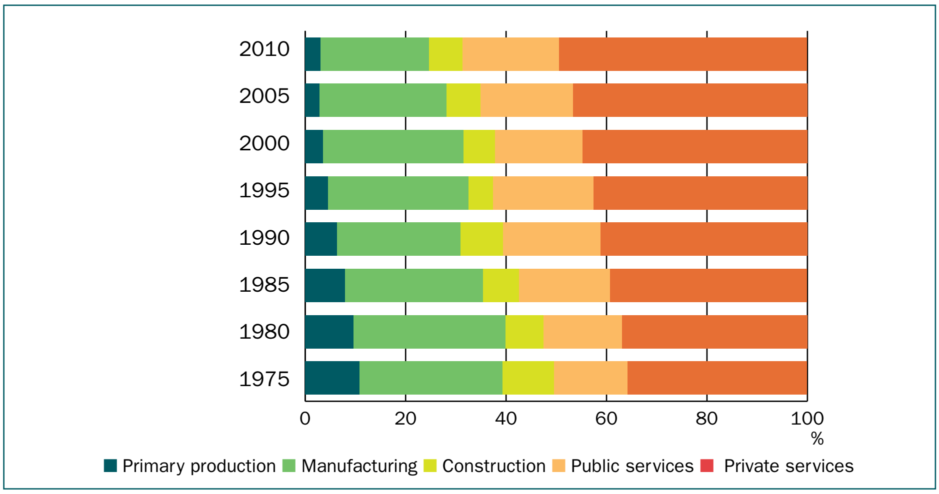
The structure of the Finnish economy is akin to most Western developed countries. Private services currently account for ca. 49% of the Finnish gross domestic production. Their share has increased constantly while that of primary production and industry has decreased. In 2010, public services accounted for almost 20% of the GDP.

Industrial production plays an important role in the economy, as ca. 75% of the Finnish exports consists of industrial products. Industrial production – as well as Finnish exports – are dominated by three main industrial sectors. Along with the traditionally strong forestry industries, both electrotechnical and metal industries play an important role in the Finnish economy. These main industries are followed by the chemical industries and the environmental and energy industries – sectors that are increasing in importance. Due to the relatively low cost competitiveness in international comparison, increase in productivity, greater specialisation, as well as transformation to higher value-added production has been required in order to maintain competitiveness within these industrial sectors.

> "The Finnish exports are based on five industrial sectors"

The Finnish economy's success or failure is highly dependent on foreign trade, the share of which has increased significantly during the past few decades due to the changes in the structure of the economy. As a consequence, production for those industries that are export-driven fluctuates based on changes in the demand for goods. The international competitiveness of the Finnish industrial production was improved by the severe recession in the early 1990s, which forced corporations to institute structural reforms in order to survive. The share of service exports has increased at the same pace as that of goods. In 2010, the value of exports for services industries amounted to ca. €18.6 billion. The biggest exporting service sector is business services, which includes engineer and other knowledge-intensive services.

Finnish economic structure,%



Source: Statistics Finland

"Finnish exports are suffering from the global economic turmoil"

In 1990, exports accounted for only 22% of the Finnish GDP, whereas at its peak in 2008, its share amounted to 47%. Due to the global recession, the share of exports decreased to ca. 37% in 2009, and returned to some 40% in 2010. Towards the year-end of 2011, the Finnish exports started to suffer from the global economic turmoil. The main target countries for Finnish exports include Sweden, Germany and Russia.

2.2. Finnish public finances – still going strong, but facing challenges

Compared to most other European countries, Finnish public finances are very strong and well-balanced. Finland is, together with Luxemburg, the only euro country that has constantly fulfilled the criteria of the EU Stability and Growth Pact, both in terms of the general government debt as well as government budget deficit. In 2009 and 2010, the budget deficit stood at -2.6% and -2.5%, respectively. Despite its rapid growth since 2008, general government debt still remains under 50%. Finland is one of the four euro countries that still maintains its "AAA" rating in Standard & Poor's recent update for eurozone sovereign governments ratings.

"The Finnish public finances are strong"

However, the tightening economic environment has put increasing pressure on Finnish public finances. Also, mainly due to the rapidly ageing population, structural reforms are needed to control public spending and support fiscal sustainability. Due to the worsened economic outlook, it now seems likely that the balancing actions introduced in the current government's programme in the summer 2011 are not sufficient to sustain economic stability. Therefore, both changes in taxation, as well as cuts in extensive social services, are likely needed to balance public finances.

"A major part of the social services are provided by municipalities"

A major part of the comprehensive Finnish social services is provided by municipalities, including education, healthcare, and senior citizen's care. The availability and level of these services is regulated by the government, which also provides economic support for municipalities. There are currently 336 municipalities in Finland. Municipalities differ from each other significantly with regard to their size, economic structure and financial position. Municipalities account for ca. 40% of all public expenditure. In total, there are 460,000 municipal workers, who account for 20% of the total Finnish workforce. The local government finances are currently facing increasing challenges due to both increased demand for municipal services and decreased tax revenue.

Reforms in the municipal structure and service provision are very highly prioritized in the current government's political agenda. Mergers, increased co-operation between municipalities, as well as outsourcing of services are used as

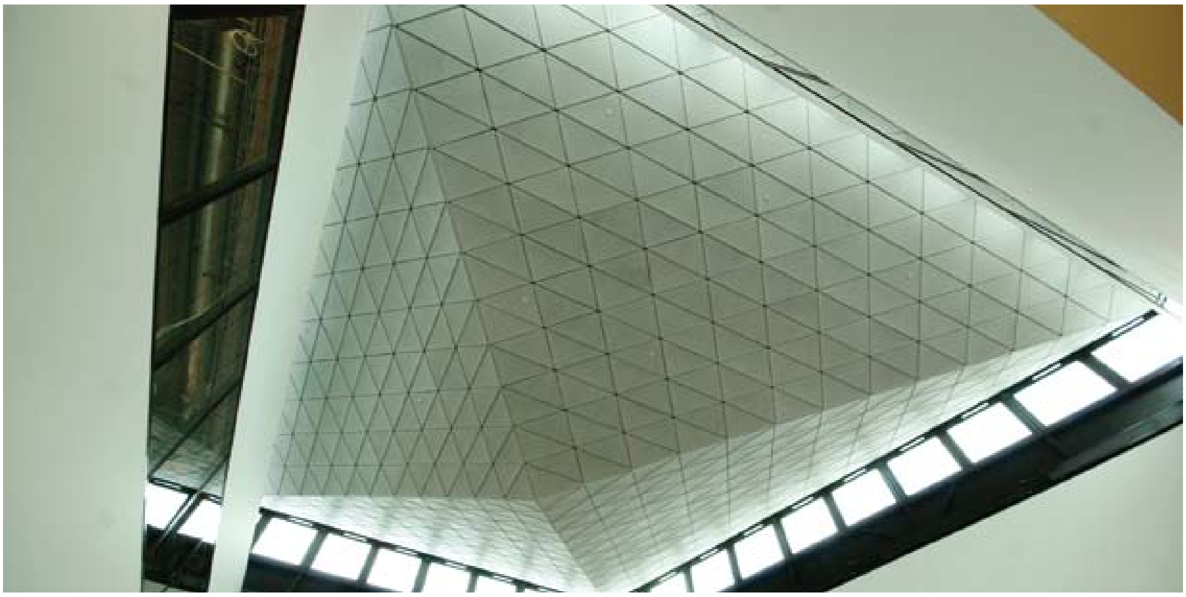


Photo: Skanska / Pauliina Munukka

potential means to increase the scale and productivity of local service provision. The Minister of Public Administration and Local Governement nominated a specialist working group to discuss the municipal reform, which in its report, published in February 2012, suggested that the number of municipalities should be decreased to ca. 70.. The working group's proposals are based on the need for a municipal structure that is robust and efficient and can better safeguard the provision of basic public services. They should also better match the scope and nature of people's daily lives than at present. The working group's proposals for local government restructuring are also aimed at strengthening municipal finances and improving their flexibility in the changing economic environment.

> "Reforms in municipal structure discussed actively"

However, Finnish municipalities have strong self-government based on local decision-making and the right to levy taxes, and thus varied strategies are being applied to cope with the increasing challenges. Due to the strong local autonomy, political pressures might prevent the enforcement of any coercive measures. Therefore, financial pressure is the most powerful driver for municipal structural reforms. The Ministry's working group also suggests the execution of municipal mergers will necessitate the use of more effective merger procedures.

The rapid ageing of the population is one of the main challenges facing the Finnish economy. The Finnish age pyramid is one of the most unfavourable within the EU. By 2020, the old-age dependency ratio (the ratio of those aged 65 and over to those aged 15–64) will increase from its current level of 17% to 23%. The ratio is deteriorating rapidly because of the retirement of the baby-boom generations born after the World War II, as well as the increasing life expectancy of the population. Due to the ageing of the population, the workforce has started decreasing, and, at the same time, the need for social and welfare services is increasing. Therefore, lengthening the duration of working-life is actively discussed as one means to support the sustainability of public services. This is pursued both by looking for means to speed up the education of younger generations and postponing retirement for older workers.

The OECD stated in its recent economic survey on Finland that the current plans in the government's policy programme are not ambitious enough to deal with future fiscal challenges related to the ageing population. Raising the retirement age, improving incentives to work for older individuals and further tightening early-retirement schemes would increase labour supply and could lower fiscal costs sufficiently to address these long-term challenges. Without major retirement reforms, significant further fiscal consolidation would soon be needed to deal with the costs of ageing, states the OECD.

> "Retirement reforms are needed to deal with the challenge of an ageing population"

2.3 Outlook for the Finnish economy: back to growth in 2013?

Finland is one of the wealthiest countries in Europe. The Finnish gross domestic production per capita amounted to €33,608 in 2010. This is well above the EU27 total average, which stood at €24,400.

Due to the dependence of foreign trade, the Finnish economy is highly exposed to the developments in the global economy. Finland was hit badly by the financial crisis in 2008, and, due to the collapse in exports, the GDP decreased by ca. 8% in 2009. In 2010, the economy returned to a stable but relatively slow growth path, which has, however, again been affected by the European financial turmoil. Economic growth started to slow down towards the end of 2011, and the previously positive expectations for 2012 have been lowered to close to, maybe even below, zero.

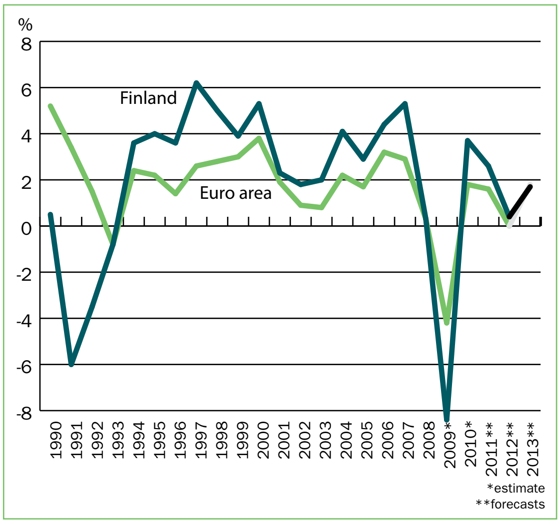
"Modest or no GDP growth in 2012"

According to economic forecasts, the Finnish economy grew by ca. 2.5% in 2011. For 2012, the GDP growth forecasts vary between -1.0 and 1.0%. The economy will hopefully return to a stable but moderate growth towards the end of 2012. In the coming years, GDP growth will hopefully exceed the average in the euro area, thanks to the relatively strong public finances, good health of the banking sector, as well as economic recovery of the target countries of Finnish exports.

Of the main contributors for economic growth, the Finnish economy is currently most pressured by the decreasing demand for exported goods and services. After a positive first half of the year, the Finnish exports started to suffer towards the year end, and, in total, the volume of exports increased by ca. 8% in 2011. It did not, however, still reach the level of the peak years in 2006–2008. And, as imports grew by 11%, Finnish foreign trade showed the biggest deficit since the oil crisis in the early 1970s. In the most recent forecasts, the total volume of exports is expected to decrease slightly in 2012 compared to the previous year. In 2013, exports are forecasted to increase again, but the pace of growth is highly dependent on developments in the global economy.

"Modest growth for exports expected"

GDP growth in Finland and in the Euro area



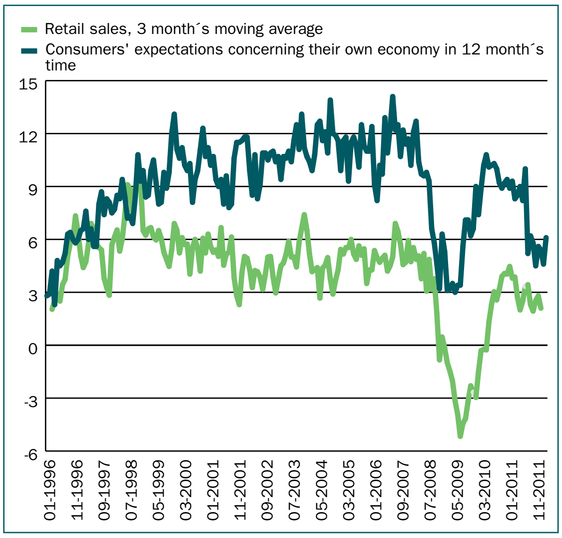
Source: Statistics Finland, OECD, Bank of Finland, Ministry of Finance, IMF

In the past few years, private consumption has continued to grow despite the challenging economic environment and has softened the negative impact of volatility in other sectors of the economy. However, the outlook is now less positive. The decrease in unemployment is expected to stop, modest increases in wages are diluted by the increasing inflation, and, at the same time, taxation is tightening – factors that are contributing to the decrease in disposable income. This can also be seen in consumer confidence figures, which have been declining since spring 2011. Due to the deteriorating outlook, private consumption forecasts have been adjusted downwards, now standing at ca. 1-2% for 2012.

" Decrease in consumer confidence will affect retail sales"

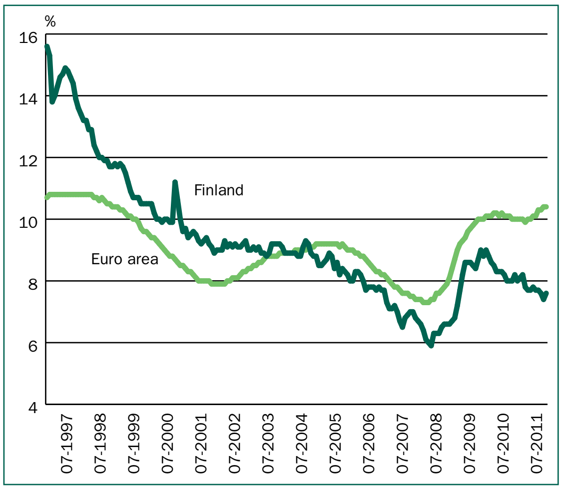
Despite the financial crisis that started in 2008 and the collapse it caused to GDP, unemployment did not increase significantly. Companies want to retain their employees in the expectation that the economy willl improve. At the same time, the total workforce has started to decrease due to the retirement of the baby-boom generations, which has also limited the growth of unemployment. However, the current uncertain economic environment does not create favourable conditions for significant improvements in employment. Unemployment currently stands at slightly

Retail sales and consumers' expectations



Source: Statistics Finland

Unemployment rate Finland – Euro area



Source: Eurostat, Bank of Finland and Statistics Finland

under 8% and is expected to remain at its current level or increase slightly in 2012. Despite the relatively low figures, unemployment is considered one of the key problems of the economy, as underexploitation of resources is preventing the opportunities for economic growth. Unemployment also increases social expenses and is a driver of social segregation. Specific actions are required to control the unemployment of young people, in particular.

In 2011, the total volume of investments increased by ca. 5%. Investments in residential construction increased by only ca. 3%, compared to the previous year, whereas the growth in investments in commercial real estate and machinery and equipment amounted to some 5%. The economic uncertainty, together with the tightened availability of finance, is expected to put negative pressure on growth in investments for 2012.

2.4 Finland's international competitiveness remains relatively strong

The World Economic Forum's Global Competitiveness Report, published in September 2011, ranked Finland fourth – three positions higher than in the previous year. Finland was only preceded by Switzerland, Singapore and Sweden. Well-functioning and transparent public institutions, as well as the top position in higher education and training, are mentioned as Finland's strengths. The report also notes that despite the slight increase in public deficit, the fairly healthy Finnish macroeconomic environment creates solid groundwork for economic success.

"The Finnish economy's competitiveness improved in 2011"

Key Figures – Finnish Economy

	2004	2005	2006	2007	2008	2009	2010	2011**	2012**	2013**
GDP (change in vol)	4,1	2,9	4,4	5,3	0,3	-8,4*	3,7*	2,6**	0,4	1,7
Change in exports	8,2	7,0	12,2	8,2	5,8	-21,5*	7,8*	-1,5**	0,6	3,1
Inflation	0,2	0,9	1,6	2,5	4,1	0,0	1,2	3,4	2,7	2,2
Unemployment rate	8,8	8,4	7,7	6,9	6,4	8,2	8,4	7,8	8,1	8,0
Interest rates										
3 months	2,1	2,2	3,1	4,3	4,6	1,2	0,8	1,4	1,2	1,4
10 years	4,1	3,4	3,8	4,3	4,3	3,7	3,0	3,0	2,9	3,2

Source: Bank of Finland, Statistics Finland, Ministry of Finance, Nordea Bank

*** estimate**
**** forecasts**

In 2011, the Economic Intelligence Unit ranked Helsinki as the world's sixth best city to live. The quality of living in Helsinki is enhanced by overall security, well-functioning infrastructure, healthcare, education and an active cultural scene. In 2010, Newsweek magazine ranked Finland as the world's best country to live in, mainly based on the same criteria. Another international ranking where Finland has done well is Transparency International's Global Corruption Perceptions Index. In 2011, Finland was, together with Denmark, ranked second after New Zealand in this index.

These rankings illustrate Finland's reputation as a respected Nordic welfare economy where the political and economical stability, transparent regulatory framework, and high-quality education and healthcare provide favourable support for business and living. The not-so-positive characteristics of Finland, from a business perspective, in particular, mostly deal with the small size of the market. According to the World Economic Forum, the most problematic factors for doing business in Finland have to do with high tax rates and restrictive labour regulations.

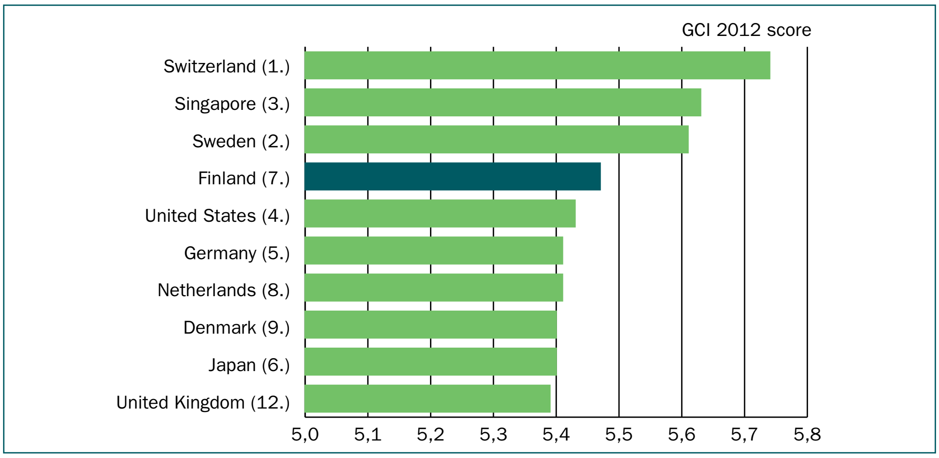
> "Finland holds high rankings in several international comparisons"

Photo: NCC / Sini Pennanen

In recent years, Helsinki has held good positions in Price WaterhouseCooper's and ULI's report Emerging Trends in Real Estate Europe. In the latest report from February 2012, Helsinki only ranked twelfth among European capitals, with "fair" investment prospects. The report states that Finland is unlikely to escape the impact of the sovereign debt crisis, and, this combined with the decline in exports, will force the government to substantial tax increases and spending cuts.

Despite the increasing uncertainty, investor interest in the Nordic property markets is expected to remain favourable in 2012. The relatively strong Nordic economies are expected to hold well in the global financial turmoil. The Nordics were ranked high also in the INREV Investment Intentions Study, published in January 2012, when investor preferences for indirect property investments are assessed. In this survey, retail and offices are considered the most interesting property sectors.

The most competitive national economies of 2012 (ranking in 2011)



Source: World Economic Forum

3. Institutional aspects of the Finnish property market

3.1 Two forms of property ownership

In juridical terms, owning property in Finland means owning the land and the buildings on it. This is the basic form of direct property ownership. It is also possible to own only the building and have a long-term lease agreement with the landowner, typically the municipality. Direct ownership and land lease agreements are registered with the Land Register maintained by local courts.

Transactions with real property are official legal acts that have to be carried out according to a specified procedure. These transactions are public in nature and are registered and published by the National Land Survey of Finland. In some cases defined in legislation, municipalities have a pre-emptive right to real property transactions, but they seldom apply this right.

In practice, it is very common for property ownership to be organised through a limited company (a real estate/housing company) founded for the sole purpose of owning the property. In these cases, the legal owner of the real estate is the limited company, which may have one or several shareholders. The shares may be connected to a specific apartment/amount of space in the property, entitling the shareholder to physical control and occupancy of these premises. These types of company are called mutual real estate companies (keskinäinen kiinteistöyhtiö). This form of ownership is commonly used in both residential and commercial properties.

The Housing Companies Act and Decree regulate mutual real estate companies that operate in the housing sector (asunto-osakeyhtiö). These regulations are always applied when more than 50% of the area of the building is designated for residential use. When establishing a mutual real estate company for commercial property, shareholders can choose to either apply the Housing Companies Act or the normal legislation for limited companies (Osakeyhtiölaki) as the regulatory framework for the company.

The Housing Companies Act and Decree was revised in 2010. The main changes in the legislation have to do with long-term planning of repairs and the communication of those plans to the shareholders. There were also some changes in decision-making procedures and responsibilities of shareholders in certain specific situations, such as in major refurbishment investments. These changes affect mostly residential buildings. They aim to clarify the roles and responsibilities of the housing company, on the one hand, and its shareholders, on the other.

> "Properties are typically owned through a mutual real estate company"

Photo: NCC / Sini Pennanen

In mutual real estate companies, rental agreements are made between the shareholder and tenant, and the rental cash flow goes directly to the shareholder.

The mutual real estate or housing company is responsible for the management of the property and upkeep of joint facilities, for which it collects a maintenance fee from the shareholders, the basis of which is defined in the company articles of association – the basis being typically floor area designated for each shareholder. The division of these responsibilities between the company and its shareholders may be specified in the company's articles.

"In mutual real estate companies, rents go directly to the shareholder"

The company can also take out a loan, for example, for renovation and modernisation, and use the building and real estate as collateral. In these cases, the shareholders pay a finance charge (rahoitusvastike) to the mutual company, who then covers the loan to the original lender. Shareholders can also use their shares in the company as collateral for their own loans.

The other type of real estate company is a standard limited company (kiinteistöosakeyhtiö), founded for the purpose of owning a certain property or properties. In these companies, the shares are not connected to any specific premises. The company collects rents from the occupiers, and with this income it is responsible for covering maintenance and operating costs. The real estate company can pay out dividends to its shareholders.

Impact on market practices

Owning property through a mutual real estate company is a more flexible form of ownership, for example, in cases where the ownership of a building is divided among several owners. The transfer tax rate is also lower: 1.6% on the shares of the limited company versus 4% on direct property. Transactions are also less complicated compared to direct ownership of real estate.

The decision-making and management procedures of a mutual real estate company are defined in the company's articles, which have to fulfil certain requirements set by law. An individual owner's degree of control depends on their share of ownership, unless otherwise agreed in the company by-laws.

A mutual real estate company is a flexible and common way to organise the ownership and management of property. In practice, the majority of commercial property transactions in the Finnish market are made by transacting the shares of real estate companies. These transactions are not public by law.

Legislation concerning renting and transactions

Generally speaking, the Finnish legal system is simple and liberal. In principle, there are no restrictions on buying or selling real estate, but as real estate transactions are subject to certain provisions, it is advisable to use real estate brokers or lawyers when entering into property transactions.

Transactions with housing or real estate company shares are straightforward and simple. As soon as transfer taxes have been settled, the purchaser can be registered as the owner of the shares in the real estate/housing company's registers.

Finnish legislation regulating rental agreements is among the most liberal in the world and is based on the idea of full freedom of agreement between two parties. There are no minimum or maximum lease terms, indexation is not regulated, there are no automatic rights for renewal and break clauses are possible, if agreed. Only in the residential market do some restrictions exist to protect the tenant, but even there the legislation has few restrictions.

3.2 Market practices of property investment and renting

Property investment

Developments over the last decade in the Finnish property market – which includes the emergence of new players, increased internationalisation, professionalism and more sophisticated analysis – have resulted in new practices in property investment processes. This has also resulted as increased demand for specialist services in property transactions. Thorough due diligence processes have become standard approaches, especially in transactions where international players are involved.

The role of the advisor or property agent in the investment process varies depending on the situation, characteristics of the asset and also type of companies involved. In large portfolio transactions, the parties typically use extensive advisory and corporate finance expertise. In single asset transactions, and in newly developed assets, the advisors' role is typically more limited, as well as in transactions carried out between two domestic parties.

Due diligence and analysis services have rapidly increased in importance as foreign investors use more formal and stringent due diligence procedures. This has brought about new approaches to these processes, with typically several types of experts – legal, technical, financial and tax – working together. This has resulted as increased supply of these services in the market.

The development of investment processes is also dependent on market cycles. During the most active years of

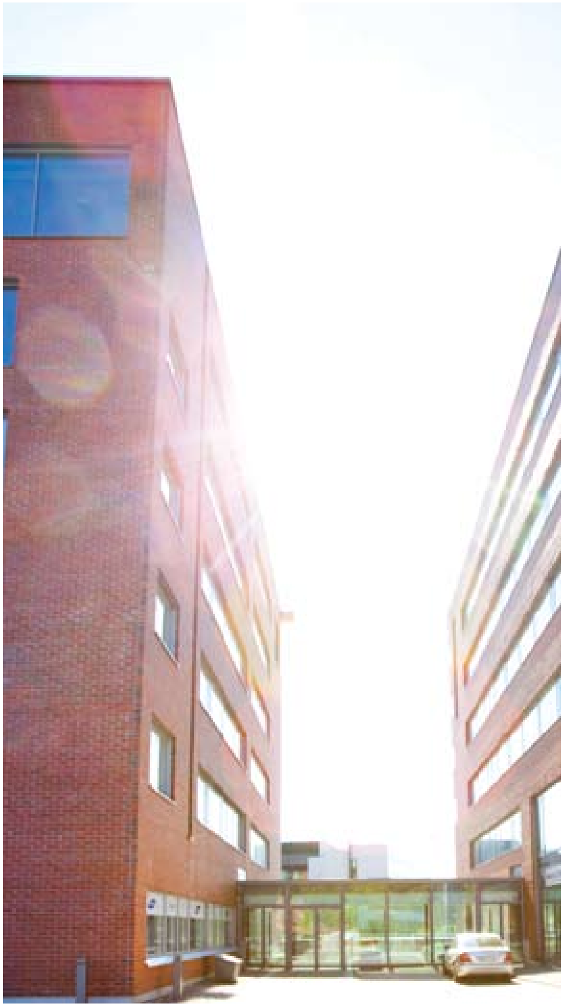


Photo: NCC / Sini Pennanen

2005–2007, the use of auction processes in large transactions became common. In current market conditions, no auction processes are carried out, as the number of participants has decreased. However, in the quiet markets, the advisor's role increases again, as he or she serves to interconnect the parties and their objectives.

> "Transaction processes last long in current market conditions"

Other phenomenon brought about by the slowdown is the lengthening of the transaction processes. Currently, the processes are also lengthened due to the lenders' involvement in negotiations, especially in cases when assets with complicated financial structures are sold due to non-performing loans. The slowdown has also resulted in a significant decrease in the average size of transactions.

Rental practices

Rental practices vary in the Finnish commercial property market. The liberal legislation regulating leases gives parties freedom to agree on terms and conditions.

> "Finnish legislation conserning rental agreements is very liberal"

A common term in Finnish lease agreements is "until further notice": an indefinite contract is valid until either the tenant or landlord wishes to terminate it after an agreed notice period, which is typically three, six or 12 months. These indefinite lease terms are especially popular in multi-tenant buildings and smaller office units, but are also widely used in other property types. The landlord must, however, have an acceptable cause to terminate the contract: rent adjustment, tenant mix changes, or rearrangement of the property portfolio are among the conditions used to justify lease termination.

The indefinite leases often last long, as both parties typically tolerate temporary fluctuations in the market. This means that at the peak of the market tenants might pay less than the current rental value, whereas in the downturn they pay more. Both parties normally accept this, and do not exercise the break clause easily. For its part, the landlord wants to avoid periodic vacancy and the cost of searching for a new tenant. In turn, tenants are not willing to pay the cost of searching for new premises and the costs of moving. This kind of flexibility is based on the assumption that in the longer term, the contract rent is adjusted to correspond to the long term rental value.

Where fixed terms are used, the contract periods are typically quite short compared with international practices. In multi-tenant office buildings, a typical fixed term is from three to five years. In the commercial property market, it is also common to agree on a fixed-term lease, which then continues automatically for an indefinite period – with an agreed notice period – until one party wishes to terminate it.

For larger units, longer fixed-term agreements are commonly applied. For a purpose-built, single-tenant office building, a net lease of ten years or more is common. Agreements in large single-tenant buildings in, for example, sale-and-leaseback arrangements, often have lease terms of up to 20 years. The popularity and terms of this kind of agreements are driven by both financial market conditions as well as accounting issues. The planned new IFRS17 standard might affect large companies' interest in long leases, as all

Photo: Skanska / Tiina Ollikainen

leases would have to be capitalised in the balance sheet. However, as agreement on the terms of the new standard has not been reached, the contents are currently being renegotiated, and the final schedule for the regulation remains unsure.

Tenants' rights are quite limited in the commercial property market – for example, a tenant has no statutory right to a lease renewal. There are, however, a variety of different options that are exercised.

Traditionally, rental agreements are for "gross rent", which includes net rent plus a service charge covering typical operating costs and minor repairs.[1] Gross rents are very common in multi-tenant buildings in all property types. In some specific property types, such as business parks, the lease agreements typically include a varying amount of business services offered to tenants. In these cases, the total rent includes the base (net) rent as well as a separate service charge.

In single-tenant buildings, it is more common to apply net rents, where the tenant is responsible for the maintenance costs – in minimum. In net leases, the responsibility for taxes, insurances and refurbishments can be agreed freely between the parties.

Typical leasing practices in Finland

Sector	Shopping centres	High street shops	Super-markets	Offices, multi-tenant	Offices, single-tenant	Industrial, logistics	Residential
Lease term	5-15	3-10 / until further notice	10-15	3-5 / until further notice	10-20	5-15	1 year / until further notice
Basis for rent	Space area / turnover	Space area	Space area	Space area	Space area	Space area	Space area
Rental payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Indexation	Cost of living	Cost of living	Cost of living	Cost of living	Cost of living	Cost of living	Cost of living
Rent review	Annually	Annually	Annually	Annually	Annually	Annually	Annually
Internal repairs	Tenant / landlord	Tenant	Tenant	Tenant / landlord	Tenant	Tenant	Landlord
External repairs	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant	Landlord
Building insurance	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant	Landlord
Property taxes	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant	Landlord

The cost-of-living index 1951:10 =100 is a long time series calculated from the latest consumer price index (currently consumer price index 2000 = 100) and its development, therefore, follows the consumer price index. Many rents, such as those on dwellings, business premises or land, are usually tied to the cost-of-living index. From the user's point, the cost-of-living index is the most usable one, because index revisions do not interrupt the series and the point figures of the cost-of-living index are published monthly at the same time as the consumer price index." (Statistics Finland)

1 Gross rents are where the land rent, insurance, property taxes and operational expenses are paid by the owner. This means that management and maintenance costs for both indoor and outdoor areas of the building are the owner's responsibility. This is also the case with heating, water and waste disposal. With regards to cleaning and electricity, the owner is typically responsible for the public areas of the building, and tenants have their own electricity and cleaning agreements regarding the space they use. The owner is also responsible for repair and replacement costs if caused by normal wear and tear.

In some cases, the rental agreement is for net rent, but the landlord takes care of the management and maintenance of the building, the costs of which are then recharged separately from the tenant. This kind of agreement is sometimes called a "shared rent". This kind of agreements are becoming more popular as the basic form of "green leases", as they attempt to share the benefits and risks of, among other things, energy cost fairly between the tenant and the landlord, as well as to motivate both parties towards energy savings. Otherwise, "green" terms of rental contracts are being developed actively currently, but not very widely applied yet.

Rents can be indexed freely in all indefinite leases and in fixed period leases where the term exceeds three years. The Consumer Price Index is the most commonly used index.

"Green leases are not widely applied yet"

Turnover-based rents are becoming more common in shopping centres, and they usually consist of a minimum base rent supplemented by an agreed share of turnover. However, the turnover-based part of the rent is typically quite low, as the landlord wants to secure a stable base for their cash-flow.

In market downturns and over-supply situations, various means to attract tenants can be applied. This has been clearly seen, for instance, in the Helsinki metropolitan area office markets in recent years. Besides a decrease in rent levels, the use of rent-free periods, stepped rent increases and tenant improvements, among other things, are applied.

3.3 Planning

Land use in Finland is regulated by the Land Use and Building Act. The system has three levels of land-use plans, including a regional land-use plan, local master plan and detailed local plans. Regulations and guidelines that complement the legislation in the Land Use and Building Act are included in The National Building Code. More detailed regulations and controls on land use and construction are included in the Land Use and Building Decree.

National principles for land-use and regional structure are defined by the Council of State. These national principles of land use are reflected in the regional plans, which embrace structural, functional and environmental considerations. Regional plans are drawn up and approved by Regional Councils, and confirmed by the Ministry of the Environment. The local master plan is an instrument for guiding and co-ordinating land use at a general level. It is produced by local authorities, but needs to follow the guidelines of the regional plans. Detailed local plans are used to regulate the building and formation of the physical townscape. In addition, every local authority has its own building ordinance, the content of which is defined according to local needs.

In the current act, local authorities have extensive powers to make independent decisions in land-use planning matters. It is also possible to agree on joint master plans between municipalities forming a homogenous urban area. These joint master plans require the approval of the Ministry of the Environment. Together with the increased co-operation and integration of the municipalities, these kinds of plans are becoming more common.

The Land Use and Building Act oblige municipalities to adopt an open and interactive approach to planning. The local planning process is aimed at facilitating the involvement of all those concerned in planning: landowners, residents and businesses in the area.

Building permits are approved by municipalities. A building permit may be granted if the plan allows the type and size of building that is being applied for. Special permits to exceed or change the use of the planned space can also be granted, although these are becoming increasingly difficult to obtain.

Planning and building permit practices have recently been discussed actively, and they have been criticised for their lack of holistic approach to sustainability and urban structure issues, among other things. Municipalities compete with each other by using planning and land-use issues to attract taxpayers – both companies and residents – and employers, which can sometimes impact their planning decisions.

"New legislation controls the location of large retail units"

Photo: Skanska / Pauliina Munukka

Legislation for land-use and planning regarding large retail units changed in 2011

The new legislation regarding land-use and planning of large retail units came into force in spring 2011. Changes in legislation deal with increased regional control and co-ordination over the plans and building permits for large retail units. The definition of "large" may vary, depending on the region in question and also the quality of the retail unit, among other things. The law requires that the minimum size of a significant retail unit is defined in the regional plan. In the Uusimaa regional plan, for instance, the legislation concerning "large" units is applied for retail units of more than 10,000 sqm in the Helsinki metropolitan area, and for units of more than 5,000 sqm in the other areas of the region.

In the new legislation, more control over the location of large retail units is being pursued. City-centres' position as a preferred location for retail units is strengthened. Outside the city-centres, large retail units can only be developed in locations with good public traffic connections, and only if they would not harm the economic development of the city centre. In addition, the land use should enhance the development of service networks with reasonable distances. The possibility of this kind of units has to be included in the regional plan.

In the new law, retail units trading special, large unit-size goods (for example, cars, furniture and construction equipment) are also included in the overall regulation of large retail units. These kinds of retailers do not typically compete with the retail units in the city centres, and they can thus be located outside the centres – provided the regional plan allows it. Here, traffic connections are of crucial importance. For this kind of retail units, the new legislation will only be fully applied after a transition period of four years.

By its nature, the legislation is quite general and leaves possibilities for interpretation. Therefore, the regulation needs to be specified by more detailed guidance to unify the application of the legislation. The Ministry of the Environment is, together with the industry specialists, currently working on this guidance document, to be published later in 2012.

3.4 Taxation in Finland

Taxes in Finland are levied on behalf of the government, municipalities (local government), the Social Insurance Institution and various social security funds under some forty different headings. Payments to the local communities of the Evangelical-Lutheran and Orthodox Churches are not classified as taxes in the OECD's statistics. The bulk of taxation in Finland is derived from two categories: taxes on income, profits and capital gains, on one hand, and taxes on goods and services, on the other. In 2009, income taxes accounted for ca. 36% of the total tax revenue.

Individual taxpayer income is divided into two categories: earned income and capital income. Income tax is paid to the state at a progressive rate and to the municipalities at a flat tax rate. Capital income tax is levied on, for example, interests, rental income, dividend, and sales profits. Capital gains tax rate was increased from 28% to 30% in the beginning of 2012. At the same time, the tax became partly progressive, and the tax rate increases to 32% for the capital income exceeding 50,000 euros.

In Finland, resident individuals are taxed on their worldwide income. Residents are taxed according to progressive tax rates for national tax purposes and flat rates for municipal ones.[2] The highest state tax rate is 29.75% of earned income. Municipal tax rates for 2012 vary between 16.5% and 21.75%.

In addition to the actual taxes, there are some obligatory social security contributions that are paid by taxpayers, some of which are included as taxes in OECD's international tax comparison statistics. Social security contributions paid by Finnish employers include payments to the national health insurance scheme, national and occupational pension schemes, as well as unemployment scheme. The level of these contributions depend partly on the size and business sector of the employer.

The level of taxation is clearly above the average for OECD countries. The ratio of total taxes to GDP in 2009 was 43.1%. In the EU, this figure is only exceeded by Sweden, Denmark, Italy, Belgium and Spain.

During the last two electoral periods, the government has taken serious actions in order to reduce the total taxation burden in Finland. However, the economic downturn and the resulting public deficit have decreased the likelihood of further tax cuts. On the contrary, it seems likely that tax revenue needs to be increased in order to balance the state budget. Therefore, the structure of taxation is one of the most vividly discussed issues on the political agenda.

In the Finnish tax system, the taxes most relevant for property investment are property taxes, capital gains taxes, transfer taxes, corporate taxes and value-added tax (VAT).

2 For tax purposes, persons present in Finland for a period of less than six months are considered non-residents. They pay tax in Finland only on income received from Finland. Finnish employers collect a 35% tax at source on wages, unless they have received a tax-at-source card instructing otherwise. The earned income of persons staying in Finland for more than six months is taxed according to the same rates as that of permanent residents of Finland. However, foreign "key employees" may qualify for a special tax at the flat rate of 35% during a 24-month period if they receive any Finnish-source income for duties requiring special expertise. For these "key employees", specific rules concerning work and salary levels apply. See www.vero.fi

Tax on real property

Real property situated in Finland is subject to a real property tax that is based on the taxable value of the property. The taxable value is defined by local tax authorities and is generally about 70% of the market value of the property. The revenue goes to the municipality where the real property is situated. Land used in forestry or agriculture is exempt from real property tax. Minimum and maximum tax rates are regulated by the parliament, and municipalities decide the rates within this range. Currently, tax rates vary between 0.6% and 1.35% of the taxable value per annum. Tax rates for permanent residences are lower and vary between 0.32% and 0.75%.

Taxes typically represent some 17% of the operational costs of commercial properties, and some 5% of those of residential properties.

For non-built construction sites, a specific tax of 1–3% is levied. In the Helsinki metropolitan region, specific minimum rates for this tax are in place.

Capital gains taxes

Since the beginning of 2012, the tax on investment income (interests, net rental income and capital gains) was increased to 30%, having previously been 28%. Capital income exceeding €50,000 will be taxed at 32%. Financial costs, such as interest expenses that are directly related to the investment income, are deductible. Capital loss made on investment is deductible from capital gains in the year of the loss, or, if not possible in that year, during five following years.

Non-residents have a limited tax liability on capital gains in Finland. If they receive dividends, interests or royalties from Finland, the payer withholds a final source tax. For dividends, a 30% tax rate is applied on the disbursement to non-EU and non-tax-treaty countries. Finland has special tax treaties with several countries, which normally set a lower percentage for this tax. If the shares fall into the category of direct investment, and the beneficiary company fulfils the requirements of the Parent-Subsidiary Directive, no tax at source is levied.

Dividend income is partially double-taxed in Finland. The tax consequences depend on the type of company that pays the dividend – whether it is publicly listed or not and also, for non-listed companies, on the net assets of the company.

Transfer taxes

Tax on the transfer of real property is 4% of the transfer price. When the transaction is made by buying shares in a housing or real estate company, the transfer tax is 1.6% of the transfer price.[3]

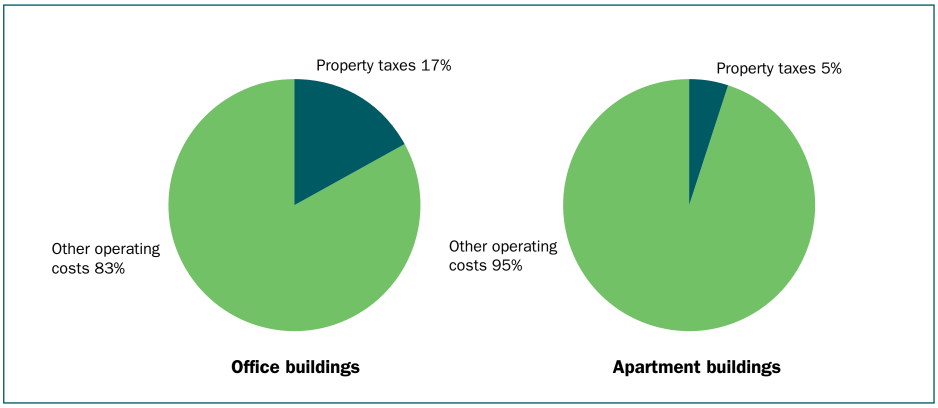
The transfer of securities is tax exempt if the transaction takes place through the stock exchange or if both the buyer and seller are non-residents. Shares in a real estate or housing company are, nevertheless, always subject to transfer tax. Transfer tax is usually imposed on the purchaser.

Corporate taxation

Income-tax obligations of the company or organisation are largely determined by the form of corporate entity. In the case of limited companies and co-operative societies, the profits are taxed as income attributable to the entity itself. Since the beginning of 2012, the corporate income tax rate was reduced to 24.5%, having previously stood at 26%. If a limited liability company distributes dividend to its shareholders, the shareholder-beneficiaries will be taxed as provided by specific rules, depending on, for instance, whether the company is publicly listed or not. In a non-listed company, the taxation of dividends is also dependent on the net wealth of the company.

In the case of a self-employed professional individual, a self-employed business entrepreneur or a general or limited partnership, the profits are fully taxable as income of the owner-shareholder. The taxable income attributable to the operation of the trade or business is divided between

Share of the property taxes from operating costs in 2010



Source: KTI

3 No tax is imposed if a person aged between 18 and 39 acquires his or her first owner-occupied permanent home. There is no transfer-tax liability if the transfer is due to an inheritance, a donation or a division of property subject to matrimonial rights.

a capital-income portion and an earned-income portion. Capital income is assessed at the 28% rate. Earned income is assessed using the progressive scale.

Companies resident in Finland are liable to pay tax on their worldwide income. Non-resident companies are taxed on their income derived from Finland and all income attributable to a permanent establishment in Finland. In principle, a company from a non-tax-treaty country is liable to tax, regardless of any permanent establishment.

The concept of income considered in corporate taxation is rather broad because it covers several income types, such as proceeds from selling merchandise, rental income, fees and compensation for work or services and the profits from investing in financial assets. All expenses incurred in acquiring or maintaining a business are deductible. According to Finnish accounting rules, income and costs are registered in the year of delivery (not payment) of goods or services.

Costs for acquiring fixed assets are deducted by depreciation in taxation. The declining balance method applies to the depreciation of buildings and other structures. Depreciation for each building is calculated separately, with a maximum rate varying from 4% up to 25%, depending on the type of building or structure.

"Corporate tax rate was decreased in 2012"

Taxation of partnership structures

Taxation issues are of great importance in structuring real estate fund structures. In real estate funds targeted for domestic investors, partnership structures are most commonly applied. In principle, partnership is a pass-through structure from a taxation point of view, and income and capital gains are taxed according to the investor's own tax status. This is very important, for instance, for the Finnish pension funds, who have a special treatment in taxation, and do not pay any taxes on their investment income.

The interpretation of a partnership's tax status might depend on the organisation and the type of activities of the fund. Taxation of a partnership's income generated by property business can either be taxed according to income taxation rules or as business income. Therefore, the tax authorities should be consulted when the fund structure is set up. However, Finnish partnership structures cannot be beneficially applied for funds targeted at foreign investors. These kinds of funds, are, therefore, typically domiciled outside Finland.

Value added tax

Value added tax (VAT) is another tax that is relevant for property investment. The standard VAT rate is currently 23%, which is calculated on the total charge for goods and services. There are some lower VAT rates for specific groups of goods and services.

In Finland, it is optional for a property owner to apply for VAT liability for collecting rents. The liability is granted given that certain requirements are met concerning the premises and tenants. The tenant must also be VAT liable. In these cases, the VAT included in the rent is deductible from the tenant's final VAT. The property owner can deduct the VAT included in the cost of services of the property.

Under Finnish VAT legislation, a taxable entity is also entitled to deduct VAT included in the costs for the construction of a new building as well as the restoration of an existing building, provided that the relevant property is intended for the use of a VAT taxable business activity. This deduction will then be revised if the use of the property entitling to a deduction decreases or if the ownership of the property is transferred within a set revision period. In some circumstances, an increase of taxable use could also lead to a revision, which is proportionate to the lapse of time. This means that the full amount of deducted VAT will not be subject to revision – as was the case under the previous rules – but only a decreased amount in accordance with and proportionate to the time lapsed under the revision period. The revision period has also been extended from a five-year period to a ten-year period.

Due to the regulation, the VAT liability of the tenant is of great importance for the owner. Tenants who are not VAT liable typically need to compensate the impact of "lost" VAT deductions as a higher rent.

Central tax rates in Finland

	Tax rate	Note
Corporate tax rate	**24.5%**	
Capital gains tax rate	**30% (32% on income exceeding €50,000)**	Levied on profits from selling real property, buildings, securities such as housing company shares, shares in listed companies, etc.
VAT	**23%**	Special rates for food, restaurant and catering services (13%); medicine, books, transportation, cultural events, etc. (9%); and newspapers and periodicals (0%).
Tax on real property	**0.5–1.0%**	Depends on municipality and type of property. Taxable value defined separately for the building and the land.
Transfer tax, real property	**4%**	The majority of transactions are carried out by selling the shares of a (mutual) limited real-estate company, when the transfer tax is 1.6%.
Transfer tax, securities	**1.6%**	Transfer of securities is tax-exempt if the transfer takes place through the stock exchange or if both the seller and the purchaser are non-residents. Shares in a housing company are always subject to transfer tax.

Source: Finnish Tax Administration, www.vero.fi

3.5 Legislation for indirect property investment

From the Finnish institutional investor point of view, the most common structure for indirect property investment is limited partnership, where the fund management company typically is the general partner. Tax issues are major drivers in these structures, as, provided that certain conditions are met, limited partnerships are tax transparent structures and investment income is taxed according to the investors' tax status. Investment income from limited companies investing in property is subject to taxation, and thus not favourable from institutions' perspective.

The Finnish property industry has lobbied for the introduction of REIT legislation for several years. However, the possibility for tax-exempt listed property companies has currently been given only for companies investing in residential properties. The provisions for tax transparency for this kind of companies were finally accepted by the European Commission in May 2010. The provisions require the companies to invest only in rental residential properties, to limit its debt capital to a maximum of 80% of the balance sheet, pay out 90% of the profit as dividends, and to comply with strict accounting rules. The company needs to be listed within three years from its foundation. The first company aiming at applying for this status, Orava Asuntorahasto, was founded in late 2010, and it currently has some residential 240 apartments in its portfolio. Due to the limiting provisions set by the legislation, the volume of this kind of vehicles is not expected to become significant.

The Finnish legislation also enables the establishment of special investment funds, which invest in property. These special investment funds are stipulated by the Finnish Common Funds Act (in Finnish, sijoitusrahastolaki) and are regulated by Finnish Financial Supervisory Authorities. These funds are open-ended structures managed by a separate fund management company. Investments in and redemptions from these funds can be made as stipulated in the fund rules. The rules may include limitations on the redemption and subscription frequency, and relatively long redemption periods may be applied. Also the long-term gearing level of these funds is restricted to 50% of the value of the fund. These funds are not taxable entities and are considered as fully transparent for Finnish tax purposes. Although the legislation for these funds has existed for several years, the first concession for this kind of fund management company was only granted in early 2012. This newly established Finnreit Fund Management Company ltd. (Finnreit Rahastoyhtiö Oy) has announced that it will introduce moderately leveraged funds with stable profit distribution, primarily aimed for institutional and professional investors.

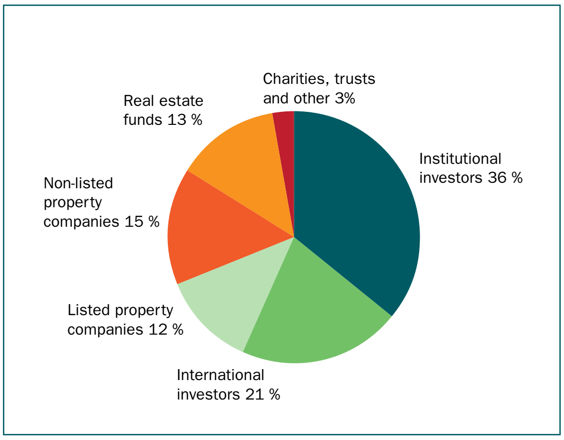
Photo: HYY Kiinteistöt / Kuvatoimisto Kuvio

4. Structure and players in the Finnish property market

4.1 Ownership structure

The size of the Finnish professional property investment market is ca. €42.9 billion. Institutional investors – domestic pension funds, in particular – remain the most significant players in the market, with a share of ca. 36% of the total investment universe.

The structure of the Finnish property investment market (€ 42,9 bill.)



Source: KTI (Annual reports, query for investors, KTI estimates)

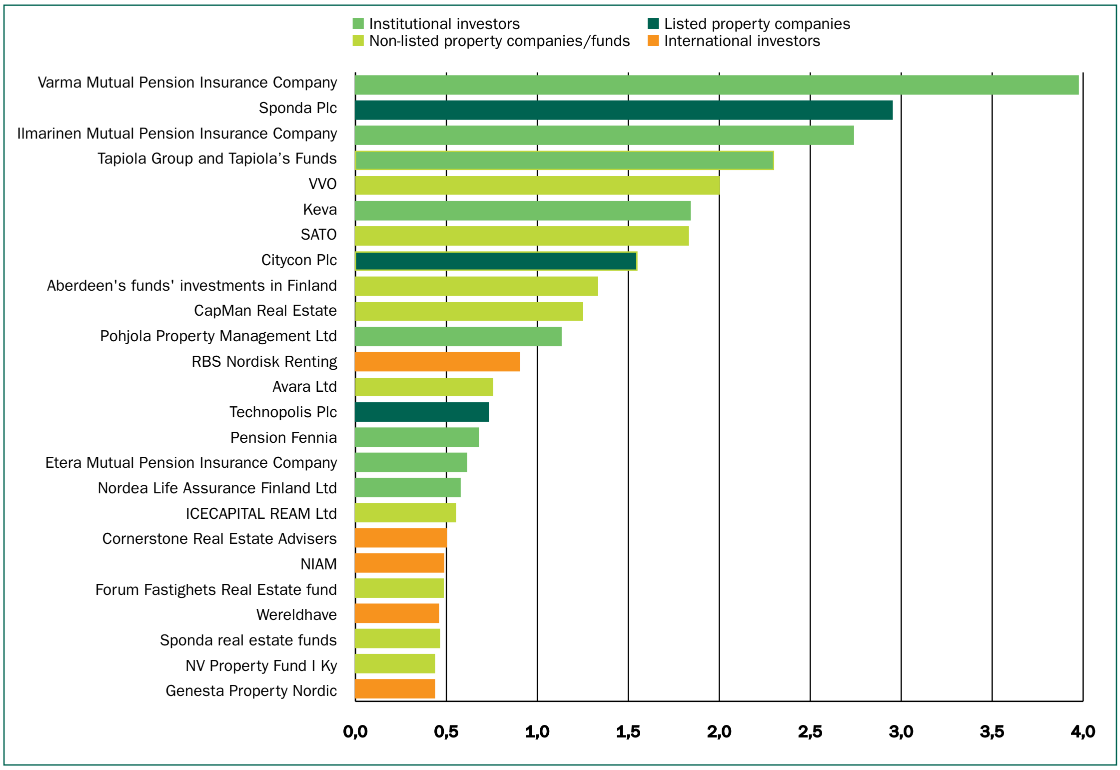
Institutional investors

Pension insurance companies and other pension schemes form the majority of the Finnish institutional investment universe. In total, they account for three-quarters of the total assets in institutions' investment portfolios. Other participants in the institutional markets include life funds and other insurance companies.

At the end of the third quarter of 2011, the total value of the investments of pension insurance companies and funds administering the statutory occupational pension schemes amounted to some €133 billion, according to the Finnish Pension Alliance TELA. According to a survey carried out by KTI on INREV's behalf in 2011, the total assets of life funds and other insurance companies amount to ca. €27 and 12 billion, respectively.

> "Pension institutions dominate the Finnish institutional investment universe"

Direct property holdings of the biggest property investors in Finland (fair values of the properties at the end of 2011, EUR billions)



Source: Annual Reports, Query for Investors

The Finnish pension system is a mixture of a basic public pension regime and employment-based pension insurance. The occupational pension scheme receives the bulk of the annual pension contributions and is administered by pension insurance companies, pension funds and foundations organised by employers. Pension contributions are paid by both employers and employees. Supplementary pension systems, based on labour market agreements or individual pension insurance, do not have a significant role in the Finnish pension system.

Part of the annual pension contributions is used to pay the pensions of the insured and another portion is transferred to reserves for future pensions. These reserves form the basis of the Finnish institutional investment assets. Due to the retirement of the big generations born in 1940s, the amount of pensions being paid out has now exceeded the amount transferred to reserves, which increases the pressures on the return on investments in the future. Calculations on the long-term pension money flows are based on the assumption of a 3.5% annual real return on the investments.

In total, there are 37 pension providers in Finland, among which the seven pension insurance companies are the biggest players. In addition, there are specific pension systems for public sector workers, and 21 company or industry specific pension funds.

"Some 11% of pension institutions' total assets are invested in property"

Of the pension institutions' total assets, some 28.8% was invested in listed shares in the end of 2011. Together with private equity and hedge fund investments, the share of equity investments amounted to 38.7%. Some 35.1% was invested in bonds, which, in the past, used to be the biggest asset class in the portfolios.

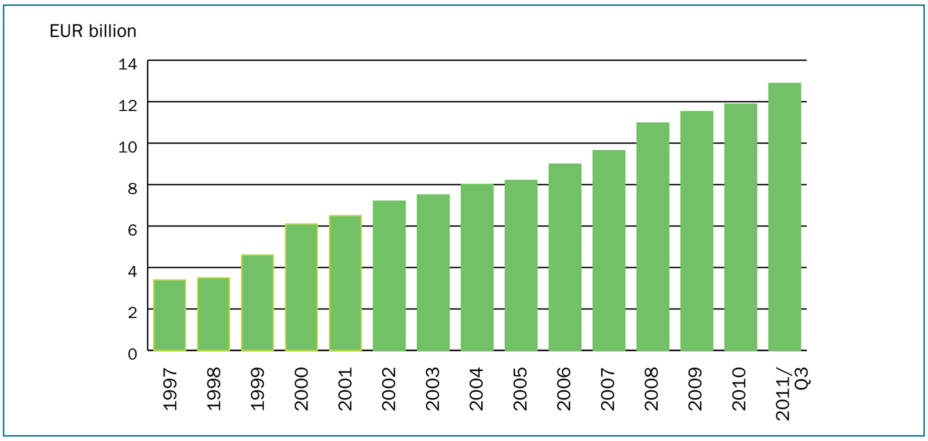
The share of property investments in the Finnish pension institutions' portfolios was 11.2%, amounting to €14.9 billion. (€14.1 billion in the end of 2010). During 2011, also the relative share of property increased due to the decrease in the value of the equity investments.

"Finnish institutions invest abroad through non-listed property funds"

The vast majority of all pension institutions' property investments are in Finland. While the Finnish investments' share of the total investment portolfios is ca. 36%, the share of domestic investments in property portfolios amounts to almost 85%. The amount of foreign property invstments increased to €2.2 billion by the end of the third quarter of 2011 (€1.8 billion at the end of 2010). Of this, some €1.6 billion was invested within the euro area. Foreign investments are mainly done through non-listed property funds.

The seven pension insurance companies are the biggest private-sector participants in the Finnish pension system. Their property investments amounted to €10.9 billion at the end of the third quarter of 2011, representing a 13.1% share of their total investments. Real estate investments' proportion of the total investment, however, varies markedly between funds.

Property holdings of the members of the Finnish Pension Alliance TELA



Source: The Finnish Pension Alliance TELA

Varma and Ilmarinen are the two biggest pension insurance companies in Finland, with total investment portfolios of ca. €31 and €27 billion, respectively. Both companies reported a decrease in the total value in the investment portfolio during 2011, mainly due to the decrease of the values of listed shares caused by the global economic turmoil.

Varma is the biggest property investor in Finland with a direct domestic portfolio of some €4.0 billion. Ilmarinen had a direct domestic property portfolio of €2.7 billion at the end of 2011. Another significant player in the pension sector is Keva (formerly Local Government Pensions Institution), who handles the pension matters of persons employed in the local governments, state and the Evangelical Lutheran Church of Finland. At the end of 2011, Keva's investment portfolio amounted to €29.6, of which some 8.2% is invested in property.

The share of indirect property investments varies markedly between funds. For most pension institutions, direct investments clearly dominate the property portfolios. Of the large institutions, the State Pension Fund is the only one that only invests in property indirectly. In Varma's property porfolio, the share of indirect investments is ca 10%, whereas in Keva's, Pohjola's, and Ilmarinen's portfolios, the share is somewhat larger. The majority of indirect investments are made abroad, althought domestic pension institutions also are major investors in all major Finnish non-listed property funds.

Pension insurance companies also have exposure to property through the ownership of shares of both listed and non-listed property companies. They are, for instance, major shareholders in the two biggest residential property investment companies, VVO and SATO.

Finnish legislation requires the investment decisions to be made by institutions themselves, and thus portfolio management functions are kept in-house. In the organisation of property and asset management functions, some differing strategies are pursued. Some institutions have outsourced their traditionally large in-house management units to service providers. Others want to retain control on their tenant interface, in particular, and thus emphasise the importance of in-house asset management. Some institutions, for instance, Pohjola and Tapiola, have founded separate fund/asset management companies to manage their property investment portfolios. These companies have launched unlisted property funds and might also offer management services to other clients.

"Year 2011 was difficult for pension institutions' investments"

The Finnish pension institutions have reported negative returns on their investment portfolios for 2011. Poor returns are mainly a result of the decrease in equity markets, especially in the Finnish market. Returns on listed equities have typically varied between -10 and -20%. Positive returns have been reported for private equity and also, although lower, for bond investments. Also, property returns were relatively strong. For instance, Keva reported a total return of 6.8% for its property portfolio, and Ilmarinen a 6.0% return for its direct property investments.

"Compared to other asset classes, property delivered strong returns in 2011"

Photo: Skanska / Pauliina Munukka

Finnish pension institutions interested in increasing their allocation to property

The total Finnish institutional investment universe amounts to ca. €180 billion. Pension funds and other pension schemes account for ca. 74% of the total investment universe. In the INREV Investor Universe Study carried out by KTI in 2011, the property investment strategies of the Finnish institutions were studied. The institutions' property investments amount to ca. €20 billion, representing some 11% of their total investment portfolios.

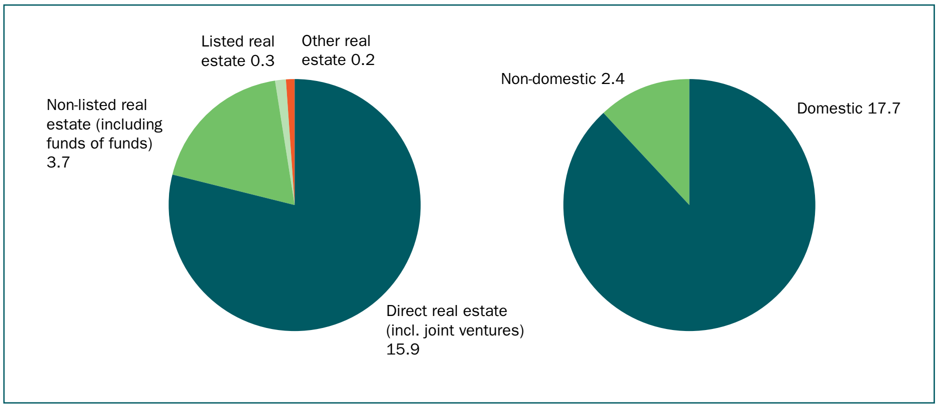
The majority, €15.9 billion, of institutions' current property investments are domestic direct investments. Non-listed property funds currently account for ca. 18% of all property investments, and, of these, ca. two-thirds are non-domestic. The small remaining proportion is invested in listed property shares or other property vehicles.

In the study, the institutions reported a target property allocation of ca. 12%. Pension insurance companies and other pension schemes reported current allocations below the targets, whereas life insurance and other insurance companies are currently slightly overexposed to their targets.

Finnish institutions are likely to increase their total exposure to real estate by some 20% – both by increasing their target allocation and due to the increase in their total investment portfolios. If realised, these changes would lead to an overall increase of almost €4 billion in the total institutional real estate investments. Some 40% of this growth would result from increases in target allocations, and the rest from the increase in total investment volume. Of the total growth, some €1 billion is reported to be targeted to non-listed investments. Indirect investments are expected to grow both in Finland and abroad.

Finnish institutions' strong emphasis in direct property investments is mostly motivated by the long tradition of property investments and in-depth knowleddge of the domestic market. The primary motivation for non-listed fund investment is international diversification, access to new markets, management expertise and leveraged investments.

The Finnish institutional real estate investment universe



Source: INREV Investor Universe Finland Survey 2011

Listed sector

The Finnish listed property sector remains small, with only three recognised property companies listed on the main list of the OMX Nordic Exchange in Helsinki: Citycon, Sponda and Technopolis. At the end of 2011, the combined market value of these three companies stood at ca. €1.7 billion.

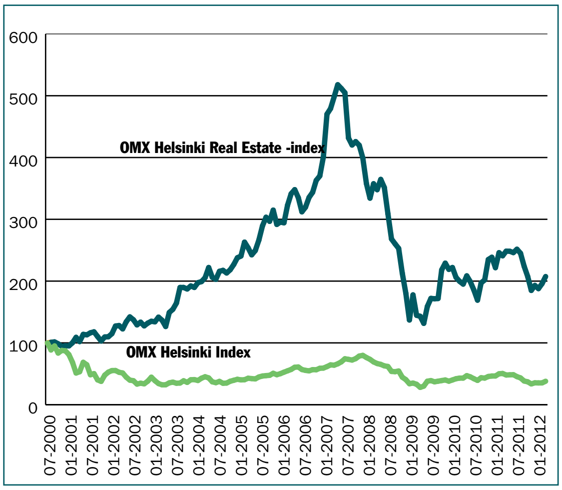
In 2011, the share prices of listed property companies suffered from the turmoil in the global financial markets. Compared to the overall share performance illustrated by the OMX Index, the OMX Property Investment Sector Index showed, however, overperformance, resulting as a change of -21% during 2011, with the overall index decreasing by 30%.

Sponda is the biggest of the Finnish listed property companies with a portfolio of €3.2 billion (€2.9 billion at the end of 2010) consisting of office, retail and logistics properties. In Finland, Sponda's investments are concentrated in Helsinki metropolitan area and in other main cities. During the past few years, Sponda has expanded its business into Russia, where it operates in the Moscow and St Petersburg regions. At the end of 2011, the fair value of Sponda's Russian investments amounted to €224.6 billion. Sponda has also a separate fund management business unit, which currently is a co-investor and/or manager of funds with a total GAV of some €594 million. In 2011, Sponda launched, together with some Finnish institutional investors and development company SRV, a new investing company investing in Moscow and St Petersburg. In total, the new company's investment capacity will reach €300 million. The company has not published any investments so far.

"All Finnish listed companies increased their portfolios in 2011"

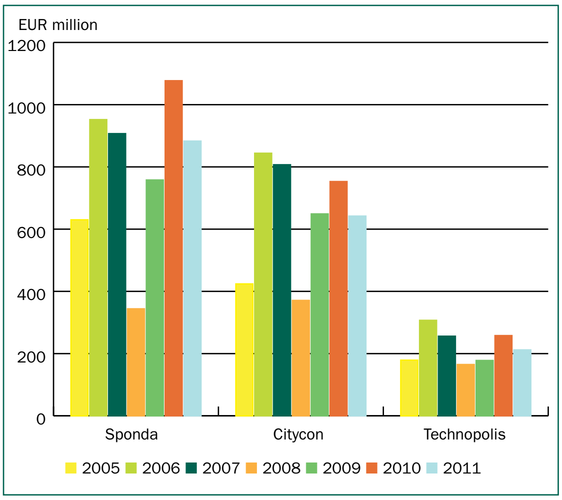
Share performance of the Finnish listed property companies

OMX Helsinki Index and OMX Helsinki Real Estate -index (index, 7/2000=100)



Source: Nasdaq OMX

Market capitalisations of the Finnish listed property companies



Source: Nasdaq OMX

Citycon specialises in shopping centres and retail properties. It has a portfolio of some €2.5 billion at the end of 2011 (€2.4 in 2010). During 2011, Citycon increased its portfolio by acquiring one shopping centre in Tallinn and one in Stockholm. Of Citycon's 35 shopping centres, 22 are located in Finland, nine in Sweden and four in the Baltic countries. In early 2011, Citycon released a new business strategy emphasising concentration in the shopping centre properties and with a strong focus on growth in that sector.

Technopolis concentrates on technology centres in Finland, Russia and Estonia. At the end of 2011, the fair value of Technopolis's investment portfolio of completed properties stood at €843 million (€727 million in 2010), and it had €61.7 million worth of assets under development. In addition to premises, Technopolis also offer a wide selection of business support services for their clients.

Non-listed property companies

There are three major Finnish non-listed property companies investing in residential real estate: VVO, SATO and Avara. These companies hold significant subsidised residential portfolios, as well as major market portfolios.

VVO's portfolio consists of ca. 39,000 rental residential apartments in 45 locations, mainly in larger Finnish cities. Finland's two largest pension insurance companies, Varma and Ilmarinen, are VVO's largest owners. VVO's shareholders also include some major Finnish labour market organisations.

SATO's current holdings comprise nearly 23,000 apartments in the major Finnish cities and in St Petersburg. The market value of the investment portfolio stood at ca €1.9 billion at the end of 2011. Besides the development and management of rental residential buildings, SATO also develops residential properties to be sold for owner-occupiers. In St Petersburg, SATO currently has 93 completed apartments and 128 under construction, with of total value of ca. €80 million.. SATO's main owners include major institutions, such as pension insurance companies Varma and Ilmarinen, as well as life fund Suomi.

The third major residential property owner, Avara Oy, currently owns and manages ca. 8,000 rental apartments mainly concentrated in the larger cities. Also Avara's shareholders are major Finnish institutions – with Pension Fennia and OP Pohjola Group's life and pension insurance funds as the biggest owners.

Non-listed property companies investing in commercial property include some major foreign investors that have established an office in Finland or bought a Finnish company with an existing organisation. These include Genesta, IVG Polar and Wereldhave. HYY Real Estate is an example of domestic specialised property investment companies.

Photo: NCC / Sini Pennanen

Real estate fund management companies

There are currently some 13 significant Finnish fund management companies offering non-listed funds for mainly domestic institutional investors. The first major Finnish property fund was launched by CapMan in 2005. Since then, some 25 new funds have been started.

Most of the Finnish non-listed property funds are structured as limited partnerships, which is a favourable structure from taxation point of view for domestic institutions. Access to third-party specialist management, as well as to leveraged property investments, are the main motivations for investing in non-listed funds for the Finnish institutions.

Finnish property fund management companies have divergent backgrounds, which also affects their strategies significantly. CapMan, which currently manages three major property funds, is originally a Finnish private equity company for whom property investment is one of the business areas. Aberdeen Asset Management, which manages three Finnish funds, is a global investment management company. Pohjola and Tapiola are traditional Finnish institutional investors that have organised their property investment management in separate companies. These companies have also expanded into the fund management business. They offer funds to their shareholders and other investors. Tapiola has launched four funds with differing strategies. Pohjola manages two funds investing in Finnish properties, as well as a fund of funds investing abroad.

ICECAPITAL, Auratum and Evli are examples of Finnish investment banking and management that currently offer property funds for their clients as one alternative asset class. ICECAPITAL's real estate funds are specialised in residential investment. Of their three funds, two invest in Finland and one in St Petersburg. Auratum's funds are typically smallish, specialised niche funds that cater to client needs. Auratum has increased its portfolios recently through acquisitions of office properties with redevelopment potential.

Many of the Finnish funds can be considered as club-deal-like or joint venture arrangements where a limited number of investors join forces to establish a property fund for specific purposes. Examples of these kinds of arrangements include Exilion, NV Property Investment, AB Forum Capita and PE Property Fund. These management companies typically have relatively small organisations and operate in close co-operation with their investors.

International investors

Between 2003 and 2011, more than 70 foreign property investors entered the Finnish property market. The inflow of foreign capital to Finland was at its highest level in 2006 and 2007 with dozens of new investors entering the market in both years. During 2009–2011, however, only five new foreign investors entered the market, with PRUPIM's M&G European Property Fund being the only newcomer in 2011.

"Foreign investors' activity slowed down again in 2011"

In total, foreign investors currently hold some €9 billion of Finnish properties.

Foreign investors form a diversified group of players with varying strategies and management practices. Some of them have established their own offices in Finland (for instance, IVG, Sveafastighteter, Genesta), whereas some have Finnish co-investors as local representatives, with companies such as Sponda and Citycon acting as their Finnish counterparts.

The biggest foreign investor in Finland, with a total portfolio of ca €900 million, is RBS Nordisk Renting, who has mainly invested in sale-and-leaseback type of assets with long triple-net lease agreements. Other significant investors include the Dutch listed company Wereldhave and Cornerstone's Nordic Retail Fund, both of which have a major shopping centre asset in their portfolio. Swedish-originated fund managers Sveafastigheter, Genesta and NIAM are also significant players in Finland.

In 2011, foreign investors' total investment volume only amounted to ca. €450 million. In the quiet market, this represented a 25% share of all transactions. Compared to the previous year, the foreign investors' investment volume decreased by nearly 30%.

The most significant investments in 2011 were done by Sveafastigheter, who, in several transactions, acquired Finnish properties worth more than €150 million during 2011. Other major investor group consisted of German funds, who typically invested in single office buildings, many of which are newly built, in the Helsinki metropolitan area.

Public sector

Public sector entities are very important players in the Finnish property market. The Finnish state has concentrated most of its property holdings in a government-owned enterprise called Senate Properties, whose task is to develop, manage and let the state's property holdings. It also sells or redevelops the properties no longer needed by state authorities. Senate is by far the largest property owner in Finland, with a balance sheet of some €4.6 billion. Its diversified 6 million sqm portfolio consists of offices used by state agencies and ministries, prisons and cultural buildings, as well as properties used by the Finnish Army. Senate operates under the control of the Ministry of Finance and is currently strengthening its strategy as the state's internal "corporate real estate" unit. Restructuring of the state administration and operations, including a major reform in the Finnish Army announced

Photo: HYY Kiinteistöt / Kuvatoimisto Kuvio in early 2012, will create increasing challenges for Senate properties in the coming few years.

The majority of the Finnish university properties are currently owned by three limited companies, which were founded in 2010 for the sole purpose of owning and managing university buildings. Two of the companies own and manage university buildings in the Helsinki metropolitan area (Helsinki University Properties and Aalto University Properties), and one elsewhere in Finland (University Properties of Finland ltd). Universities own a two-third's majority of the shares of these companies, with the state owning the remaining third.

> "Public sector's property management facing increasing challenges"

Finnish municipalities are typically highly significant players in regional markets and own the majority of properties required for public administration and service provision, such as offices, schools, nurseries and healthcare centres, as well as cultural buildings. It is estimated they currently own some 90% of all premises they use. Some municipalities, such as the City of Helsinki, in particular, also have significant amount of space that it lets to private market players. Real estate management has gone through considerable development in most municipalities in recent years.

All major municipalities have centralised their real estate management functions and tend to apply a market-oriented management policy; for instance, by charging internal rents from the occupiers. Municipalities' property ownership and management are facing considerable challenges due to the tight financial situation. In the future, potential significant changes in the municipal structure and/or service provision strategies will also have an impact on the need and management of properties.

Corporations

Traditionally, property occupiers have played a significant role in the Finnish property market through their ownership of large property portfolios. The majority of commercial property stock has traditionally been owner-occupied. The proportion of owner-occupancy is currently estimated to be somewhere below 60% and is thus close to the average found throughout Europe.

Major Finnish corporations have adopted different strategies with regard to their real estate management. The broadening and development of the property investment and finance market has enabled the execution of these strategies.

Photo: Skanska / Pauliina Munukka

During the past five years, Finnish corporations have, in total, sold approximately €1.0 billion worth of properties. In many cases, the companies remained as tenants in these buildings through relatively long leases. During 2011, no significant sale-and-leaseback transactions were carried out. Together with the tightening market situation, also potential future changes in accounting principles of rental agreements might increase unsecurity in this kind of deals. On the other hand, Pöyry Plc pursued a break option of the sale-and-leaseback deal of its head office, and purchased the property from Nordisk Renting in early 2011.

SOK and Kesko, the two major Finnish retail chains, are active players in the property market and emphasise the role of property development in their business strategy. They both hold significant property portfolios in their balance sheets, but also rent premises from other investors. They are also significant landlords in the retail market.

Industrial companies still typically own their production properties. For office properties, more varied ownership and finance strategies are applied. In new investments, head offices are typically developed by investors. For instance, a new head office of Tallink Silja was completed by Nordea Life Insurance in 2011, and pension insurance company Etera is currently developing a new headquarters for media company Alma Media in the Töölönlahti area of downtown Helsinki, and will start office projects for KPMG and Ernst & Young in the same area in 2012.

Companies using dominantly office or light production space, such as professional services, media and IT/telecommunication companies, are pursuing increasingly sophisticated workplace strategies. International companies are also increasingly executing these strategies globally. These strategies emphasise space efficiency and occupier view, along with environmental issues, which has led to abundant new development in the office market. This kind of approach also impacts the preferences for ownership and financial issues.

4.2 Real estate service sector

The Finnish real estate service sector has undergone a phase of rapid development during the past decade. Currently, a wide variety of management, advisory, transaction and brokerage services are available, thus enabling the adoption of different management strategies, as well as market entry of new players.

Asset and property management services

Asset and property management services are offered by both domestic and international companies. The major Finnish asset and property management service companies include Ovenia and Realia Management. Ovenia Oy's clients include major Finnish and international investors, as well as corporations. In late 2011, Ovenia acquired a residential property management company Arenna Oy. The transaction strengthened Ovenia's foothold in residential property management and increased the amount of space the company manages to more than 10 million sqm.

Realia Management, part of Realia Group, is a major player in the owner-occupied residential property management market. It also manages some major investors' residential portfolios, as well as offers management services for private residential property investors. The company has recently expanded its services into commercial property management. Realia Management also offers valuation and advisory services.

Newsec, part of the Swedish-originated Stronghold-group, is another major player in the asset and property management sector. Newsec offers a wide spectrum of real estate management, advisory and valuation services for both domestic and international property investors and corporations. It has organised its activities into three separate companies: Newsec Asset Management Oy, Newsec Valuation Oy and Newsec Advice Oy.

Amplion Asset Management, part of the Catella Group, is another service provider offering asset and investment management services.

Examples of management companies concentrating on some niche market segments are Realprojekti, who specialises in shopping centre management, and KJ Kiinteistöjohto, who mainly manages business park properties in the Helsinki metropolitan area.

Corbel Oy is a Finnish management company that specialises in property and technical management, although it also offers leasing services. It has some major domestic institutional investors as clients. Another small domestic player servicing some institutional investors in selected segments is Realco Oy.

YIT, one of Finland's largest construction companies, is also a significant player in the services market and has some major clients in property and technical management. It is also expanding internationally in this area.

Facilities management services to occupiers are offered by both specialist management companies and traditional service companies that have expanded to offer the whole service chain. Service companies with background in traditional service provision (such as cleaning, catering and maintenance) currently also offering management services include ISS, Lassila & Tikanoja and SOL. Coor Service Management, on the other hand, is an example of a company only concentrating on services management.

Advisory, valuation and transaction services

The advisory service market includes a colourful mixture of small domestic entrepreneurial firms and big global companies. Of the major management companies, Newsec and Realia Management also offer valuation, advisory and transaction services.

Swedish-originated Catella Property Group is a major player in valuation, advisory and brokerage services in the Finnish commercial property market. Of the major international firms, DTZ was among the first to enter the market, and has been present in the Finnish market since 2004. Jones Lang LaSalle entered the market in 2007 and has grown to become one of the major players in transactions, valuation, leasing consultancy and brokerage. CB Richard Ellis established its own office in Helsinki in 2010, having previously been represented through collaboration agreements. Colliers International has a local Finnish office offering transaction and leasing brokerage, as well as project management services. NAI Global is represented in Finland through NAI Premises Oy. Also the Swedish-originated advisors Leimdörfer and Tenzing have offices in Finland.

Cushman and Wakefield is represented in the market through a collaboration agreement with a local transaction and leasing service company Tuloskiinteistöt Oy. Another local service provider is Finadvice Oy, which concentrates on transactions. In property valuatios, Peltola & co is an example of a local specialised service provider.

"A colourful mixture of companies operate in the specialist services market"

In addition to the actual transaction services firms, corporate finance services are offered by some domestic companies, including Advium Corporate Finance and Aventum Real Estate. In 2011, SEB Enskilda Corporate Finance established a separate real estate unit in Finland. Moreover, global business consultancy firms, such as KPMG, Ernst & Young and PricewaterhouseCoopers, also offer real estate specific services in Finland.

Financing services

The major part of real estate financing is provided by the major local banks, including Nordea Bank, OP-Pohjola Group and Sampo Bank. During the market peak, the market also attracted some foreign specialised real estate lenders. However, since the start of the financial crisis in 2008, some of these newcomers have had to downsize markedly. Eurohypo and HSH Nordbank, among others, have closed their local offices.

International players currently active in the Finnish the real estate market include SEB Merchant Banking, Helaba (Landesbank Hessen-Thüringen) and Aareal Bank.

As in most European markets, the use of debt financing in real estate investments increased markedly between 2005 and 2008. Due to the recent changes in market circumstances, refinancing of this debt has become a widely discussed topic also in the Finnish market. In the early years of increasing debt, local banks, in particular, applied rather long loan periods. Therefore, the terminations of the debt are, compared to many other markets, more evenly distributed across years. However, the total amount of terminating real estate debt approaching terminations is significant, and estimated to be around €6–7 billion in the next few years.

> "Some €6–7 billion of real estate debt approaching termination"

In the current market conditions, lenders tend to concentrate in core assets with stable cash-flow and solvent investors. For these assets, it is also easier to find equity investors, and refinancing of core assets is not, therefore, expected to face any problems, even though the loan-to-value ratios are significantly lower than in the past. However, refinancing of non-core assets and portfolios is expected to face more challenges. The values of these assets are expected to require adaptation to the changed market conditions.

Property development

The Finnish commercial property development market is dominated by construction companies who typically have a separate arm that specialises in commercial property development. They are active players in new development, whereas the development of existing buildings is mostly handled by their owners.

Major construction companies involved in commercial property development include NCC, Skanska, YIT, Hartela, Lemminkäinen, SRV and Peab. These companies have all been active in this field in recent years and have co-operated with both domestic and international investors. Skanska has organised its development operations in the Nordics through Skanska Commercial Property Development Nordic, which can, under certain circumstances, also remain as investor in the buildings it develops. NCC Property Development is known especially as an active developer of its business park concepts in the Helsinki metropolitan area and other major cities.

> "Construction companies dominate property development markets"

Some owner-occupiers – large retailers SOK and Kesko, in particular – are significant and professional property developers. They typically have strong bargaining power with local authorities in planning issues because they both increase employment and bring tax revenues to municipalities.

Institutional investors traditionally have quite conservative strategies concerning commercial property development. They typically only enter the project when the majority of the premises are pre-let. Their development strategies emphasise the redevelopment of the existing assets in their portfolios, where they can, for instance, look for new uses for vacant properties. Institutions typically pursue slightly more active strategies in residential development, which is considered less risky.

Finnish property investment companies are also active developers that focus on increasing assets to their own portfolios. Sponda, Citycon and Technopolis are active players in property development in their own core areas both in Finland and in other countries included in their strategies. There are also some smaller non-listed property companies and funds active in property development in their niche markets. One example is Renor, which concentrates on redevelopment of old industrial premises. Additionally, some property funds include property development in their strategy.

4.3 Property investment market in 2012

The volume of major transactions remained very low in 2011, with the total volume of only €1.8 billion in 2011. This represents a clear decrease compared to the previous year's figure, which amounted to €2.4 billion. The share of foreign investors of all transactions decreased to ca. 25% in 2011 from its level of 30% in 2010.

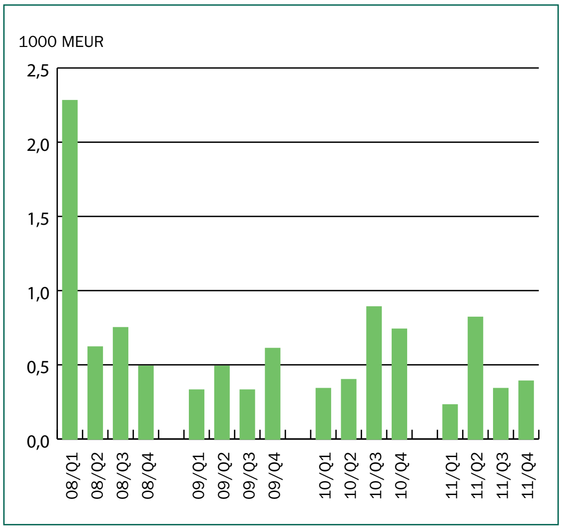
During the first half of 2011, market players were very positive with regard to the outlook for the property investment market. Investors were mainly targeting at core properties in good locations, where the only reason preventing transaction volumes from increasing was the low supply of this kind of assets in the market. In non-core assets, supply and demand did not meet from pricing percpective, but strong expectations for increasing demand were thought to change this situation. After a slow first quarter, the year's highest transaction volume, €820 million, was recorded in the second quarter.

> "The European debt crisis turned the market sentiment negative"

However, the acceleration of the European debt crisis changed the market sentiment quickly after the summer. The third quarter was again very quiet, followed by a slightly more active the last quarter, when some transactions were finalised just before the year-end, and the quarterly volume increased to €390 million.

The biggest single transaction in 2011 was made by Sponda, who acquired the Fennia-block in the Helsinki centre in late April for ca. €122 million. Another major single transaction was the acquisition of the so-called Sitra Tower in Ruoholahti, Helsinki by Exilion's fund for a price of €85 million. The most active investor in 2011 was Sveafastigheter, who, in total, invested some €150–200 million in several transactions with its partners throughout the year. In 2011, one investor group increasing its investments in Finland was German funds, including Catella Real Estate, IVG Institutional Funds, SEB Asset Management and Union Investment, who mainly invested in newly developed office properties.

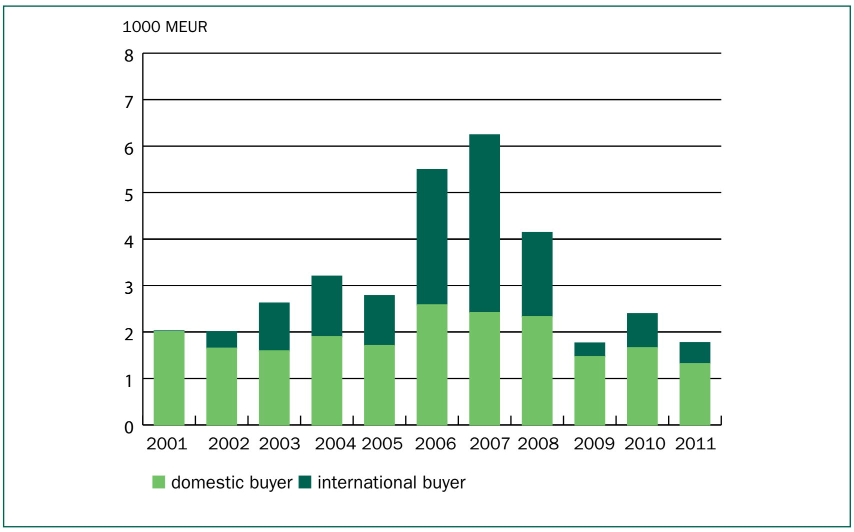
Transactions volume in the Finnish property market (quarterly)



Source: KTI

> "Year 2012 has started quietly in the transactions market"

Transactions volume in the Finnish property market



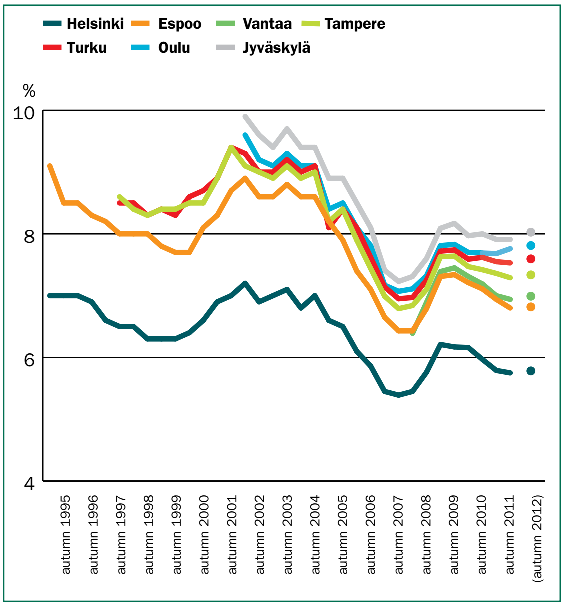
Source: KTI

The year 2012 has, again, started quietly with only a few transactions, with a total volume of ca. 200 million, published by mid-February.

In the quiet market, the yield levels have remained opaque, as this information has only been published on very few transactions. The market is still, due to investors' focus on prime properties, characterised by increasing yield gaps between core and non-core properties. The results of the KTI-RAKLI Property Barometer, carried out in October 2011, were well in line with the few published yield quotations, indicating a 5.75% yield for a prime office property in the Helsinki central business district. Helsinki centre was also expected to retain its attractiveness and show stable yield levels also in the near future. However, yields in all other market areas showed greater divergence and opaqueness, and were also expected to increase within the next year.

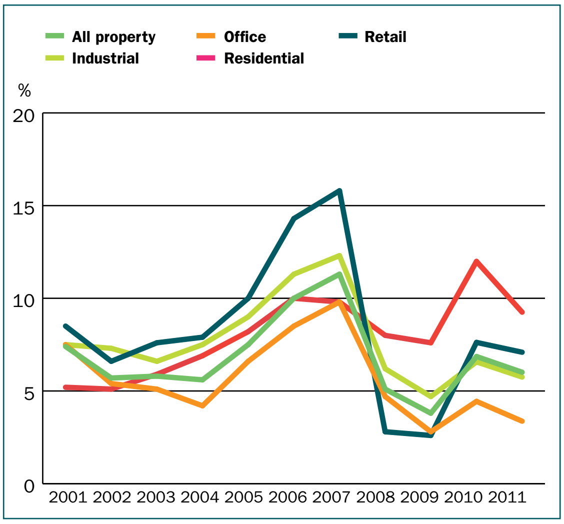
Measured by the KTI Index, the total return on the Finnish property market amounted to 6.0% in 2011. Total return consisted of net income of 6.2% and slightly negative capital growth of -0.2%. The total return was characterised by increasing divergence between property sectors.

Prime office yields in major Finnish cities



Source: RAKLI-KTI barometer survey

Total returns by property sector 2001-2011



Source: KTI Index

Photo: NCC / Sini Pennanen

5. Property sectors – market structure and practices

5.1 The office market

Stock

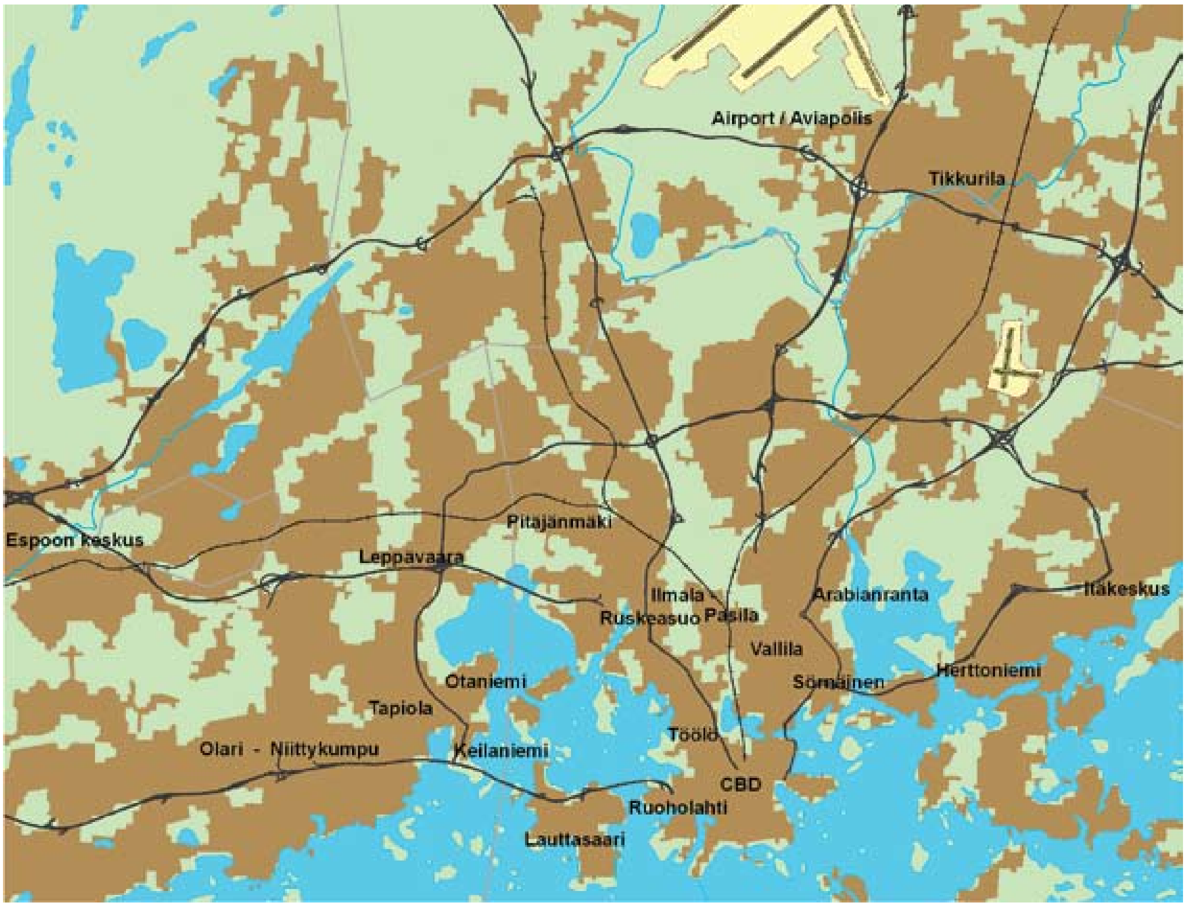
The total stock of office space in Finland's major cities amounts to some 11 million square metres. Of this, more than eight million square metres is located in the Helsinki metropolitan area, the dominance of which in the Finnish economy and commercial property market is greater than in many other European centres of the same size. Office stock in the Helsinki region has increased significantly in recent years through completions of newly or redeveloped office space. However, due to increase in stock, as well as challenges caused by the economic turbulence, high vacancy rates remain a major problem for the Helsinki metropolitan area office market.

Players

Offices have typically played a dominant role in Finnish institutional property portfolios. In the KTI Index, for example, offices currently represent some 36% of the total database. Almost 80% of this is located in the Helsinki metropolitan area.

The largest proportion of investable office stock is multi-tenant office buildings, typically located in city centres and recognised office areas. The second category is single-tenant buildings used typically by company headquarters. These can be found both in the Helsinki central business district (CBD) and in some other areas in the Helsinki metropolitan area. In the past, headquarter properties were typically owner-occupied, but this is not necessarily the case any more. During the recent years, several companies have sold their headquarter properties to investors, and, in the case of new development, offices are typically developed together with investors. The third office category is business-park-type properties located near good traffic connections, mainly in the Helsinki metropolitan area. The supply of office premises in business parks, in particular, has been

Main office areas in the Helsinki metropolitan area



increasing quite rapidly in recent years due to both strong occupier demand and solid investment appetite. Domestic institutions typically hold all three office types in their portfolios, whereas property companies and funds tend to have more focused strategies.

The biggest investors in the office sector include large Finnish institutions such as Varma, Ilmarinen and Keva, listed companies Sponda and Technopolis, as well as specialised non-listed domestic funds (for example, CapMan's, Exilion's and Aberdeen's funds). Foreign investors involved in office transactions in 2011 included Sveafastigheter, Catella Real Estate, Hansainvest, IVG Institutional Funds, Union Investment and SEB Asset Management.

"German funds invested in Finnish offices in 2011"

Rental practices

Rental practices in the office market are varied. The terms of rental agreements differ significantly between different office sub-categories.

In multi-tenant office buildings, rents are typically gross rents. These are favoured by active market players, such as property companies and some pension funds, in particular. In these kinds of agreements, effective property management is crucial, as the cost risk is carried by the investor. Operating costs can also be charged separately to tenants, thus increasing the transparency of rents and tenants' motivation for cost savings.

Typical operating costs for office properties vary between €2.50 and €3.50 per square metre, depending on the location and characteristics of the building. As such, they might represent a significant proportion of the gross cash flow.

Indefinite lease terms are commonly applied in multi-tenant office buildings. In this kind of agreement, both parties can terminate the contract within the agreed notice period, which might be three, six or 12 months.

Fixed lease terms are commonly applied in larger office units, which are often developed for the needs of a certain occupier. In single-tenant buildings, the terms are usually quite long, between ten and 20 years. In these agreements, net rents are commonly applied. These kinds of agreements are also typically applied in sale-and-leaseback deals, with lease lengths varying between five and 15 years.

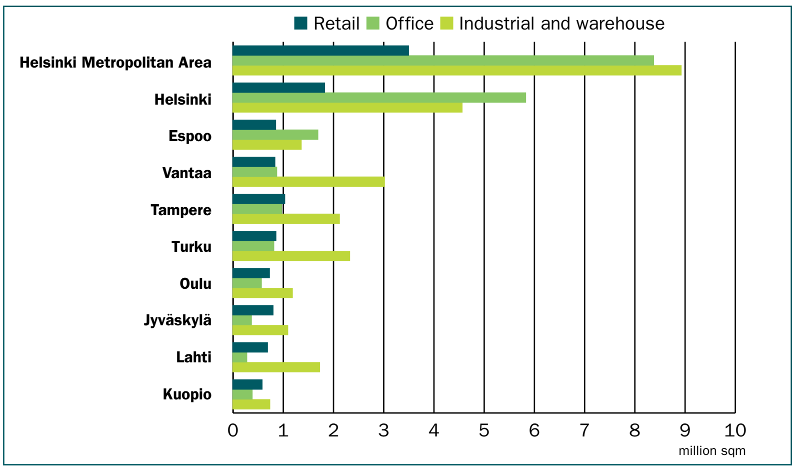
Business parks compete by offering flexible agreements and extensive service supply. Service options comprise typical business services, such as reception, security, cleaning, catering, postal services and meeting facilities. Business park rents typically consist of a fixed rent plus a separate service charge, which can be based on the actual usage. Rental agreements are normally a fixed term for three to five years.

Office rents are typically linked to the Cost of Living Index.

The office market in 2012

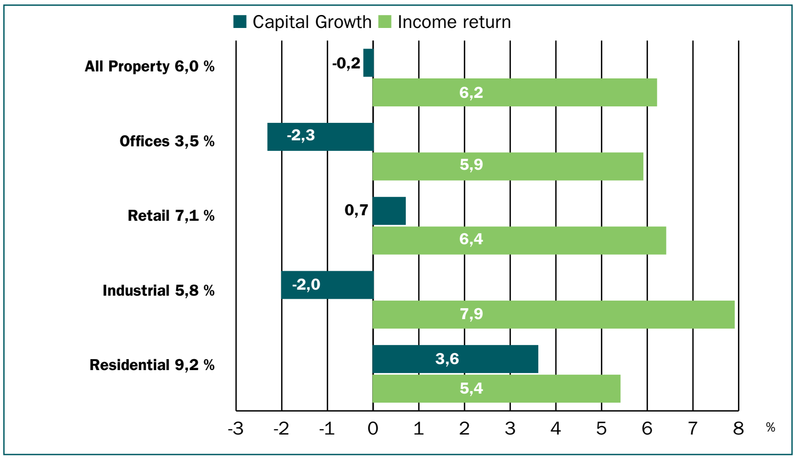
In the current market, different office submarkets perform somewhat differently. Despite the softening demand due to the economic uncertainty, the Helsinki CBD office market has shown strong performance. In this limited market area, rental demand is stable and relatively insensitive to market fluctuations, as, for many businesses and companies, it is important to locate in Helsinki CBD. In addition to the CBD, other well-performing office areas include Ruoholahti in Helsinki, the airport area in Vantaa and Leppävaara in

Commercial property stock, 31.12.2010



Source: Statistics Finland

Total returns by property sector 2011



Source: KTI Index

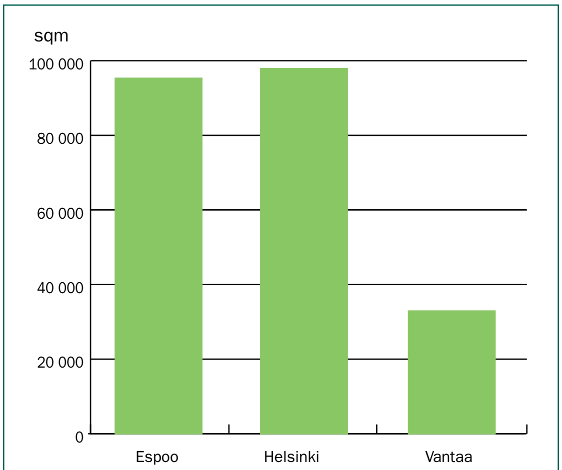
Espoo. In these areas, prime rents have increased during the past year, with the KTI rental index showing an annual growth of 4.1% for Helsinki CBD. In secondary areas, on the other hand, there are continuing pressures for rents to decrease, especially in buildings that do not respond to the needs of increasingly demanding clients.

In KTI's database, the occupancy rate of office premises in major investors' portfolios stood at ca. 89% in late 2011 for all of Finland. There are, however, big differences between areas. In Espoo, it remained as low as 80%. In Helsinki, vacancy rate remains very moderate in the CBD, wheras in some other areas, for example Pitäjänmäki and Lauttasaari, the occupancy rates in the KTI rental database only amount to ca. 70%. Due to softening demand, vacancies are expected to turn into increase again. High office vacancies in the Helsinki metropolitan area remain the most serious challenge faced by the Finnish property market and various means are being executed to control this problem. Premises are being redeveloped, alternative uses for vacant office buildings are being explored, and, in extreme cases, office buildings are being demolished in order to find better use for the land plots.

> "Office vacancy rate remains high in Helsinki Metropolitan Area"

In cities outside of the Helsinki region, offices are typically concentrated in city centres and one or two office areas outside city centres. Prime office rents in major cities remain stable and vacancy rates remain mainly at moderate levels. However, in most markets outside the Helsinki metropolitan area, even single major tenants or building completions may affect the balance markedly.

Office projects under construction in December 2011, rentable area*, sqm

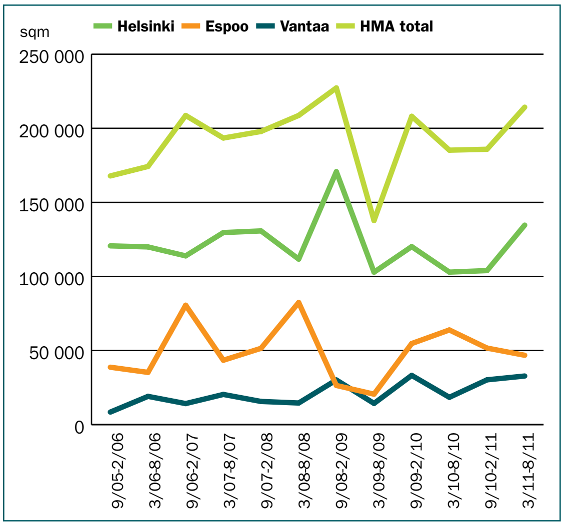


* If information on rentable area hasn't been available, rentable area has been estimated based on gross area information.

Source: KTI, RPT Docu Oy

During the past five years, some 740,000 sqm of new or refurbished office space was completed in the Helsinki metropolitan area. The peak was experienced in 2008, when some 250,000 sqm was completed. At the end of 2011, there were 225,000 sqm of offices under construction, of which some 180,000 sqm was new buildings, and the rest in redevelopment and extension projects. The increase in stock is expected to increase the vacancy rate further. In other cities, new office construction is limited to three ongoing projects in Tampere and two redevelopment projects in Turku.

Office gross take-up, sqm
Helsinki metropolitan area



Source: KTI

> "Significant differences in the performance of office markets in different areas"

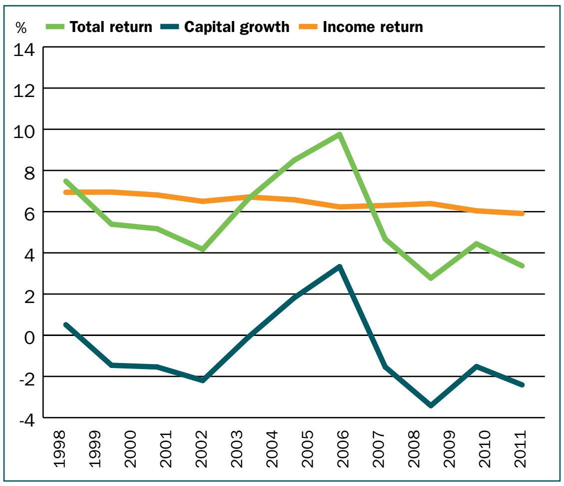
In quiet investment markets, offices represented some 37% of all transactions in 2011. Their share has increased markedly in 2010 and 2011 compared to previous years, partly reflecting investors' focus on security.

Total returns for offices decreased to 3.5% in 2011 (4.7% in 2010). This consisted of net income of 5.9% and a negative capital growth of -2.3%. This was the fourth consecutive year when the capital values of offices decreased. Also, net income decreased clearly, due to both the increase in costs and decrease in gross revenue.

During the past few years, increase in operational costs has increased pressures on investors' net income. The pressure is most critical in the office sector, where rental increases might not be possible due to tight market situation. The increase in operational costs has constantly clearly exceeded inflation. Of the operational cost categories, the increase has been most pronounced in energy costs, as well as service costs, driven by energy and labour prices, respectively.

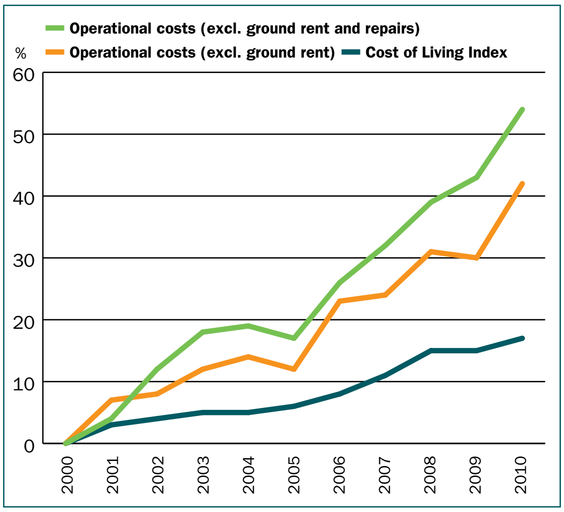
Photo: IVG Polar

Total returns on office investments, 2001-2011



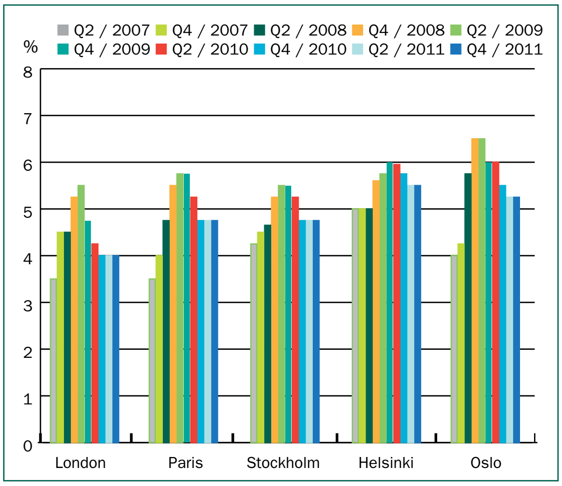
Source: KTI Index

Operational costs of office properties
in Helsinki metropolitan area



Source: KTI, Statistics Finland

Development of prime office yields



Source: Jones Lang LaSalle, KTI (Helsinki)

Office rents and yields in Helsinki and other European capitals

The Helsinki office market shows more stable yield development than most of its European peers. During the past five years, the difference between the highest and lowest yield quotation for Helsinki CBD offices in the KTI-RAKLI Property Barometer only amounted to 0.8 percentages. In Stockholm, for instance, the difference was 1.25%, according to Jones Lang LaSalle.

The relative stability is also apparent in market rents, especially in the Helsinki CBD. Relatively smooth fluctuations in the city centre are partly explained by the strong demand for offices and the undisputable position of the Helsinki CBD in the Finnish context.

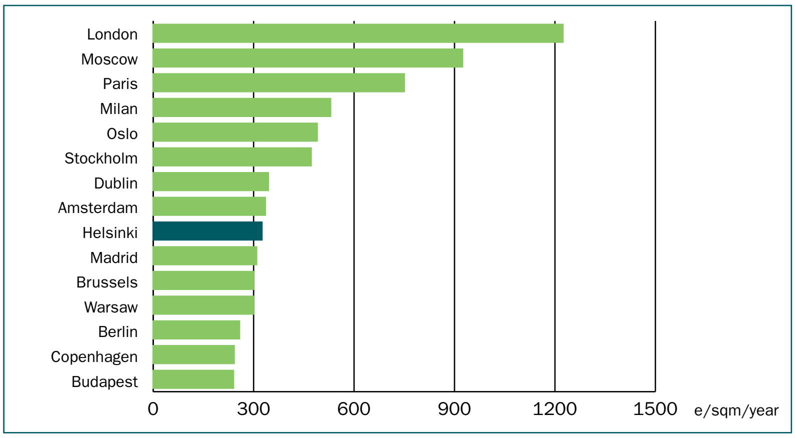
5.2 The retail market

Stock

The total stock of retail space in major Finnish cities amounts to ca. 7 million sqm. Of this, almost half is located in the Helsinki metropolitan area. According to the Finnish Council for Shopping Centers, there are 74 shopping centres with a total leasable area of ca. 1.49 million sqm. Their sales represented some 13.8% of total retail sales in 2010.

The performance of retail sector has been relatively strong in recent years, especially in terms of prime rents. During the past decade, retail sector has also delivered higher total returns compared to offices every year except in 2008 and 2009. Retail has also been a popular sector in the transactions market, representing the biggest transaction volume in the years 2006–2009. However, in 2010 and 2011, the transactions volume of offices exceeded that of retail properties.

Prime office rents, Q4/2011



Source: Jones Lang LaSalle, KTI (Helsinki)

The retail space stock increased in all major cities during the first decade of 2000s. Both major shopping centres, as well as hypermarket and supermarket properties have been developed, both in city centres and in out-of-town locations. New supply has, however, been well absorbed in the market.

Players

Retail is the second biggest sector in the KTI Index, representing some 22% of the database. Retail is typically well represented in pension fund investment portfolios. There are also some major players specialising in retail, Citycon being the biggest in this group. Some international investors have also concentrated in retail, either in shopping centres or smaller retail properties. The two major Finnish retailers, Kesko and S-Group, are also major players in retail property development and investment.

The Finnish shopping centre market is dominated by Citycon, who currently owns 23 shopping centres in Finland. Some Finnish pension institutions own whole, typically regional, shopping centres in which they typically invest in quite early phases of the development. For example, Varma has in recent years invested in new shopping centres in the cities of Tornio and Hyvinkää. Pension funds also often enter into joint investments with other investors in bigger centres. For example, the Sello shopping centre in Espoo is owned jointly by three pension institutions – Keva, Pension Fennia and Etera – while the Jumbo shopping centre in Vantaa is owned by a group consisting of a domestic pension fund, foreign property company and owner-occupiers.

The Finnish shopping centre market has also attracted foreign investors, such as Wereldhave, Rodamco-Unibail, CBRE Global Investors, Cornerstone Real Estate and GIC Real Estate. Domestic property funds, such as those managed by Aberdeen and CapMan, have also invested in shopping centres, concentrating in smaller centres in the Helsinki area and some larger ones in other cities. Also, Sponda owns some major shopping centre properties and development schemes. During 2011, the shopping center supply increased through the completion of the 33,500 sqm Karisma center in Lahti.

High street shops are typically located in CBD office buildings, and, as a result, major office investors, such as Sponda and Ilmarinen, are also significant retail owners. High street shops typically compete for consumers with out-of-town shopping centres. In many regional cities, the attractiveness of city centres has been increased through facelifts to the space supply, extension of pedestrian areas, and through an increase in the parking facilities. During the past few years, several new international retail chains have entered the Finnish market, attracted by the modern high-class retail space in prime locations.

Hypermarket and supermarket investments are traditionally favoured by Finnish institutions due to the typically long leases and secure cash flow. This sector has also attracted foreign investors recently. Retail operators, S-Group and Kesko, in particular, remain major owners of hypermarket and supermarket buildings. Portfolios of smaller retail units attracted foreign investors in 2006–2009. Citycon is also a major player in smaller retail properties, although it has announced that, in the future, it will concentrate increasingly on shopping centres.

TOP 10 Shopping centres in Finland

Center	Retail GLA	Main Owners	Location
ITÄKESKUS	115 144	Wereldhave Finland Ltd	HELSINKI
SELLO	97 900	KEVA, Etera, Pension Fennia	ESPOO
IDEAPARK	91 712	Private investors	LEMPÄÄLÄ
JUMBO	85 000	Unibail-Rodamco, Pension Fennia, HOK-Elanto, Kesko Plc	VANTAA
ISO OMENA	48 500	Citycon Plc, GIC	ESPOO
MYLLY	45 849	Kauppakeskus Mylly Ltd	RAISIO
HANSA	36 688	Several owners: institutions, non-profit fund, property companies	TURKU
TRIO	34 600	Citycon Plc, Co-operative bank of Päijät-Häme	LAHTI
KAMPPI	34 079	Cornerstone Nordic Retail Fund	HELSINKI
KARISMA	33 500	Ruokakesko Ltd	LAHTI

Source: Finnish Council of Shopping Centres

Rental practices

Rental practices in the retail market vary significantly according to both type of retail unit and the preferences of the investors and tenants.

Rental agreements are normally longer in retail than in the office market. Fixed terms are more commonly applied in the retail market, as location is a key factor in the retail trade, and tenants want to ensure this with agreements.

The typical minimum fixed term for retail space is three years. In many cases, agreements are first made for a fixed period and are then continued for an infinite time period. These kinds of terms are typically applied in high street shops especially.

In hypermarket and supermarket properties, investors are increasingly cash-flow driven, and agreements are typically relatively long-term contracts with net rent.

In shopping centres, anchor tenants often have leases of five to ten and even 15 years, with renewal options sometimes applied in shorter leases. Other tenants have typically shorter leases. The use of turnover leases is gradually increasing in shopping centres.

The retail market in 2012

Retail sales continued increasing in 2011, with the growth amounting to 5.3%. Strong consumer confidence supported retail sales in the first half of the year, but towards the year-end, the worsening economic outlook was also reflected in the consumer confidence. For this year, very low or zero growth is expected for both retail sales and number of jobs in the retail sector. This will probably affect the outlook also in the retail property markets.

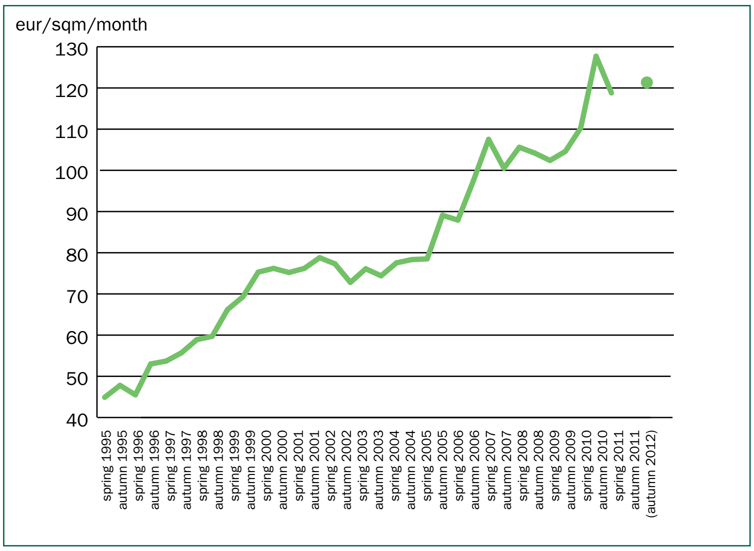
> "Vacancy rates for retail properties remain low"

The Helsinki CBD has shown very strong performance also in the retail markets. In late 2011, two major refurbishments of shopping centres – those of Kluuvi and Kämp Galleria – were completed. Both centres were able to attract new retail chains to enter the Finnish market. In 2012, the retail space supply will increase further by the completions of the second phase of Kluuvi centre, as well as the redevelopment of Sponda's City Center project. The uplifts of these centres will further increase the CBD's strong position in the retail markets. In the CBD and in the best shopping centers, retail rents have continued increasing, especially in the best locations. In the KTI rental database, upper quartiles of retail rents stood at €102 / sqm for CBD, and €70 / sqm for Helsinki metropolitan area shopping centres in autumn 2011.

Outside the Helsinki metropolitan area, the major retail projects completed in 2011 include shopping centres Karisma in Lahti and Stella in Mikkeli, the second phase of Palokankeskus in Jyväskylä, as well as Prisma centres in Tampere and Kouvola.

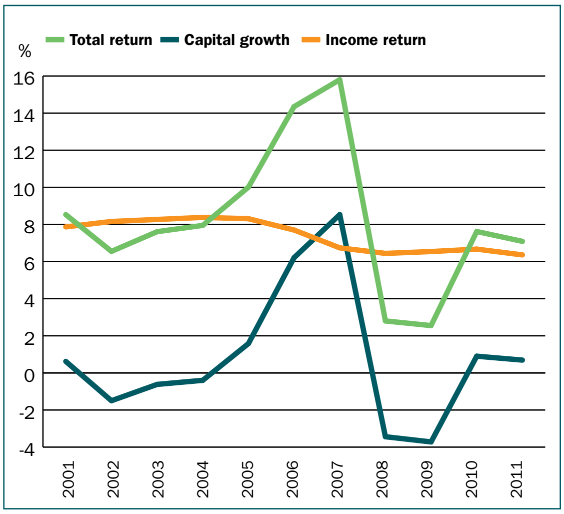
Construction of new retail space in the Helsinki metropolitan area is currently limited at few redevelopment projects. However, there are several major projects being planned in Espoo, mainly in the new metro station areas. Outside the Helsinki metropolitan area, the most significant ongoing retail development projects include Ikea and Ikano retail centres in Kuopio, shopping centre Willa in Hyvinkää,

Prime retail rent in the Helsinki CBD



Source: RAKLI-KTI barometer survey

Total return on retail investments, 2001-2011



Source: KTI Index

as well as shopping centre Veturi in Kouvola, which will all be completed in 2012.

In recent years, the returns on retail properties have, due to greater fluctuations in yields, shown greater volatility than those of other main property types. In 2011, total return on retail sector amounted to 7.1%, where the capital growth ended up slightly positive at 0.69%. Net income decreased clearly compared to the previous year, and stood at 6.4%.

5.3 Rental residential sector

Stock

There are some 2.5 million dwellings in Finland. Of these, about 40% are single-family homes. More than 44% of the dwellings are in apartment buildings. The average size of a Finnish household has decreased constantly and is currently 2.1 persons. Some 41% of the Finnish households are single person households, and another 33% consists of only two persons. Therefore, the demand for smaller dwellings has increased steadily, especially in urban locations.

Some 68% of Finland's housing stock consists of owner-occupied homes, and home ownership is widespread in all forms of housing, including apartments as well as detached and terraced houses. The share of home ownership has increased steadily.

"Demand for small residential dwellings increase due to the decrease in the average household size"

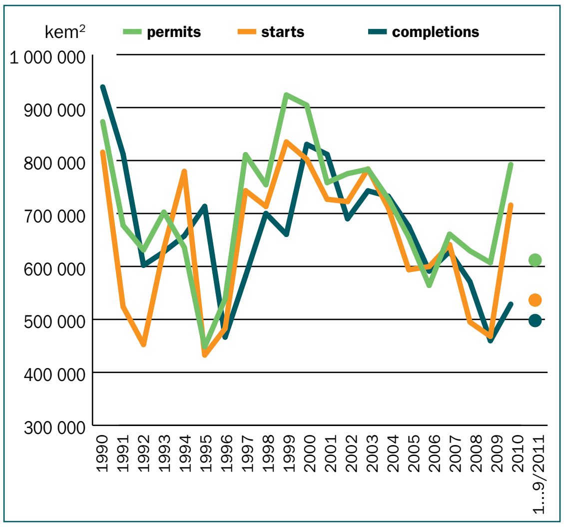
In total, 29% of the Finnish households live in rented dwellings. There are some 750,000–800,000 rental apartments. Of these apartments, ca. 50% have been provided with some kind of public subsidy, such as state-guaranteed loans or an interest subsidy for development of rental housing. The terms and regulation of different types of public subsidy vary significantly between different forms. Some have specific strict rules for tenant selection and rents are regulated, whereas other forms of subsidies allow a more market-oriented approach where pure market rents are applied. Tenants may also be subsidised through public housing support.

The average housing cost of a Finnish household amounts to 14% of the total income. The share is significantly greater, 27%, for households living in rented dwellings. This illustrates the emphasis of rental housing among lower income population, on one hand, and the relatively low mortgage rates in owner-occupied housing, on the other hand. The amount of housing mortgages has increased rapidly during the past decade, from ca €27 billion in 2002 to almost €80 billion in the end of 2011.

Photo: NCC / Sini Pennanen

Photo: SATO / Antonin Halas

Residential construction activity in Helsinki metropolitan area



Source: Statistics Finland

Players

Some 60% of the subsidised housing stock is owned by the Finnish municipalities. The City of Helsinki is the biggest player in this segment with ca. 43,000 apartments. The rest of the subsidised stock is owned by private, non-profit companies. The most significant players in this segment include VVO, Sato and Avara. Some 15% of the subsidised housing stock is targeted at some special groups, such as students or senior citizens.

The majority, some 60%, of the non-subsidised free rental residential market is owned by small investors, mainly individuals. The so-called professional residential investment market currently consists of some 150,000 dwellings. The scattered ownership affects the rental markets and results in great differences in market practices, rental levels and professionalism of players.

Many pension funds are significant players also in the rental residential markets. Varma, Ilmarinen, Keva and Tapiola, for instance, all have some 3,000–4,000 rental dwellings in their portfolios. Large pension funds such as Varma, Ilmarinen and Pension Fennia are also significant owners of the shares of VVO, Sato and Avara, and thus also have a significant indirect exposure to residential investment.

There is currently also some non-listed property funds specialised in residential property investment, including funds managed by ICECAPITAL, and Tapiola Real Estate, for instance. These funds typically have domestic institutions as investors.

Foreign investor interest in the Finnish residential market has increased in recent years. However, their market entry has been slowed by both the low yields for residential investments, as well as some management issues related to residential portfolios. The first foreign investor entered the Finnish residential market in 2008, when WH-Asunnot, a subsidiary of Danish property development company KE Project A/S, acquired the residential properties of UPM. The second foreign investment was only seen in 2010, when German fund Patrizia invested in three residential buildings in Vantaa, Espoo and Tampere.

Housing construction

According to the VTT, Technical Research Center of Finland, the long-term need for new dwellings is estimated to be around 24,000–29,000 dwellings per year, and, in total ca. 500,000 dwellings within the next 20 years. Ca. one-third of the total need would replace the loss of the older housing stock., About one-third of the total new production is needed in the Helsinki region and other major cities. Internal migration increases the need for moderately priced housing in the Helsinki region in particular.

The division of new housing construction between owner-occupied and rental housing is highly dependent on market conditions. Finnish construction companies are major developers in the residential markets, and, in the rising markets, they tend to concentrate their resources in the production of owner-occupied housing. This results as a rising construction cost also for rental residential construction.

> "Residential construction volumes fluctuate with market conditions"

As a result of the financial crisis in 2008, the demand for newly developed owner-occupied housing collapsed, and the construction companies' stock of unsold apartments

Government committee calls for moderately priced housing in growth centres

The lack of moderately priced housing in growth centres, especially in the Helsinki metropolitan area, is considered the most serious problem in the Finnish housing market. Lack of housing prevents internal migration and negatively impacts the labour market balance.

In late 2011, the Ministry of the Environment set up a housing policy committee to come up with suggestions on how to enhance the production of moderately priced housing. Specific attention is given to the Helsinki metropolitan area, where the problems are the most pronounced. The committee finalised its work in mid-February.

According to the committee, the most critical issues in increasing residential production include improving the availability of land plots and enhancing the coherence of urban infrastructure. State measures are needed in order to balance the cyclical fluctuations in the housing market. Specific attention should be given to improving the housing quality of groups with special needs, such as the homeless. In addition, construction processes should be made more efficient and the quality of construction improved. The committee estimates that, in total, the suggested measures would cost ca. €180–200 million in 2013.

The committee stated that poor economic conditions should not prevent public subsidies targeted at the housing sector, as efficient use of the labour force is critical for the economy's competitiveness. Upon receiving the committee's report, the Minister stated that it creates a solid groundwork for future housing policy actions that improve the housing markets.

increased. The government introduced quickly an attractive interest subsidy model in order to both stimulate the production of rental housing and soften the crisis' impact on the construction sector's employment. Together with the decreased construction costs, these stimulus actions worked well, and, in total, the construction of some 26,000 new rental dwellings were started in 2009 and 2010, of which some 50% are located in the Helsinki region. In 2011, the number of starts in the subsidised stock decreased to some 8,500 dwellings. In total, the construction of some 32,000 dwellings was started in 2011. In 2012, the number of starts is estimated to decrease to ca. 28,000 dwellings, although there is significant uncertainty related to this number.

Rental practices

Rents for free market rental dwellings were gradually deregulated during the 1990s. Currently, there are no restrictions for rental periods or rental levels. Rental agreements are typically made for certain fixed period, such as a year, and, afterwards, are usually valid for an indefinite period. After the fixed period, the tenant has the right to terminate the contract after an agreed notice period, typically one month. The landlord can only terminate the contract under certain specific conditions. Rents are typically indexed with the cost of living index being the most used.

In the subsidised housing stock – depending on the form of subsidy – there might be restrictions related to both rental levels and tenant's income. In so-called ARA-housing stock, where state housing loans are used, rents are cost-based. In the housing stock produced with interest subsidy, there are varying conditions for tenant selection, but rents are typically market-oriented. For instance, in the dwellings produced with the interest subsidy in 2009–2010, there are no restrictions for tenant selection or rental levels. In cases where the tenant receives a housing subsidy, set criteria related to both the tenant's income and rental prices are applied.

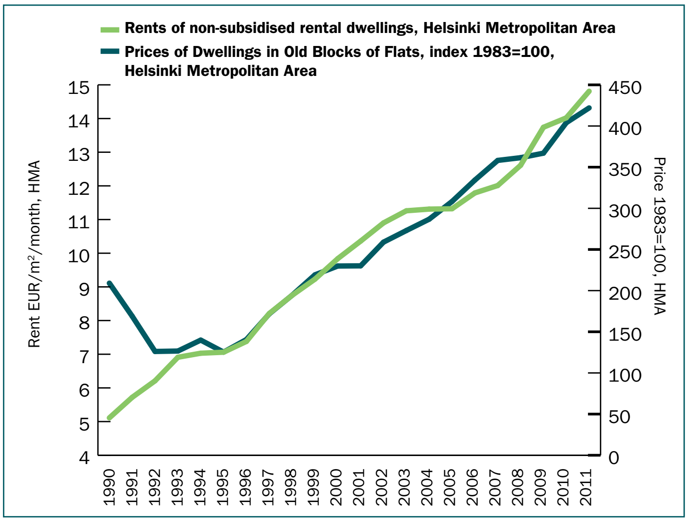
The residential market in 2012

After a long and solid growth period, the financial crisis turned the housing prices in a slight decrease between mid-2008 and mid-2009. After that, as the availability of housing loans eased and consumer confidence strengthened again, transactions volumes and prices started to increase in all major cities. The increase in prices continued until late 2011, when the increased economic uncertainty started to impact housing markets again. In the last quarter of 2011, residential prices declined by 1.4%. However, for the whole year, an increase of 2.7% was recorded in the prices of old residential dwellings. In the Helsinki metropolitan area, prices rose by 3.3%.

Regarding the outlook for housing prices, some differing views have been presented recently. According to some specialists, housing prices are likely to decrease due to the worsening economic outlook and tight financial markets. Some others, however, estimate a clear increase in prices in the growth cities, due to the strong demand and continuous internal migration. According to the forecasts of Pellervo Economic Research PTT, housing prices will decline by 1.8% in 2012. The housing market is supported by the healthy Finnish banks as well as slight increase in household income. However, there is a lot of uncertainty related to the outlook after 2012. If the euro area's crisis will be solved efficiently,

"Increased uncertainty related to housing prices"

Prices and rents of dwellings, Helsinki metropolitan area



Source: Statistics Finland

that might stimulate the housing markets markedly. However, some specialists have stated that housing prices are not sustainable and thus include risks.

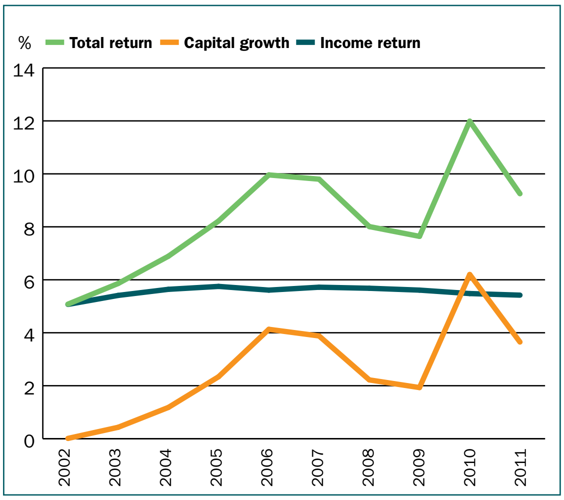
Demand for rental housing remains strong, especially for small apartments in the major cities. During the past decade, nominal rents in Helsinki, Espoo and Vantaa have increased annually by some 4–5% on average. In Tampere, Turku and Jyväskylä, the annual increase has been between 3–4%. According to the KTI rental index for new residential rental agreements, rents increased most, by some 5-6%, in Helsinki, Espoo and Tampere in 2011. In Turku and Jyväskylä, the increase amounted to ca 3.5%, whereas in Vantaa, Lahti and Oulu areas, the increase was only ca. 2–2.5%.

The outlook for rental development seems positive. The economic uncertainty is expected to increase the demand for rental dwellings, which will result in further growth pressures on rents. In the RAKLI Residential barometer survey carried out in the autumn 2011, nearly all respondents expected that rents for small apartments will continue to increase in the Helsinki metropolitan area, and a vast majority believed the situation being similar in all growth cities. Of the main cities, only Oulu's outlook remains slightly weaker. Occupancy rates of residential portfolios remain typically high, at 98%, on average.

"Demand for rental residential expected to increase further"

From an investment point of view, residential sector's relative attractiveness has increased together with the turbulence of commercial property sectors. Investor interest in residential is also supported by state subsidies. Many institutions have thus increased their allocation to residential in recent years. Investors are also attracted by the increasing demand for senior housing, and different types of serviced apartments are being developed.

Total return on residential property investments, 2001-2011



Source: KTI Index

> "Residential has been the best performing property sector for the past four years"

During 2011, investments in residential properties were mainly done through new development. The only significant residential portfolio transaction was carried out by SATO, who acquired 383 apartments located in Helsinki, Turku and Oulu from OP Pohjola Group's funds in the second quarter.

In the KTI Index, residential has been the best performing sector for four consecutive years. In 2011, residential investments produced a total return of 9.2%, consisting of capital growth of 3.6% and net income of 5.4%. Compared to the previous year, capital growth decreased slightly. In 2011, capital growth was, again, supported by the strong development of rental values, amounting to over 4%.

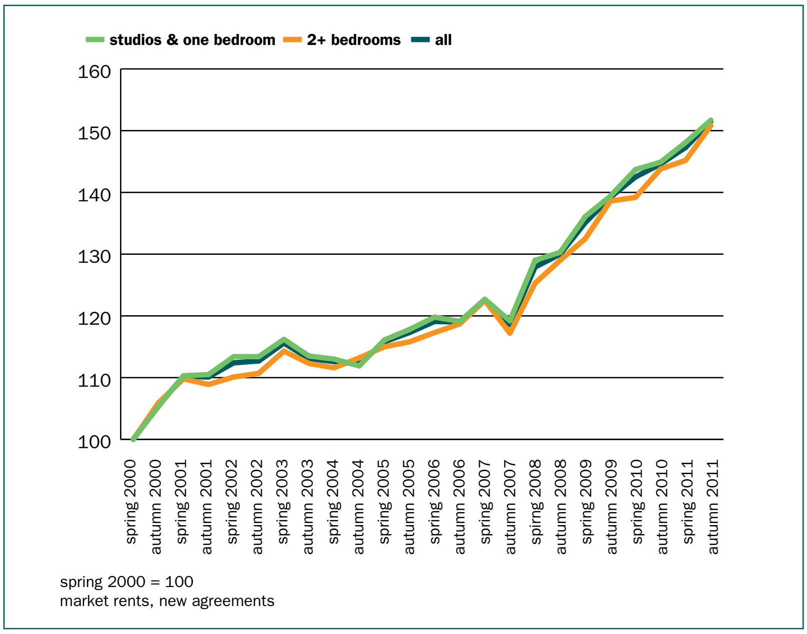
5.4 Logistics market

Stock

The industrial and logistics property stock amounts to some 15 million square metres in major Finnish cities. Of this, the Helsinki metropolitan area accounts for more than 50%.

The industrial property market can be divided into various sub-categories with varying market structures and practices, as well as a heterogeneous investor and customer basis. Large industrial corporations' manufacturing properties, light manufacturing properties, and modern warehousing and logistics properties are the main sub-categories in this sector. Of these, the stock of logistics properties, in particular, has developed rapidly in recent years as a result of both increasing demand and new traffic connections. This relatively late emergence of significant investment demand is partly caused by major retail companies' sophisticated centralised warehousing and logistics systems. As these major players have dominated the market, there has been neither space demand nor supply in the market.

KTI Residential rent index, Helsinki metropolitan area



Source: KTI

Players

Owner-occupation is very common in large manufacturing properties. In the light manufacturing property market, the ownership structure is more diverse, with occupiers, property companies, pension and insurance companies, individual investors, and municipalities as examples of investors.

Owner-occupation was, up until very recently, relatively common in the logistics market as well, but this situation has changed slightly in recent years. This emerging sector is attracting new investors including domestic institutions, property funds and foreign players.

Sponda is the most significant domestic developer and investor currently active in the logistics market. It has an extensive portfolio of logistics and warehousing properties in the Helsinki area. Sponda also acts in this market through two non-listed funds that have domestic institutions as investors. Sponda is a strong player in the new Vuosaari harbour area, where its PortGate project comprises some 70,000 sqm of logistics and warehouse space. Foreign investors in this sector include AB Sagax, who continued increasing its portfolio also in 2011 by acquiring three warehouse properties from EU Invest, as well as one property in Vantaa from Suomi Mutual Life Assurance.

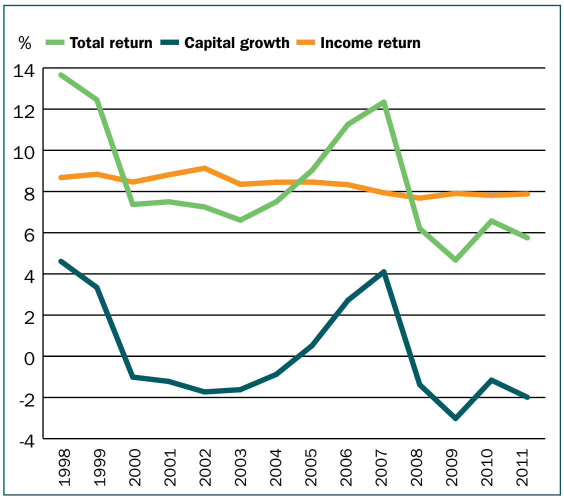
Market practices

Because of the heterogeneity of both the available stock and user needs, rental practices vary in the industrial and logistics markets. Rents are typically net or triple-net rents. Traditional Finnish gross leases are only used for smaller premises in multi-tenant buildings. In fixed-term contracts, the period is typically ten or 15 years. In this kind of leases, rental levels are partly determined by the tenant's rating.

The industrial/logistics market in 2012

Vacancy rates for modern industrial and logistics properties have been relatively low in recent years, although it did, for instance in the portfolios tracked by the KTI Index, increase towards the end of 2011. Rents have remained fairly stable

Total return on industrial property investments, 2001-2011



Source: KTI Index

or have increased slightly in recent years with the modern premises leading the development.

The share of logistics and industrial properties of total transactions volume remained low, at 15%, in 2011. The biggest single transaction was made by UBS Euro Core fund, who acquired a 27,000 sqm newly built logistics property in Vantaa from YIT. Of the domestic institutions, OP Pohjola Group's funds and Keva made new investments in logistics properties in the Helsinki metropolitan area.

In the Helsinki metropolitan area, major new logistics projects are currently carried out only in Vantaa, mainly in the airport area. S-Group's 75,000 sqm logistics centre in Sipoo, located north-east of Helsinki, is due for completion in early 2012. Outside the Helsinki metropolitan area, the biggest ongoing logistics project is carried out by Itella, who is developing a 77,000 logistics centre in Orimattila, near Lahti.

Industrial / warehouse properties account for ca. 10% of the KTI Index database, with warehouses and logistics properties representing a vast majority of that. In 2011, the sector produced a total return of 5.8%. Capital growth remained negative at -2.0%. Income return increased to 7.9%.

Major logistic projects under construction in Finland

Project	Size	Developer/Investor	Constructor
Logistics center, Orimattila	77 000	Itella Real Estate	Hartela
Logistics center, Sipoo	75 000	SOK	Lemminkäinen
Logistics center, Nurmijärvi	25 300	DB Schenker	
Flyway Cargo logistics center, Vantaa	23 000	Ilmarinen	Lemminkäinen
Tiilitie Logistics, phase II, Vantaa	17 000	YIT, UBS Euro Core	YIT

Source: KTI

5.5 Hotels

Stock

There are 742 hotel / lodging units in Finland, comprising ca. 49,000 rooms, with a total capacity of ca. 106,000 beds. In Helsinki, there are 53 major hotels.

Players

The two biggest hotel property owners in Finland include CapMan's hotel fund, who owns 39 hotel properties in Finland, and Norgani Hotels – part of the Swedish Pandox – with a portfolio of 15 hotels and one conference centre. Most of the biggest institutions also hold some hotel properties in their portfolios. Some operators, S-Group in particular, also own some hotel properties.

S-Group is the biggest hotel operator in Finland with 56 hotels across the country. Restel, who operates hotels under the brands Cumulus, Rantasipi and Holiday Inn, for instance, currently has 47 hotels in their chains. Other major hotel operators include Finlandia Hotels, Scandic Hotels and Best Western.

Rental agreements in hotel properties are typically long, triple net agreements. The operator is responsible for all maintenance and operational costs. In some properties in city centres where there are a significant amount of other space, for example, in retail use, responsibilities between the landlord and tenant might be differently allocated.

Hotels market in 2012

In 2010, the average occupancy rate of hotels amounted to 51.3%, with the average room price of ca. 86 euros. Compared to 2010, the turnover of hotel services increased by ca. 4.5% during the first three quarters of 2011, mainly due to increased demand from foreigners's side. Despite the increase, the sales did not reach the level of 2009. Demand for hotel accommodation is expected to decrease due to the negative economic situation.

According to the KTI Index, hotel properties delivered a total return of 7.3% in 2011. Capital values increased by 1.0%, and net income amounted to 6.2%.

Photo: NCC / Sini Pennanen

6. Property markets in different regions – Outlook for 2012

The Helsinki metropolitan area, consisting of the City of Helsinki and the immediate neighbouring cities of Espoo, Kauniainen and Vantaa, is the dominant region in the Finnish property market. Some 50% of the total office stock in Finland is located in the Helsinki metropolitan area. It is also the most liquid market area, and, in 2011, the Helsinki metropolitan area's share of all transactions amounted to 64%.

The second-tier markets – typically the regional growth centres of Tampere, Turku, Oulu and Jyväskylä – are traditionally popular among domestic institutions, but they've also attracted some international capital after the mid-2000s. In these cities, there are some local players that operate only in these market areas. Many large investors define the Helsinki area and these "growth centres" as target markets in their investment strategies.

Property markets in smaller city regions are traditionally dominated by local investors and owner-occupiers. Some domestic major players invest in smaller cities, but typically concentrate on certain select sectors, such as residential or retail, which are driven by consumer markets.

6.1 Helsinki metropolitan area

Helsinki, the only significant city region in Finland, has a dominant position in the country, which means that its importance is also outstanding from the property market perspective. The entire Helsinki region consists of 14 municipalities. One-quarter of the Finnish population lives in the Helsinki region, it accommodates some 30% of all jobs, and delivers more than one-third of the Finnish GDP. Nearly all major company headquarters, as well as many government agencies, are located in the Helsinki metropolitan area. The economic activity and growth of the Helsinki region has constantly exceeded that of the entire country. Jobs, administration activities, as well as the majority of the population of the region are concentrated in the Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen.

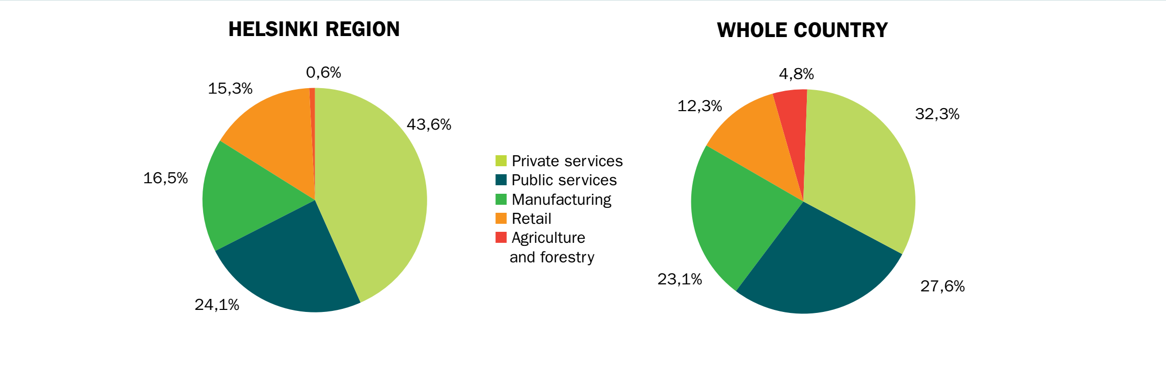
Population:	Helsinki:	595,000
	Espoo:	252,000
	Vantaa:	203,000
	Helsinki region:	1,350,000

Economic base:	Professional services, high-tech industries, public sector services

The economic structure of the Helsinki region differs significantly from that of the whole country. Compared to the rest of the country, the proportion of jobs in the private service sector is significantly higher in the Helsinki region. Of the 742,000 jobs in the region, some 44% (32% across the entire country) are in private service sectors. Specialist professional services, as well as high-tech industries and research and development activities, have a stronger role in Helsinki compared to the rest of the country. Helsinki's role as an administrative centre also affects its economic structure. Therefore, the proportion of industrial occupations is lower (17%) than in the entire country (23%).

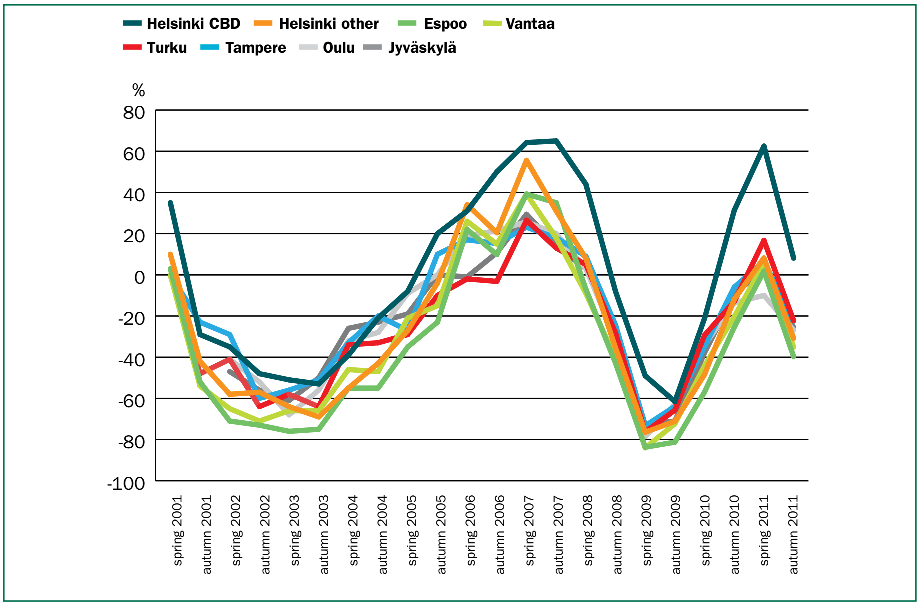
For several years, the Uusimaa region was the forerunner of economic growth of the whole country. However, mainly due to the decrease in industrial jobs, the region suffered more than the country on average from the collapse of the Finnish economy in 2009. Moreover, its recovery lagged that of the whole country, and, according to the Helsinki Chamber of Commerce, the development of the number of industrial jobs is expected to continue its downward trend in 2012.

The structure of the economy, percentage of jobs, 2010



Source: Helsinki Chamber of Commerce

Expected development of office rents within the next six months, balance figures

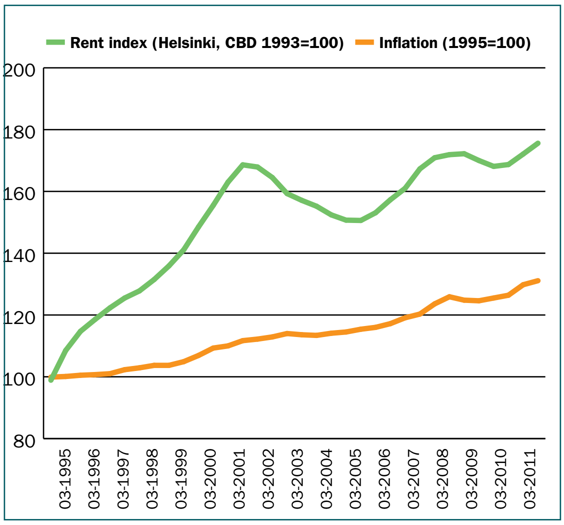


Source: RAKLI-KTI barometer survey

Within the Helsinki metropolitan area property markets, the Helsinki central business district (CBD) has an undisputable position both as an office location and in the retail markets. Outside the CBD, other prime office areas include Ruoholahti in Helsinki, Keilaniemi and Leppävaara areas in Espoo and the airport area in Vantaa. Important retail areas include regional centres of Tapiola in Espoo and Tikkurila in Vantaa, as well as the main shopping centres.

Of the ca. 8.4 million sqm total stock of offices in Helsinki Metropolitan area, some 70% is located in Helsinki. Espoo accommodates some 20%, and Vantaa ca 10% of the area's total stock. Retail space stock amounts to ca. 3.5 million sqm, representing some 13% of the total stock in the whole country.

Office rent index and inflation



Source: KTI and Statistics Finland

6.1.1 Helsinki – the core of the core markets

Helsinki Central Business District

The Helsinki CBD is the most important single property submarket in Finland. This geographically small area is the most attractive office location, and also the undisputed centre of retail trade in Finland. It also accommodates the most important public sector administrative functions, as well as several cultural buildings.

> "The strong market position of Helsinki CBD becomes more striking in challenging market conditions"

Office users in the city centre are mostly companies offering business-to-business services – business consultancies, law firms, investment banks, etc – together with public sector organisations. The majority of the office stock in the CBD was built in the late 1800s and early 1900s. Despite the lack of new supply, the stock is mostly well maintained and refurbished, and responds well to the needs of occupiers. The supply of modern office stock has been increasing rapidly in other areas in the Helsinki area. Nonetheless, the Helsinki CBD has maintained its attractiveness and remains the most preferred office location in the region.

Helsinki CBD has remained almost unaffected by the oversupply of office space in the Helsinki metropolitan area, and vacancy rates have remained low. During 2011, the rental market activity increased markedly in 2011 both in terms of space and number of agreements. However, towards the year-end, the activity slowed down also in CBD.

The KTI rental index for Helsinki CBD offices showed an annual increase of 4.1% in 2011. This differs markedly from most other submarkets. New top rents were recorded with the upper quartile increasing to €28, and best premises were rented for well above €30 / sqm, according to the KTI rental database.

Due to its strong position in the rental market, the Helsinki CBD also remains as the most attractive market area in the investment market. According to the RAKLI-KTI Property Barometer survey, prime office yields stood at ca. 5.75% in late 2011. However, liquidity of this smallish submarket is limited by the low number of assets offered in the market, as their current owners want to hold on to the crown jewels in their portfolios. In 2011, the only significant transaction in the CBD was the acquisition of the Fennia-block by Sponda in April for €122 million, reflecting a yield of 5.7%. According to the KTI Transaction follow-up, only 13 major assets have been sold in the CBD during the past five years.

"Low supply of assets for sale limits the liquidity of Helsinki CBD"

Within the CBD, the Kamppi area has strengthened its position in recent years, thanks to new and refurbished office and retail supply. Shopping Centres Kamppi and Forum, which are very near to each other, are the largest shopping centres in the CBD with retail areas of ca. 35,000 and 30,000 sqm, respectively. In Forum, a 8,000 sqm extension is planned to be started in 2012.

Other shopping centres in the city centre include Kämp Galleria and Kluuvi in the Kluuvi area, which have both experienced a major facelift in 2011, both in terms of significant refurbishment and their tenant profile. Another major redevelopment and extension project is Sponda's CityCenter project, which will be completed in 2012, comprising 30,000 sqm of retail and 25,000 sqm of office space.

Demand for retail premises in the CBD remains strong, and there is practically no vacant space in the market. Prime retail rents have increased steadily, and they are expected to continue rising slightly within the next year. For the very best locations, there is usually competition between tenants.

Helsinki CBD is currently going through an exceptional development phase through the development of the Töölönlahti area. The new Music Hall was completed to the immediate vicinity of Kiasma museum in late 2011. The area will also accommodate four major new office buildings, and the construction of the first one – headquarters of Alma Media, has already be started, and is due for completion in late 2012. Also, the construction of the office buildings for UPM, Ernst & Young and KPMG will be started in 2012. In total, the gross area of these four buildings amounts to ca. 55–60,000 sqm, comprising also some residential dwellings.

Ruoholahti – Salmisaari - Jätkäsaari

Ruoholahti is a modern office area near the CBD at the starting point of a major western radial route. Ruoholahti has attracted a variety of office users, such as IT/high-tech, business consultancy and industrial companies. In recent years, also some banks and insurance companies, such as Sampo Bank and Varma, have moved their headquarters in the adjacent Salmisaari area. Alongside the CBD, Ruoholahti is the region's other prime office area. Retail space supply in the area is limited to 26,000 sqm shopping centre Ruoholahti, occupied mainly by the retailers of the K-Group.

Office rents in Ruoholahti are slightly lower than in CBD, except in the newly completed buildings, where rents are close to CBD levels. Rents in the area have remained rather stable, although the amount of vacant space has increased during the past year.

The major new office buildings in Salmisaari area were completed between the years 2008–2010. The submarket continues expansion through the construction of the second phase of Technopolis's Ruoholahti centre, as well as through Sponda's 6,000 sqm office project.

Next to Ruoholahti is the growing Jätkäsaari area. This expanding area was freed for alternative use after the harbour moved its operations to Vuosaari in 2008. Jätkäsaari is now connected to Ruoholahti by a new bridge, and there is also a new light transport route under construction, which will connect the area with the city centre. The first commercial property development projects in the area were completed in 2011, when Tallink Silja moved its headquarters to a newly built office building, and Verkkokauppa.com opened its department store, warehouse and office property in Länsisatama. The area's plan will enable the construction of several new office, hotel and retail properties. The adjacent Telakkaranta area is planned to accommodate mainly creative businesses in the "Design District Helsinki" area.

Ruskeasuo – Pasila – Vallila – Sörnäinen – Kalasatama

Other traditional office areas situated somewhat out of the city centre include Pasila, Sörnäinen and Vallila. These areas are characterised by a multifaceted office supply. There are significant differences in rental levels between the new and old property stock in these areas. As these areas are typically considered as secondary locations – compared to CBD and Ruoholahti – they have also suffered more from the economic downturn, and the amount of vacant space has increased during the past years. The older stock in the areas does not meet the requirements of the demanding tenants, and renting might thus require rent adjustments or tenant improvements.

> "Helsinki develops new residential and commercial property areas in Pasila, Jätkäsaari and Kalasatama"

The development has recently been most active in Pasila / Ilmala area, where Fennia Group's Visio Business Park's two first phases have now been completed. Also, Sponda and YLE Pension Foundation are planning to develop a major business park concept in the area, although they had to postpone the construction start due to the negative market conditions. Another major project in Pasila includes the development of the surroundings of the railway station, where the Finnish state and City of Helsinki are the main players. The total land area is 8.2 hectares, which will accommodate retail, office and residential properties. In total, the investment is estimated to amount to ca. €600 million. The project is now in the planning phase, and construction is estimated to be started in 2015.

Next to Pasila is the developing Ruskeasuo office area with mostly modern space supply. Skanska started the first two phases of the so-called Manskun Rasti in the area in 2010. This is a major office development project in Ruskeasuo, which will, when completed, comprise four office buildings. Skanska is also going to move its own head office in the complex in early 2012. Also, NCC is constructing a new business park property in Ruskeasuo.

Another developing area in the vicinity of the city centre is Kalasatama, adjacent to Sörnäinen, where the land was released when the harbour moved its operations to Vuosaari. The first new office building in the area was completed in early 2010, with several others being planned. At the moment, construction work in the area concentrates on residential projects. In the centre of the area, a complex consisting of six residential buildings, a shopping centre and a hotel / office tower is being planned. The project requires substantial rearrangements in traffic connections during 2012. The actual construction work of the centre is estimated to be completed in phases between 2015 and 2021.

Pitäjänmäki

Pitäjänmäki, situated seven kilometres north of the city centre, is an old industrial area that has been converted into mainly office use in 1990–2000s, comprising both multi-tenant office buildings, some head office type properties as well as some modern business parks. Pitäjänmäki is one of the areas in Helsinki that has suffered from fluctuating demand, which has caused volatility in rents and vacancies. Because of the heterogeneous space supply, rental levels vary markedly between the different areas in Pitäjänmäki. In older buildings in particular, investors have been forced to attract tenants by relatively low rents, whereas the modern buildings closer to the railway station have retained their attractiveness. Rents continue decreasing in the area In the KTI rental database, €11 per sqm was the median rent in new agreements in autumn 2011. The amount of vacant space remains high. Low rental levels and scarce demand do not allow significant investments in premises. All ongoing construction projects in the area are residential buidligns. Also, some old office / industrial properties are being converted into residential use.

> "Amount of vacant space remains high in Pitäjänmäki"

Eastern Helsinki

East of the central city area is Arabianranta area, which, in the past, was the origin of industrial production in Helsinki. This area has also been developing rapidly recently. The area currently accommodates ca. 10,000 residents, 5,000 jobs and 6,000 students. The area also accommodates shopping centre Arabia, as well as and office and retail centre Arabiakeskus, which have both been developed into old industrial buildings. Portaali Business Park represents more modern office supply in the area. Residential construction has been active in the area in recent years.

Herttoniemi is an area five kilometres east of the CBD, adjacent to both the eastern radial route and the metro line. Herttoniemi is an old warehousing area that has gradually transformed into a more diversified area with office and retail supply. High office vacancy rates have characterised the area recently, although the absolute amount of vacant space is not significant. In late 2011, a new industrial / warehouse property was completed for Planmeca, and currently, an old office property is being converted into hotel use.

Further east is the Itäkeskus area. The area's location at the junction of Ring Road I and the eastern radial route, as well as by the eastern metroline, supports its development as an attractive area for retail and living. The Itäkeskus shopping mall is one of the largest shopping centres in northern Europe with a gross leasable area of 115,000 square metres. The refurbishment of the centre is planned to be started in 2012. In the area, also new rental residential properties are being built.

6.1.2 Espoo – a city with several regional property market areas

Espoo, Finland's second biggest city has several regional centres. The city's multifaceted commercial property stock is also scattered in these centres. The divergence of the property stock of Espoo can be seen in varied rental levels in the office market in particular.

Office vacancy rates have been, for the past few years, a serious problem for many areas in Espoo. Despite the high vacancy rates, several new office buildings have recently been completed or are currently being built in several areas in Espoo. During 2011, some 50,000 sqm of office space was completed, and, at the end of 2011, there were ca. 95,000 sqm under construction. Most projects are typically business park properties in existing complexes.

Keilaniemi – Otaniemi – Tapiola – Niittykumpu - Matinkylä

There are several significant commercial property submarkets around the western radial route in Espoo. Keilaniemi, Otaniemi, Tapiola, Niittykumpu and Matinkylä-Olari areas are expected to get a boost from a west-bound metro line to be completed in 2015. Many of these areas do, however, currently suffer from serious oversupply of office premises, which has worsened during the past year. Despite this, new office development projects are currently going on in, for example, Keilaniemi, Matinkylä and Tapiola. Several major projects are also being planned, of which Hartela's and Ilmarinen's 43,500 sqm Keilaranta Tower project is the most significant.

Tapiola and Matinkylä are also significant retail centres in Espoo. Tapiola is currently experiencing a major facelift, where property investors and developers collaborate with the City of Espoo. In the traditional Tapiola centre, the redevelopment and extension projects of Heikintori shopping centre and Tapiola retail centre, are both planned to be started in early 2012. In addition, the traffic connections between Tapiola, Otaniemi, and further to Keilaniemi, will be improved by significant investments in Ring Road I, as well as in parking facilities. Also several new residential projects are planned in the area. Tapiola-Otaniemi area is visioned to become a significant centre combining innovative environments for living, business, research and studying. In

Photo: NCC / Sini Pennanen

Photo: SATO / Antonin Halas

Matinkylä, the metro line stimulates a 25,000 sqm extension to Iso Omena shopping centre, as well as 15,000 sqm of new residential space. In Matinkylä, there are also some significant business park projects under construction or being planned. In late 2011, an unnamed German fund invested €50 million in Business Park Safiiri. The first phase of Safiiri will be completed in the first quarter of 2012.

Another important retail submarket in Espoo is Suomenoja area, located west of Matinkylä and Olari. Suomenoja is the concentration of retail park and big box -type retail units.

The Helsinki University of Technology, currently part of the new Aalto University, is situated in Otaniemi. Aalto University is planning to expand its campus area in Otaniemi.

"The new metro line stimulates abundant property development in Espoo"

West of Tapiola, a new 325 hectar Suurpelto area is currently being developed. The first phase comprises the development of ca. 1,000 residential dwellings, which will be completed by the end of 2012. In total, the Suurpelto area is planned to comprise some 1.0 million sqm of building rights, which are planned to be built within the next 10–15 years, including residential, office, as well as premises for public services.

Leppävaara

Along the Ring Road I is the Leppävaara area comprising a diversified, rapidly expanding office stock, shopping centre Sello, a traditional shopping mall and some modern residential supply. The area is characterised by business park complexes with several buildings, including NCC's Alberga, NCC's and Lemminkäinen's joint project Polaris, and Hartela's Quartetto. During 2011, two new business park properties were completed in Leppävaara, and another four significant projects are currently underway.

Despite the abundant new supply, the amount of vacant space has not increased in Leppävaara, as the area has been able to attract new tenants. New projects have also attracted investors, with OP Life Insurance, Veritas pension fund and Union Investment as examples of investors who invested in the new office buildings during 2011.

Espoo centre

Espoo centre, an area accommodating the administrational buildings of the city and various retail buildings, is situated close to the Turku motorway and alongside the western railway route.

Shopping centres Espoontori and Entresse are located in the Espoo centre. A change in the city plan is currently pending that would connect and extend the two shopping centres, thus increasing their retail space to ca. 40,000 sqm. The centres would also be connected to the new bus terminal. Additionally, new residential and hotel projects are being planned in the area.

A new residential and business area is being planned in Lommila, which is situated next to the Espoo centre in the junction of the Turku motorway and Ring Road III. The area currently accommodates several retail units trading large unit-size goods. The future plans of the area include a 110,000 sqm shopping centre, as well as office and warehouse properties.

6.1.3 Vantaa – new opportunities through improved traffic connections

In Vantaa, the most important commercial property market areas are concentrated around the airport and its surroundings, as well as in the traditional Tikkurila centre. The development of the new Ring Rail Line, due for completion in 2014, will open up new property development opportunities around the station areas.

Aviapolis

The Aviapolis area around the Helsinki-Vantaa Airport has developed rapidly during the past few years. The main players in the area include the City of Vantaa, Finavia, main property developers as well as property companies Sponda, Technopolis and IVG. There are currently some 16,000 inhabitants in the area, and the City of Vantaa expects it to increase significantly. The area currently accommodates some 35,000 jobs.

One of the stations of the new Ring Rail Line will be located in Aviapolis, thus linking the area with the city centre and main railway connections.

"New Ring Rail Line will improve traffic connections in Vantaa"

Commercial property stock in the Aviapolis area includes modern office premises, logistics properties, as well as abundant retail supply. The 85,000 square metre Jumbo shopping centre is the major retail center in the area. In the immediate neighbourhood, there is the Flamingo leisure centre comprising hotel, office and leisure premises. In the vicinity of Aviapolis, Pakkala and Tammisto areas are also important retail areas favoured by big-box retail units, such as outlets for motor vehicles, furniture and gardening.

During 2011, the space supply increased by the completion of five new business park properties, some redeveloped / new big-box retail units, as well as STC's new logistics unit. At the airport, the Hilton Hotel property's extension was completed. In addition, two business park projects and several logistics projects are underway in the airport area or its vicinity. In total, there were ca 55,000 sqm of new logistics space under construction in Vantaa at the end of 2011, most of which will serve the airport area.

In 2011, the main transactions in the area included the acquisitions of the Plaza Business Park's Hehku by Union Investment, a retail property by PRUPIM's M&G fund, as well as two new logistics properties by Pohjola's fund.

Office rents in the best premises in the Aviapolis area are just slightly lower than in the Ruoholahti and Keilaniemi areas. Increased supply prevents the rental increases in the area.

Marja-Vantaa

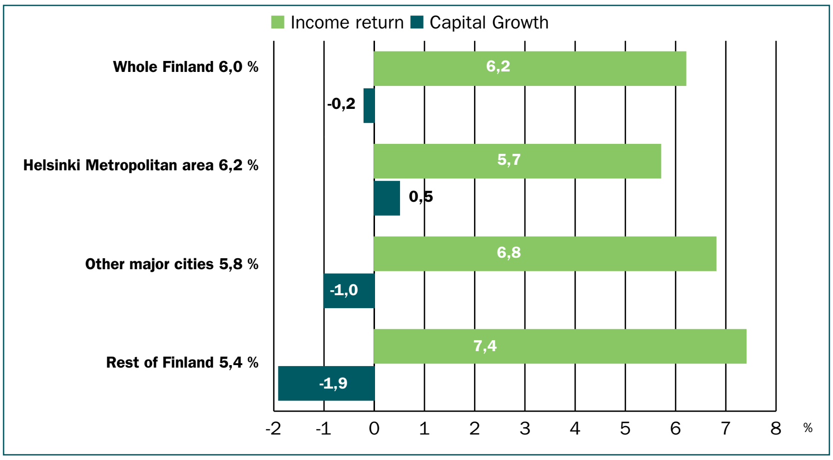
Vantaa's biggest planned development project is in the so-called Marja-Vantaa area, close to Ring Road III, alongside the new Ring Rail Road. Some 30,000 inhabitants and nearly as many jobs are being planned to be accommodated in the area. The biggest individual project in the area is a 110,000 sqm shopping centre, close to the new Kivistö railway station, for which the city plan process is currently underway. The first 60,000 sqm phase of the centre is planned for completion in 2014.

"Marja-Vantaa is a major development area in Vantaa"

Tikkurila

In addition to the airport area, Tikkurila is the main office and retail area in Vantaa and the location for most of the city's administration buildings. The City of Vantaa is currently planning a major redevelopment of the Tikkurila and the neighboring Jokiniemi areas. The plan includes a new station centre as well as new residential and business premises.

Total returns in Finnish cities



Source: KTI Index

6.2 Other growth centres: Tampere, Turku, Oulu, Kuopio, Lahti and Jyväskylä

Tampere

Location: 170 km north of Helsinki; the biggest inland city in the Nordic countries
Population: Tampere: 215,000
Tampere region in total: 350,000

Tampere is the largest inland city in the Nordic countries. Tampere is an old industrial city that has recently attracted high technology businesses as well as service companies. Technology expertise areas in the Tampere region include information technology, machinery and automation, as well as healthcare technology. The muncipalities in the Tampere region pursue active co-operation in developing the business environment in the area.

Tampere is the most active property market area outside the Helsinki region, which has attracted both domestic and international real estate investors. The investment market was, however, very quiet in 2011, with only a few transactions reported in the entire year. In all of the acquisitions, the buyer was a domestic player. One new office building was completed in the city centre in 2011. Retail supply was extended by two redevelopment projects in the centre, as well as by the completion of a new hypermarket property in Lielahti and a retail centre in Nokia. There are currently four office projects under construction in different parts of the city, as well as two new hotel projects in the city centre.

In addition to the city centre, modern office space is found in the areas of Hatanpää, Tulli and Kauppi. In the best office premises, rental levels exceed €20 per sqm. Office supply in the Tulli area has been extended recently by the construction of the Tulli Business Park. Tampere is also known for its redeveloped industrial properties, both for office and residential use, in the city centre and the immediate vicinity. The amount of vacant space has remained moderate despite of new supply.

Hervanta is a developing area in the neighbourhood of the Technical University of Tampere located at some distance from the city centre. Technopolis is the main investor in the area, where it is currently developing another office property.

"Major development plans in Tampere are waiting for improving business conditions"

The most expensive retail space in Tampere is situated along the main street, Hämeenkatu, and in the Koskikeskus shopping centre next to the main street. In Koskikeskus, there is currently a redevelopment and extension project underway, where the retail space will be increased by 1,500 sqm. In the Ratina area, next to Koskikeskus, Sponda

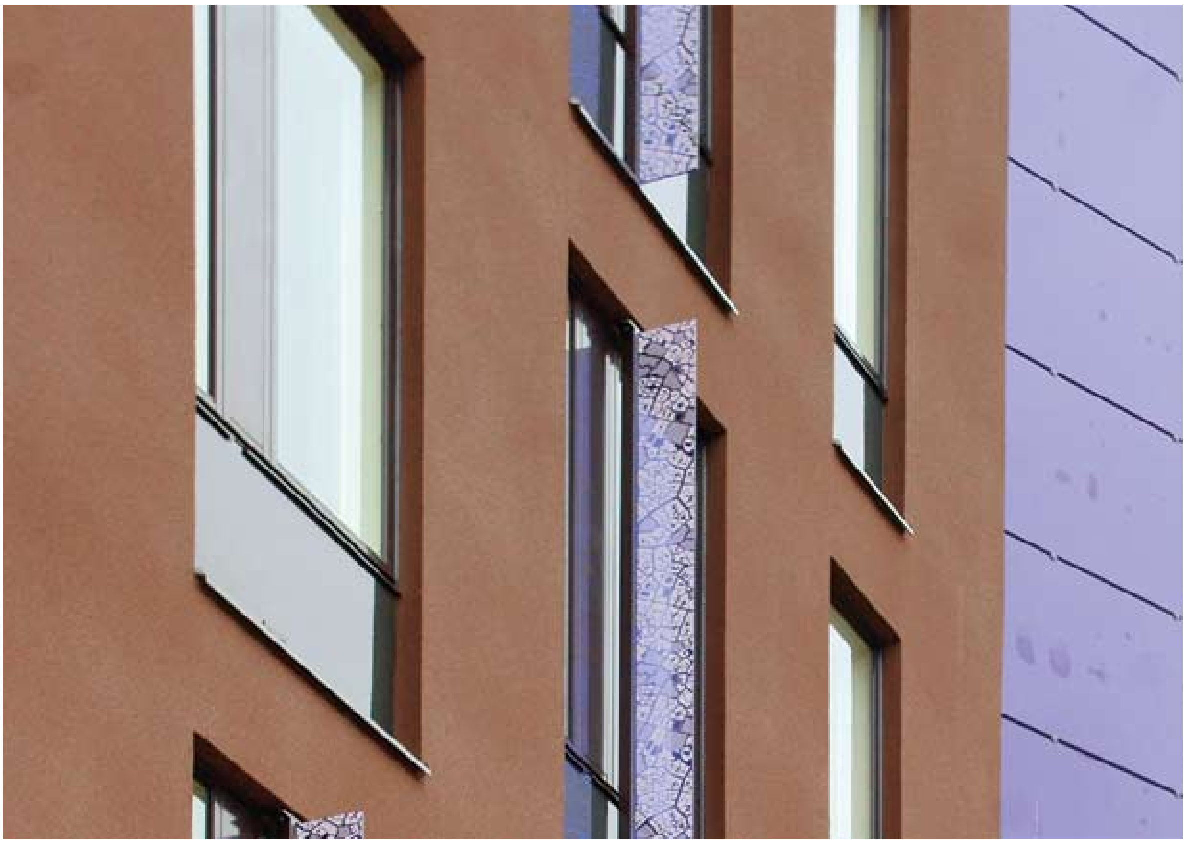
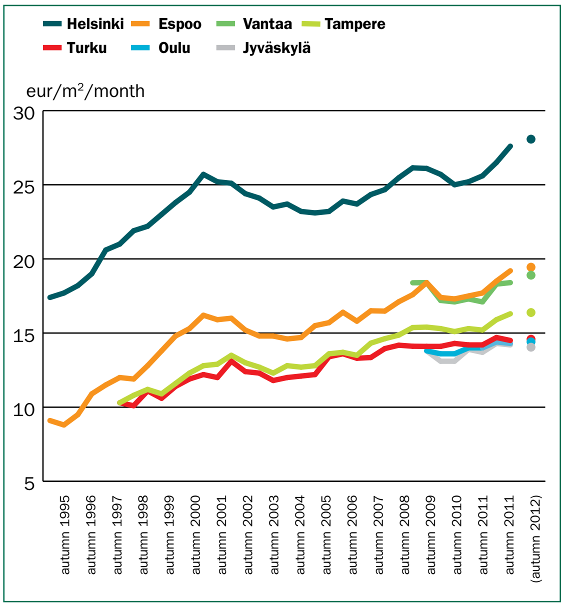


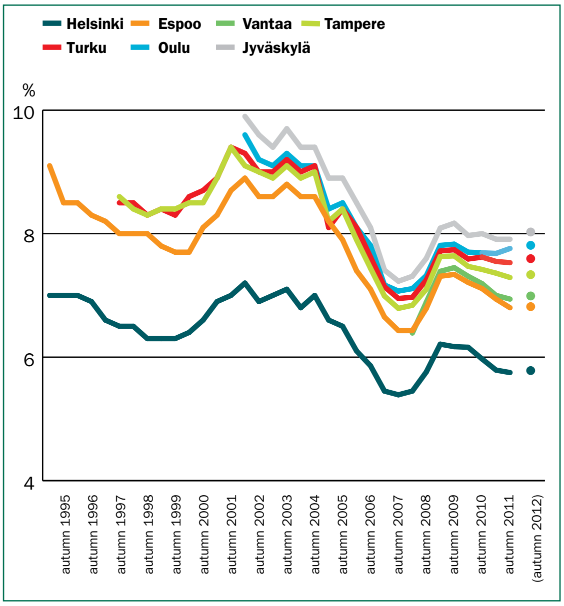
Photo: Skanska / Pauliina Munukka

Prime office rents in major Finnish cities



Source: RAKLI-KTI barometer survey

Prime office yields in major Finnish cities



Source: RAKLI-KTI barometer survey

plans to develop a new ca. 55,000 square metre shopping centre. Rental negotiations for the centre are underway, but the construction schedule of the centre has not yet been confirmed.

The most important industrial / logistics areas in Tampere include Sarankulma and Lahdesjärvi, where there are new construction projects currently going on by Alma Media and Tamro, respectively. In the neigbouring Pirkkala, where the airport is located, there is also plenty of logistics space supply, as well as a plan for a new terminal building to be started in 2012 .

New development plans in the Tampere region are abundant. In addition to the Ratina shopping centre, a new multifunctional arena is planned in the Tulli region. However, the schedule has been postponed due to both the prolonged planning process as well as financing issues. Of the various planned retail projects, the biggest ones include the 45,000 sqm Ikano Center in Lahdesjärvi and the 110,000 Idea-Areena in Marjamäki, next to the Ideapark shopping centre.

Turku

Location:	160 km west of Helsinki;
	in south-western corner of Finland
Population:	Turku: 179,000
	Turku region in total: 300,000

Turku's economic strengths are based on the presence of two universities in the city. The region's modern competence areas include businesses around the sea cluster, as well as biotechnology. Metal industries in the region are supported by an extensive shipbuilding business, which is of great importance from the region's economic development point of view. The shipbuilding dock managed to attract some new major projects during 2011, which will guarantee employment until 2014. The proportion of private services in Turku region is higher than in most other Finnish growth centres.

The Turku property investment market has interested various types of players recently, with international, domestic and local players having been active in the market. In 2011, however, no major transactions were recorded.

The most active office market in the Turku area is in Kupittaa, located near the university area and next to the railway station. This area is mainly targeted at high-tech, biotechnology and business-to-business service companies, and consists of office and high-quality manufacturing space. Abundant development in the area increased the supply in the mid-2000s. For modern office space in the Kupittaa area, rents are higher than those in the city centre. In 2011, the third phase of the Turku High Tech Center was completed in the area. Another new office development project completed in 2011 was NCC's 5,000 sqm Jokikatu project. Otherwise, office development in Turku is limited to two redevelopment projects. Rental differences in new and old office stock remain significant, which limits opprtunities for new development. In the city centre, average rental levels for offices are around €11–13 per sqm.

The retail market in Turku is concentrated in the city centre and some regional centres outside the city, such as

Länsikeskus and the Mylly shopping centre in Raisio. In the city centre, the redevelopment of the Centrum property was completed in late 2011 by CapMan Real Estate. Another ongoing retail redevelopment project in the city centre is that of Kultatalo, which is part of the Hansa shopping centre. New retail properties for Gigantti and Rautakesko are currently being built in Biolaakso, next to Kupittaa area. The completion of these projects is expected to increase vacancy rates elsewhere in the region. A major extension is planned for the region's biggest shopping centre, Mylly, located in Raisio.

Oulu: the northernmost growth centre of Finland

Location:	600 km north of Helsinki
Population:	Oulu: 144,000
	Oulu region in total: 230,000

The Oulu region, consisting of the City of Oulu and 10 surrounding municipalities, has been one of the fastest growing areas in Finland since the mid-1990s. Oulu is a university, science and technology city, the influence of which covers all of northern Finland – about one-half of the area of the entire country. The region's economic structure emphasises services. Engineering and information technology services, in particular, are regarded as specialities of the region. The share of industrial production is lower than in the whole country, with manufacturing of electrotechnical goods being the main industrial sector.

Oulu's real estate market is large enough to attract domestic pension funds, whose position in the market has remained quite strong. Listed property company Technopolis, originally founded in Oulu, is an important player in the office market.

No major transactions were recorded in the Oulu region during 2011. The most important developmend project completed in 2011 was the extension of the Zeppelin shopping centre, which made it northern Finland's biggest shopping centre with total leasable area of ca. 30,000 sqm. Currently, new development is limited to a few ongoing industrial property projects.

The most important real estate market outside the central area is the Linnanmaa area north of the city centre, which accommodates several high-tech companies and Oulu University. Technopolis is the biggest single private-sector owner in the area. The quality of the stock in the area is dispersed, which affects rental levels.

The office vacancy rate has remained very low for the last several years, but has recently increased slightly.

Jyväskylä

Location:	270 km north of Helsinki,
	in the centre of Finland
Population:	Jyväskylä: 132,000
	Jyväskylä region in total: 142,000

Jyväskylä is a dynamic university town that has a strong emphasis on both traditional industries and new technology. The Jyväskylä region's most prominent industry areas cover metal and machinery industries, as well as graphical industry. Two-thirds of the region's 68,600 jobs are, however, in services. Jyväskylä's location is favourable, because it is in the junction of several important national main road connections. Traffic connections in the area are planned to be developed through a bypass road, which would ease traffic through the city centre.

The city centre is the most important office market area in the region, where, however, no new stock has been developed recently. Other office areas with modern supply include Tourula, where old industrial properties have been redeveloped into office use, as well as Mattilanniemi/ Ylästönniemi and Lutakko areas with more modern supply. In Lutakko, Technopolis is currently developing a new 5,000 sqm office property.

In the retail property market, Jyväskylä city centre is an important regional centre. The major players include local retailers as well as some national investors. The retail supply has increased significantly during the past few years. In 2011, the second phase of the Palokankeskus centre was completed, adding thus supply by another 20,000 sqm. Currently, a redevelopment of the Kauppakatu 32 property is underway in the city centre. In addition, several major projects are planned, but wait for improvement in the market. In the logistics / industrial markets, a new project was completed in early 2012 for Millog in Lievestuore near Jyväskylä.

In 2011, no major transactions were reported in Jyväskylä.

The vacancy rate of offices still stands at a very low level in Jyväskylä. In prime properties, rental levels are close to the Turku and Tampere levels. Rents have remained stable. In the retail market, the vacancy rate remains very low, and the rents are expected to continue increasing slightly, although the outlook has changed slightly more negative during 2011. Despite active new development, the pedestrian shopping district's market position remains strong, and that is where the highest retail rents are still found.

Lahti

Location:	104 km north-east of Helsinki
Population:	Lahti: 102,000
	Lahti region in total: 200,000

Lahti is a traditional industrial city that is home to metal, woodworking, furniture and plastics industries. Recently, more jobs have been transferred to professional services, and the region emphasises its competence in environmental issues, where there also is plenty of small businesses. The region's favourable location has attracted logistics operators in the region. Services and trade occupations currently represent some 60% of the jobs in the region, while industry's share has decreased to 30%.

The attractiveness of the city centre has increased as a result of redevelopment efforts that have transferred old industrial buildings into modern offices. Additionally, a former hotel has been redeveloped into a mix-use retail and office building. Office vacancy rate is higher than in most other cities. In the office market, there are no ongoing or planned new development projects.

Retail supply in the city centre concentrates around Trio shopping centre and in the main street. In the Karisto area, a major shopping centre with a gross area of ca. 69,000 sqm, and leasable area of ca. 34,000 sqm, was completed in late 2011.

The most significant ongoing development projects in the region include Itella's 77,000 sqm logistics centre in Pennala area in Orimattila, as well as L-Fashion's new 13,000 sqm head office and retail property in Renkomäki.

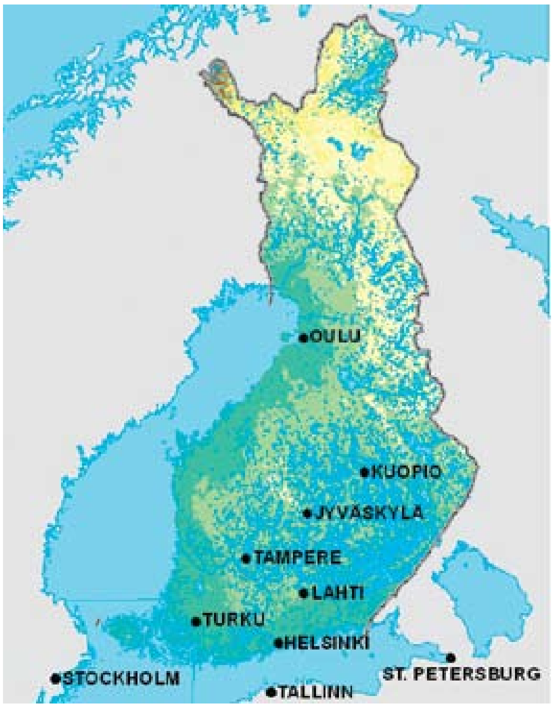
Kuopio

Location:	400 km north-east of Helsinki	
Population:	Kuopio:	97,000
	Kuopio region in total:	121,000

Kuopio, a university city and the capital of the province of Savo, is situated in eastern Finland. Traditional industry areas are mostly related to wood. As in most major cities at the moment, the service sector is the biggest employer in the area. Of the ca. 46,000 jobs in the region, some 11% is in industries.

The property investor base in the Kuopio property market is dominated by domestic players consisting of both national and local investors.

> "Major retail projects are underway in Kuopio"



The Kuopio office stock grew significantly in 2010, when four new development projects were completed. In 2011, no new projects were completed or started. In addition to the city centre, modern offices are found in Technopolis Kuopio's two areas, close to the university and hospital areas. The company is currently planning to continue the development of its Viestikatu centre. The amount of vacant space increased during 2011.

Kuopio's retail space supply increased in 2011 through the completion of the first phases of Herman retail centre, as well as by Leväsen kauppapuisto, both located in the Levänen area. There are currently two major retail projects underway: Ikea and Ikano Retail Center, both due for completion in late 2012, with gross areas of 36,000 and 54,000 sqm, respectively.

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CapMan Real Estate manages four private equity real estate funds, which invest in commercial and hotel properties and property developments. The team, comprising 20 investment and asset management professionals with excellent networks in the Nordic countries, has extensive experience in real estate investments particularly in Finland and Sweden. Since 2005, CapMan Real Estate has made approximately 90 investments, out of which about 30 have been exited. www.capman.com

The Helsinki area is a dynamic hub for international business. As a prime location for innovative companies, Helsinki welcomes organisations of all sizes. Strategically located in the crossroads of East and West, Helsinki offers businesses Europe's most highly educated workforce supported by advanced infrastructure in a green and stable environment.

Helsinki is the commercial, political and cultural capital of Finland. Moreover, we are at the heart of the Baltic Sea region, which is a rapidly developing market of more than one hundred million people. We share our history with both Scandinavia and Russia. We have a long history of doing business in Russia and are increasingly an important business hub between Europe and Asia. The City of Helsinki offers consultation regarding the business conditions of the city to investors and companies that are looking for a new location. We also provide support for developers and investors looking for real estate projects. www.hel.fi or http://en.uuttahelsinkia.fi

The German wholesale bank Helaba (Landesbank Hessen-Thüringen) provides a broad range of financial services to corporations, banks and institutions in Germany, Europe and the United States. As a balance sheet lender with total assets exceeding EUR 173 billion (09/2011), Helaba has achieved a reliable market position and has maintained it throughout the financial crisis.

Real Estate has always been a highly important feature for the bank. With a loan book in commercial real estate of about EUR 34 billion (09/2011), the bank is one of the largest property lenders in Germany and on a European scale. Proven expertise, flexibility and an LT-oriented customer support characterise Helaba's approach to business and markets.

Helaba's lending is focused on commercial properties in Europe and the United States. Northern Europe has been a target region for the bank continuously since 2006. In Finland, Helaba arranged financings for stock-listed property companies and international investors. Helaba values the investor-friendly environment and international profile of the Finnish market and looks forward to future opportunities. www.helaba.com

HYY Kiinteistöt (HYY Real Estate) offers its customers prime commercial space in the CBD and Etu-Töölö with the best real estate service in Helsinki. HYY owns Kaivopiha, 32 741 m2 of prime office and retail space opposite Helsinki's main railway station. It also owns Domus in Etu-Töölö, 14 278 m2 of space for housing, offices, and education. All HYY properties are centrally located and easily accessible by public and private transportation.

HYY Kiinteistöt complements prime location with an outstanding service concept. Kaivopiha Ltd, HYY Kiinteistöt's service arm, ensures its customers receive attentive, responsive, 24-hour service to help their business activities flourish. For more information, please visit: www.hyykiinteistot.fi

Invest in Finland provides business opportunities and professional consulting services for international companies. One of its primary functions is to assist foreign companies in finding business opportunities in Finland. The organisation provides information on Finland as an investment location, and develops and coordinates the Foreign Direct Investment attraction on a national level through active networking with regional and international partners.

Services for international companies:

- Data collection
- Information services
- Opportunity analysis
- Entry alternatives
- Networking
- Location management
- Setting up a business

Invest in Finland ensures your fast and smooth entry to the Finnish markets. www.investinfinland.fi

IVG Polar Ltd is a real estate investment company founded in 1952. The company focuses on office premises owning, leasing and development in the Helsinki metropolitan area. IVG Polar also manages properties owned by IVG Funds. The company has assets under management worth of EUR 372.6 million with leasable facilities amounting to 202,000 sq. meters and ca. 600 customers operating in them.

IVG Polar is a member of the German IVG group (IVG Immobilien AG), which is one of the major real estate companies in Europe. The company manages assets worth approximately EUR 22 billion and has about 590 employees in 19 major German and European cities. Via this network of local branches, IVG manages, inter alia, on balance properties with a market value of EUR 4.1 billion. In northern Germany, IVG constructs and operates underground storage caverns for oil and gas. In the fund segment, IVG is the leading provider of tailored property funds for institutional investors. In combination with the closed-end funds for private investors, IVG manages funds and mandates amounting to a volume of EUR 15.2 billion.

KIINKO Real Estate Education is Finland's leading training company offering a wide range of higher professional education and training services for middle management and executive-level leaders operating in the real estate and construction industries.

The company's unique concept brings together all players in the industry – end-users, developers, service providers and investors and financiers. This gives KIINKO Real Estate Education excellent insight into the needs of its customers and their businesses. www.kiinko.fi

NCC offers future environments for working, living and communication. The company is one of the leading housing and development companies in the Nordic region. In 2011, annual sales totalled EUR 5.8 billion with 17,500 employees. NCC develops residential and commercial property projects and builds offices, industrial facilities, housing, roads, civil engineering structures and other types of infrastructure. The company's business areas in Finland are NCC Construction, NCC Housing, NCC Property Development and NCC Roads. NCC's annual turnover in Finland stands at EUR 905 million, and it employs 2,700 persons.

NCC Property Development acquires, develops, sells and leases office, retail and logistic premises and provides services for the entire lifecycle of the properties. Recently, it has been active in developing new business concepts for multi-use purpose construction combining retail, office and housing. NCC main products are business parks, company headquarters, shopping centres and other retail projects. NCC Property Development has been elected as the best property developer for four consecutive years by the international financial magazine Euromoney. As the first European property developer, NCC Property Development has been approved as a partner on the corporate level in EU's Green Building Programme. Additionally, the company uses the international BREEAM Environmental Assessment Method. www.ncc.fi

Newsec offers a wide range of integrated professional advisory services. Newsec offers investment transaction advisory and leasing brokerage services, valuation and analysis, real estate consultancy and corporate finance services as well as asset and property management, corporate real estate management and solutions.

Founded in 1989, Newsec Finland is a part of the Newsec Group, which is headquartered in Stockholm, Sweden. Newsec has about 140 employees in Finland, with offices in Helsinki, Tampere, Turku, Oulu and Joensuu. Its clients are among the leading Finnish and international real estate investors and corporations. In a survey carried out 2012 by the Great Place to Work Institute® Finland, Newsec Finland Oy was nominated for the fifth time among the top workplaces in Finland and is the best workplace within the real estate industry.

Newsec – The Full Service Property House in Northern Europe – offers a comprehensive range of services within its Advice, Asset Management and Transactions business areas to property owners, investors and occupiers. Newsec was founded in 1994 and is owned by its partners. Today, the Group has its own operations in six countries, over 500 employees and annual revenue of about EUR 65 million.

Every year Newsec carries out hundreds of successful assignments and manages over 1,000 properties. Through this great volume, and with the breadth and depth of its various operations, Newsec has superior knowledge of the real estate market. www.newsec.fi

Ovenia Group Oy provides customer-driven management services for investors and corporate clients. Ovenia's success is based on active work with the customers. As a skilled and responsible supplier in property management business, Ovenia is a sought-after business partner and employer. Ovenia's business model is based on purchasing and optimising all facility services from the market. The company employs 180 property professionals and has offices in Helsinki, Lahti, Turku, Tampere, Jyväskylä, Kuopio, Kouvola and Oulu.

Ovenia's service portfolio:

- Asset Management
- Property Management
- Leasing services
- Life Cycle services

Ovenia Group Oy has acquired over 90 per cent of Arenna Oy's shares January 2012. As a result of this acquisition, Ovenia Group's subsidiary Ovenia Oy will join forces with Arenna Oy. The combined turnover of the two companies for 2011 is EUR 35 million. The new entity manages over ten million square metres of commercial and office premises and real estate manages over 70,000 housing units. The combined staff is about 400. Both companies will continue their businesses as before and under their own names.

Arenna Oy is one of the major companies in Finland providing property management services. With decades of experience, Arenna is in charge of managing and increasing the value of over four million square metres of residential and commercial space in Finland. Arenna provides real estate management, property management and rental services for the entire life cycle of the property in a responsible, customer-oriented and efficient way.

The Finnish Association of Building Owners and Construction Clients is an interest group and trade association representing the most prominent real estate, residential building and infrastructure owners, investors and management service providers in Finland. The members represent both the private and the public sector, and member organisations number around 220 in total. The association brings together property and construction professionals.

RAKLI's activities are divided into three branches and three committees. The branches are Residential Properties, Commercial and Public Properties, and Infrastructure and Urban Development. The committees co-ordinate investment and finance, asset management and procurement. For more information, visit: www.rakli.fi

SATO is one of Finland's leading corporate investors in housing. SATO owns a total of some 23,000 rentable homes in Finland's largest centres of urban growth and in St. Petersburg. Its investment assets have a fair value of roughly EUR 1.9 billion.

SATO has set the goal of being the most efficient and progressive player in the market, which facilitates the constant improvement of customer services as well as generating added value for its shareholders. This requires the constant re-evaluation of operating methods as well as the ability to regenerate.

SATO's value creation is based on the trend in value of the investment properties and on rental business. Continuing demand for housing fosters the stability of SATO's business. Homes will always be needed.

The value of SATO's annual new investments in the 21st century has averaged EUR 115 million, and its divestment of housing has averaged roughly EUR 30 million. The increase in the difference in values of the investment properties during the year under review was EUR 122.3 million.

SATO's biggest shareholders are Finnish pension insurers and other insurance companies. The Group's turnover in 2011 was EUR 232.0 million and profit before taxes was EUR 52.1 million. Operating profit was EUR 86.8 million. www.sato.fi

SEB is a leading Nordic financial services group. As a relationship bank, SEB in Sweden and the Baltic countries offers financial advice and a wide range of other services. In Denmark, Finland, Norway and Germany the bank's operations have a strong focus on corporate and investment banking based on a full-service offering to corporate and institutional clients. The international nature of SEB's business is reflected in its presence in some 20 countries worldwide. SEB has 4,000,000 private customers, 400,000 SME customers and 2,600 corporations and institutions as customers. The Group has about 17,000 employees.

SEB has been present in Finland since 1994, and today has 400 employees based in central Helsinki.

SEB Commercial Real Estate, which is a part of Merchant Banking division, is responsible for real estate clients and offers financing, including structured finance and other SEB products, to real estate clients in Sweden, Finland, Norway, Denmark, Germany and Poland. www.sebgroup.com or www.seb.fi

Skanska is one of the world's leading project development and construction groups with expertise in construction, development of commercial and residential projects and public-private partnerships. Based on its global green experience, Skanska aims to be a client's first choice for Green solutions. The Group currently has 52,000 employees in select home markets in Europe, the United States and Latin America. Headquartered in Stockholm, Sweden and listed on the Stockholm Stock Exchange, Skanska's sales in 2011 totalled over EUR 13 billion.

Skanska's operations in Finland cover construction services, residential and commercial project development and public-private partnerships. Construction services include building construction, building services, and civil and environmental construction. In Estonia Skanska's activities comprise construction services and residential development. The combined sales for Skanska's Finnish and Estonian operations in 2011 were EUR 1.0 billion, and the company employed about 3,360 people.

Skanska Commercial Development Finland is part of Skanska Commercial Development Nordic, which initiates, develops and invests in property projects within offices, logistic facilities and retail warehouses. Office operations focus on the three large metropolitan regions in Sweden, the Copenhagen region of Denmark and Helsinki, Finland. The development of logistics facilities and volume retail properties is conducted in strategic locations in Sweden, Denmark and Finland. www.skanska.fi

Key terminology

Property	Kiinteistö
Rent	Vuokra
Rental agreement	Vuokrasopimus
Tenant	Vuokralainen
Landlord	Vuokranantaja
Tax	Vero
Investment	Sijoitus
Return	Tuotto
Yield	Tuottovaatimus
Operating / maintenance cost	Ylläpitokustannus / hoitokustannus
Transaction	Kauppa
Limited company	Osakeyhtiö
Housing company	Asunto-osakeyhtiö
Real estate company	Kiinteistöosakeyhtiö, kiinteistöyhtiö
Mutual real estate company	Keskinäinen kiinteistöyhtiö
Real estate investment company	Kiinteistösijoitusyhtiö
Pension insurance company/ pension fund	Eläkevakuutusyhtiö/ eläkerahasto
Property fund	Kiinteistörahasto
Office (space)	Toimisto(tila)
Retail (space)	Liiketila, myymälä(tila)
Shopping centre	Kauppakeskus
Industrial	Teollisuus
Manufacturing	Tuotanto
Warehouse	Varasto
Logistics	Logistiikka
Hotel	Hotelli
Residential	Asunto
Building	Rakennus
Site	Tontti

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