The Finnish Property Market 2013

KTI

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Preface

The Finnish Property Market 2013 aims to satisfy the information needs of international investors and other players interested in the Finnish property market. KTI Finland publishes this report annually in March.

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.

This publication is sponsored by 10 companies representing the Finnish property investment, development, management and finance markets. The sponsoring companies include CapMan Real Estate, CBRE Finland, IVG Polar, KIINKO Real Estate Education, NCC, Newsec, Ovenia, Sato Corporation, SEB Merchant Banking, Skanska and Sveafastigheter. Also, RAKLI – the Finnish Association for Property Owners and Construction Clients - the City of Helsinki and Invest in Finland have provided financial support for this report. KTI wishes to thank the sponsors.

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 send an e-mail with "subscribe" as the subject heading to 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

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	5.43 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% People with foreign origin 4.8% of population
Religions	Lutheran 77.3% Orthodox 1.1%
Capital city	Helsinki, 604,000 inhabitants Helsinki region, 1.4 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo, 257,000 Tampere, 217,000 Vantaa, 205,000 Oulu, 191,000 Turku, 180,000 Jyväskylä, 133,000 Kuopio, 105,000 Lahti, 103,000
Economy	
GDP per capita	€35,173 (2011)
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 (since 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)

1. The Finnish economy

1.1 The structure of the economy

The Finnish economy has gone through a profound structural change within the past 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 this transformation.

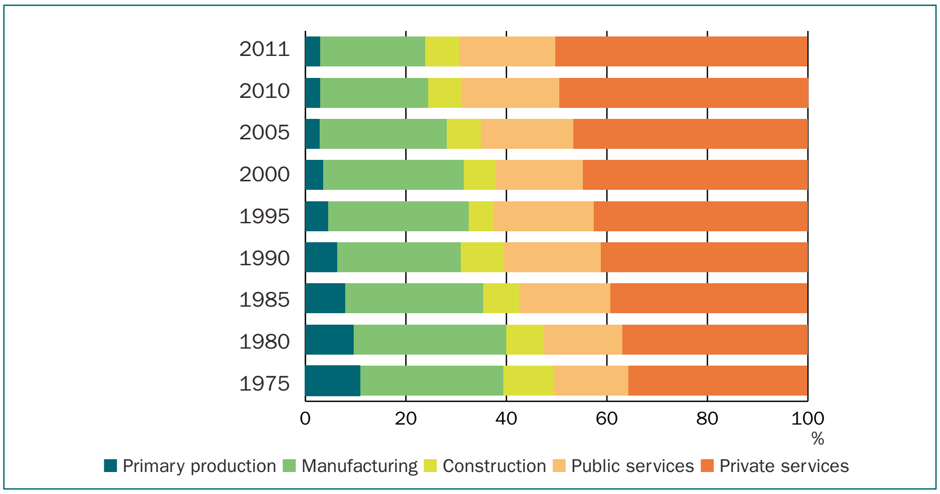
Private services currently account for about half of the Finnish gross domestic production, and are thus the biggest sector in the economy. Their share has increased constantly while that of primary production and industry has decreased. However, in international comparison, businesses in the services sector have developed rather slowly, and their share of exports in particular remains rather small. Therefore, exploiting the export potential of services is regarded as one important factor in strengthening the structure of Finnish economy.

"Private services are the biggest sector in the economy"

Industrialisation started in Finland later than in most other OECD countries, but has been very rapid. Due to its significance in the Finnish exports, industrial production plays an important role in the economy. After the economic recession in early 1990s, electronic industries developed rapidly and are currently one of the three main industrial sectors, together with the traditionally strong forestry and metal industries. The share of electronic industries has decreased since 2008. In recent years, the importance of chemical industries has increased both in terms of total production and their share of exports.

The share of foreign trade in the Finnish economy has increased significantly during the past few decades, due to changes in the structure of the economy. The international competitiveness of Finnish industrial production was improved by the severe recession in the early 1990s, which forced corporations to institute structural reforms in terms of increasing both cost competitiveness and productivity in order to survive. During the past couple of years, however, the Finnish exporting industries have faced challenges with regard to their international competitiveness. To deal with these challenges, industries are endeavouring towards a higher degree of specialisation and value-adding processes.

Finnish economic structure,%



Source: Statistics Finland

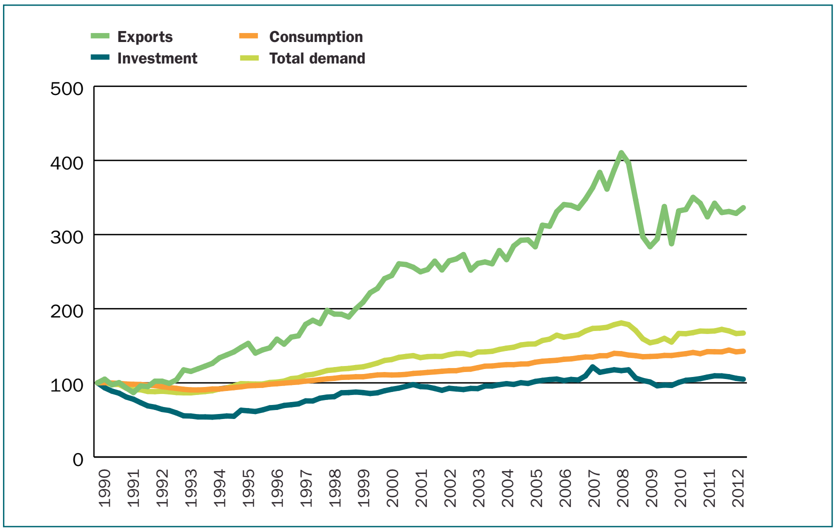
Services currently account for around 25% of all exports. In 2012, the exports of services totalled some €22 billion. The exported services are dominated by business services requiring high-tech know-how and engineering skills.

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 about 37% in 2009, and returned to a moderate growth path in 2010. In 2012, the volume of exports decreased slightly and their share of GDP remains below 40%. Exports are expected to increase slightly in 2013 and accelerate in 2014 – provided that world trade will gather the expected momentum.

> "Exports account for 40% of the Finnish GDP"

The main target countries for Finnish exports include Sweden, Germany and Russia. Some 56% of the total exports of goods go to EU-countries.

Main components of demand
Volume index 1990=100, seasonally adjusted



Source: Statistics Finland

Photo: NCC / Sini Pennanen

1.2 Finnish public finances

Compared to most other European countries, Finnish public finances are relatively 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.

The global financial turmoil has, however, increased the challenges faced by the Finnish public finances. The government budget has remained in deficit since 2009, which means that the general government debt continues increasing. In 2012, the deficit amounted to about 3.6% of GDP, and is estimated to be about 3.0% in 2013. General government gross debt currently stands at 53.2% of GDP.

"Finland still maintains its AAA-rating"

Despite the challenging economic environment, Finland is one of the few euro countries that still maintains its "AAA" rating in Standard & Poor's ratings. In January 2013, Standard & Poor's Rating even affirmed its AAA long-term and A-1 short-term sovereign credit ratings for Finland, and returned its outlook on the long-term rating on Finland back to "stable" after one year of negative outlook.

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. Although difficult to assess, the EU Commission has estimated the sustainability gap of the Finnish economy as high as 5.8% of GDP, which is clearly above the EU average (European Economy 8/2012, Fiscal Sustainability Report). The gap has deteriorated rapidly during the past few years, as the government debt has increased and structural balance of the economy has weakened.

"Determined actions are needed to balance the public finances"

The current government's programme includes plenty of balancing actions for public finances, but as the economic environment has worsened significantly after the programme's introduction in 2011, new measures are currently discussed in order to sustain economic stability. Both changes in taxation as well as cuts in social services will probably be needed in order to ensure the balance in public finances.

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 320 municipalities in Finland. Municipalities differ from each other significantly with regard to their size, economic structure and financial position. Municipalities' share of all public spending amounts to 64%, which accounts for around 22% of GDP. In total, there are 430,000 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 prioritised in the current government's political agenda. Mergers, increased cooperation between municipalities and outsourcing of services are used as potential means to increase the scale and productivity of local service provision. As the most significant spending area, the structure and organisation of social and healthcare services are also widely discussed. However, due to the high level of autonomy and strong self-government of the municipalities, these reforms are facing significant political challenges, and their schedule will probably be postponed. Therefore, financial pressure is the most powerful driver for municipal structural reforms, as the weakest municipalities cannot cope with their responsibilities.

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 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, while at the same time the need for social and welfare services is increasing.

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 by postponing retirement for older workers. These issues are mainly discussed by the labour market parties, and agreement has proven out to be difficult to reach.

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

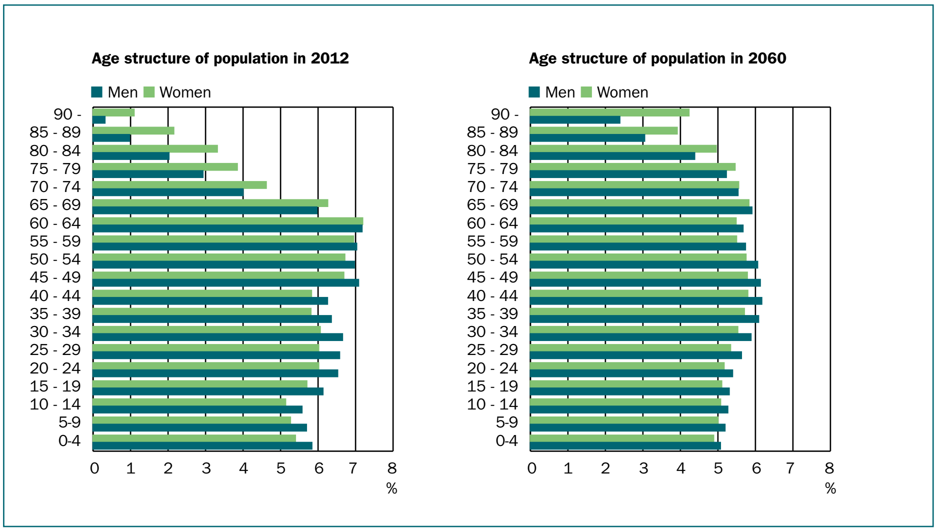
The Finnish gross domestic production per capita amounted to €35,173 in 2011. This is about 14% above the EU average. Due to its dependence on foreign trade, the Finnish economy is highly exposed to the developments in the global economy. As an integral member of the euro area, the sovereign crisis of some euro countries also directly affects the Finnish economy.

The Finnish economy was severely hit by the financial crisis in 2008. Due to the collapse in exports, the GDP decreased by 8.5% in 2009, and the volume of industrial production has not yet returned to pre-crisis levels. Continuing uncertainty and tightness of the global economy has a direct impact on the outlook for the Finnish economy.

In 2012, the volume of Finnish exports was estimated to decrease by 1.7%. Due to the increasing economic uncertainty, other components of the GDP could not sustain the economic growth either: private consumption increased only slightly, and investments decreased by around 2% compared to the previous year. As a result, GDP growth ended up in the negative territory, at -0.1%, according to the latest forecast of the Ministry of Finance.

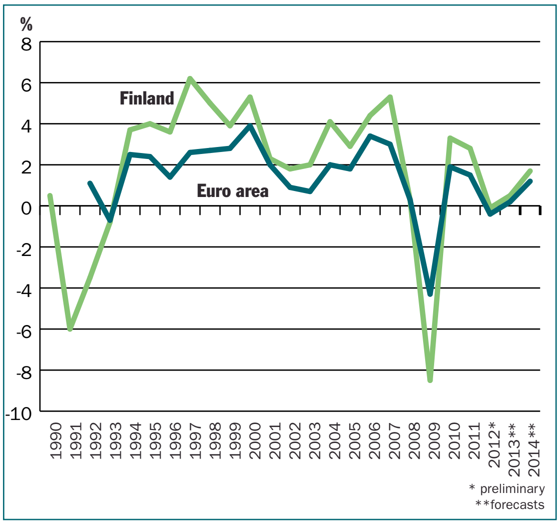
"Finnish exports are expected to increase moderately in 2013"

Age structure of the Finnish population



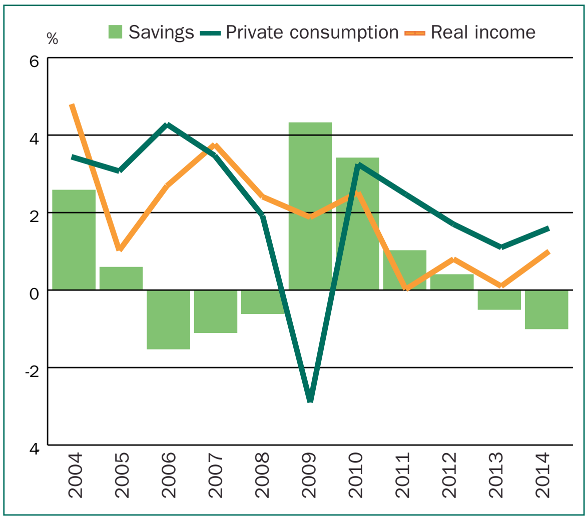
Source: Statistics Finland

GDP growth in Finland and in the Euro area



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

Private consumption, real income and savings



Source: Statistics Finland, Ministry of Finance

In 2013, the economy is expected to return to a moderate growth path. Most GDP growth forecasts for 2013 fall between 0.5 and 1.0%. However, this requires that the demand for the Finnish exports will pick up towards the end of the year. GDP growth forecasts are based on the assumption of a 1-2% growth in exports in 2013, which should accelerate to around 4% in 2014.

The outlook for both private and public consumption is deteriorating. Consumer confidence is decreasing due to economic uncertainty, and the savings rate is rising. Consumer demand is constrained by weak income growth and tightening taxation. Private consumption is expected to increase by some 0.5-1.5% in 2013, and change in public consumption will probably be even less than that.

> "Weak income growth pressures the outlook for private consumption"

The outlook for the third component of the GDP, investments, does not look very positive either. Investments in machinery, equipment and transport equipment fell sharply in 2012. The outlook for construction investments has also deteriorated dramatically. Construction activity is expected to pick up, although slowly, towards the end of 2013.

The unemployment rate currently stands at 7.7%. It is expected to exceed 8% in 2013. Despite the tight economic conditions, corporations have tried to retain their staff, but due to negative development of productivity, the number of staff needs to be adjusted in order to sustain profitability. However, in late 2012, several major corporations announced significant redundancies, which will increase unemployment in 2013. Due to the retirement of the baby-boom generations, the labour force will start shrinking, which will limit the increase in unemployment.

The decrease in the labour force is creating a shortage of a skilled workforce in some sectors. Also, in some low-income service sectors, the available workforce does not meet increasing demand. Therefore, increased migration is needed in order to sustain, for instance, the provision of labour-intensive welfare services.

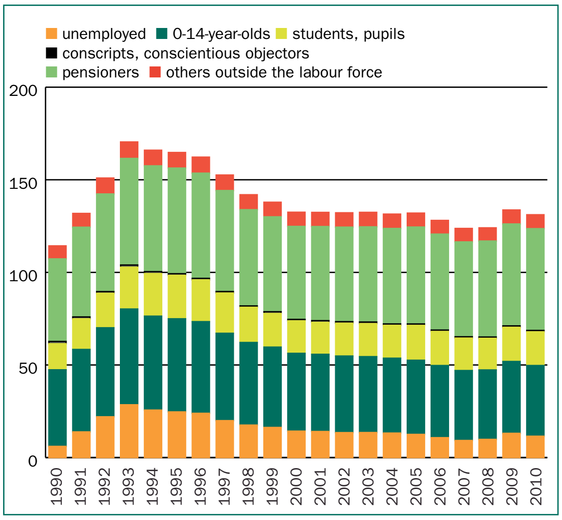
Key Figures – Finnish Economy

	2005	2006	2007	2008	2009	2010	2011	2012	2013**	2014**
GDP (change in vol)	2,9	4,4	5,3	0,3	-8,5	3,3*	2,8*	-0,1**	0,5	1,7
Change in exports	7,0	12,2	8,2	5,8	-21,3	7,5*	2,9*	-1,7**	1,1	4,2
Inflation	0,9	1,6	2,5	4,1	0,0	1,2	3,4	2,8	2,2	2,1
Unemployment rate	8,4	7,7	6,9	6,4	8,2	8,4	7,8	7,7	8,1	8,0
Interest rates										
3 months	2,2	3,1	4,3	4,6	1,2	0,8	1,4	0,6	0,2	0,3
10 years	3,4	3,8	4,3	4,3	3,7	3,0	3,0	1,9	1,7	2,2

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

*** preliminary**
**** forecast**

Economic dependency ratio



Source: Statistics Finland

Despite the relatively low figures, unemployment is considered one of the key problems of the economy, as under-exploitation of resources is preventing 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.

1.4 Finland's international competitiveness remains strong in most comparisons

Despite the economic challenges, Finland improved its position further in The World Economic Forum's Global Competitiveness Report, published in September 2012. The latest report ranked Finland third after Switzerland and Singapore. Finland moved up one position since the previous report, due to small improvements identified in various assessment areas.

Well-functioning and highly transparent public institutions, as well as ethical and well-run private institutions are regarded as the key strengths of Finland. In the comparison, Finland occupies the top position both in the health and primary education pillar as well as the higher education and training pillar, which are regarded as providing the workforce with the skills needed to adapt to a changing environment, and lays the groundwork for high levels of technological adoption and innovation. On the other hand, the report identifies room for improvement in the capacity to adopt the latest technologies.

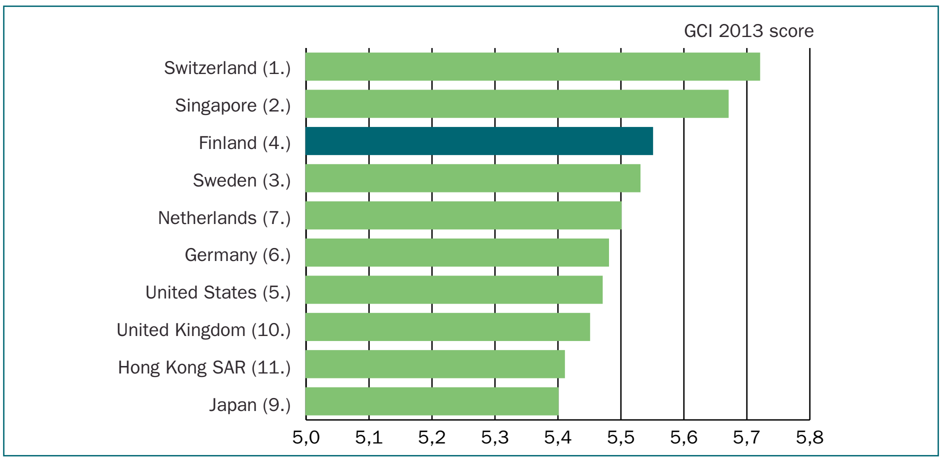
Helsinki typically ranks well in reports comparing the quality of living in various capitals around the world. The position of Helsinki is enhanced by overall security, well-functioning infrastructure, healthcare, education and an active cultural scene. Characteristics weakening Helsinki's position include climate conditions and high level of taxation.

Finland is widely known as one of the least corrupt countries in the world. Transparency International's Global Corruption Perceptions Index for 2012 ranked Finland in first place, together with Denmark and New Zealand. The report identified strong access to information systems, rules governing the behaviour of those in public positions, as well as transparency of institutions as the factors differentiating the winners from other countries.

> "Finland is one of the least corrupt countries in the world"

These rankings illustrate Finland's reputation as a respected Nordic welfare economy where the political and economical stability, transparent regulatory framework, and high-

The most competitive national economies in 2013 (ranking in 2012)



Source: World Economic Forum

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. Also high tax rates and restrictive labour regulations are regarded as weaknesses of Finland.

From the property market perspective, Finland is also considered as one of the most transparent markets in the world. Jones Lang LaSalle's Global Real Estate Transparency Index, published in 2012, ranked Finland 8th among the 97 assessed countries. Finland's position improved since the previous study, and it was, for the first time, ranked as a "highly transparent" property market. The index assesses criteria related to regulatory and legal framework, availability of market information, corporate governance issues as well as typical business and market practices.

"Transparency of the Finnish property market is highly appreciated"

In the recent Pricewaterhouse Cooper's and Urban Land Institute's report *Emerging Trends in Real Estate Europe* Helsinki was ranked 19th among European capitals, with "fair" investment prospects. Helsinki represents good middle-class in this comparison. Its position is strengthened by the strong economy, but, on the other hand, weakened by the low liquidity and poor occupancy rate of offices. In terms of new development, the outlook is "poor", according to the report.

Investor interest in the Nordic property markets is expected to remain favourable in 2013. Nordic markets were ranked high in the recent INREV Investment Intentions Study, when investor preferences for indirect property investments are assessed. Nordics were regarded as the second most interesting region for investments after Germany. Interest towards the Nordic markets is mainly coming from German, Dutch and Nordic investors.

2. Institutional aspects of the Finnish property market

2.1 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 regional District Survey Offices.

Transactions with real property are official legal acts that have to be carried out according to a specific 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 ("MREC"s; keskinäinen kiinteistöyhtiö). This form of ownership is commonly used in both residential and commercial properties.

"Property is typically owned through mutual real estate companies"

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 either to 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 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.

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. This fee is most typically based on the 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, which 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: 2.0% 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

Photo: NCC / Alex Kadrieylev

of ownership, unless otherwise agreed in the company by-law. Sometimes, for instance, the by-laws assign different rights and responsibilities for the owners of residential vs commercial premises.

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 very few restrictions.

2.2 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 increased the demand for specialist services in property transactions.

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

Market entry of international investors has brought about new approaches to due diligence processes, with typically several types of experts – legal, technical, financial and tax advisors – working together. This has resulted in an 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 2005–2007, the use of auction processes in large transactions became common. In current market conditions, no auction processes are needed, as the number of participants has decreased. However, in quiet markets, the advisor's role increases again, as he or she serves to interconnect the parties and their objectives.

The slowdown of the market has lengthened the transaction processes. Currently, the processes may also be more complicated due to the lender's 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.

"Varied rental practices are applied"

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 twelve months. These indefinite lease terms are especially popular in multi-tenant

Photo: NCC / Alex Kadrieylev

office buildings and smaller spaces, 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. In KTI's rental database, measured by the number of agreements, about two thirds of all office agreements are indefinite. Measured by total space area, their share is 50%.

Indefinite leases often last for long periods, 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.

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, from the tenant's viewpoint, driven by both financial market conditions and accounting issues.

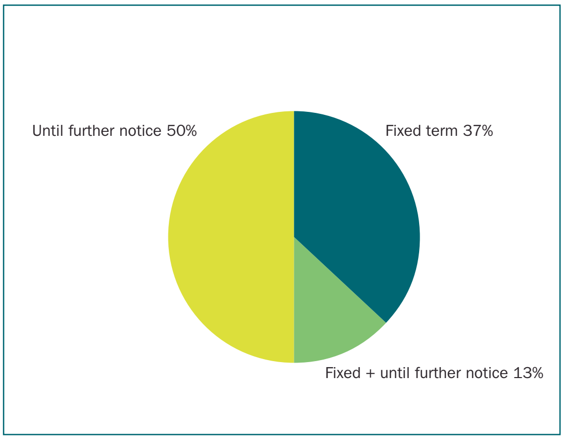
Tenants' rights are quite limited in the commercial property market – for example, a tenant has no statutory right to a lease renewal. There are, however, a variety of different options that are exercised.

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 maintenance costs. In net leases, the responsibility for taxes, insurances and refurbishments can be agreed freely between the parties.

"Gross rents are widely applied in multi-tenant buildings "

Distribution of office lease agreements, sqm



Source: KTI Rental database

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 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. Other "green" terms of rental contracts are currently being developed quite actively, but are as yet not very widely applied.

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.

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.

"Various means are applied to attract tenants in current market conditions"

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. In the current tight market conditions, investors use various means to retain their tenants, and lease terms can be renegotiated even well before lease termination.

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)

Photo: NCC / Sini Pennanen

Photo: Skanska / Kuvatoimisto Kuvio

2.3 Planning

Land use in Finland is regulated by the Land Use and Building Act. The system has three levels of land use plans: a regional land use plan, a 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. ELY Centres, who are the regional representatives of state authorities, promote and steer the planning of land use by municipalities and the arrangement of construction functions. They participate in the preparation of regional land use plans, steer and supervise local master plans and local detailed plans in municipalities, and decide on, for instance, exceptional permits for coastal construction. 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 cooperation 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, and permit processes typically take a long time.

In order to speed up residential development in major cities, a temporary alleviation in planning procedures is being tested in 2011-2014. Within this period, the powers of the municipalities in granting special permits have been extended.

There recent discussion around planning and building permit practices, criticises these practices 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; this can sometimes impact planning decisions.

One land use issue that has been actively discussed in recent years is regional control and coordination over the plans and building permits for large retail units. New legislation concerning this came into force in spring 2011. In the legislation, the concept of "large" has been left to be defined on a regional level, and has been set at between 5,000 and 10,000 sqm in different regions. The legislation increased regional control over the location of large retail units. City centres' position as a preferred location for retail units is being strengthened. Outside the city centres, large retail units can only be developed in locations with good public traffic connections, and these locations need to be included in the regional plan. The legislation is quite general by its nature, and leaves room for interpretation. Therefore, the Ministry of the Environment is currently working on a more detailed guidance note to unify the application of the legislation. The guidance document is expected to be published in spring 2013.

2.4 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 listed 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 2010, income taxes accounted for ca. 36% of the total tax revenue. The share of taxes based on consumption amounted to 31%.

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 currently stands at 30%. For capital income exceeding 50,000 euros, the tax rate is 32%.

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 31.75% of earned income. Municipal tax rates for 2013 vary between 16.5% and 22%.

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 2010 was 42.1%. In the EU, this figure is only exceeded by Sweden, Denmark, Belgium, Italy and France.

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 demolished opportunities for further tax cuts. Therefore, the structure of taxation is one of the most vividly discussed issues on the political agenda. Several tax rates were increased in 2013, including both direct and indirect taxes.

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).

Photo: Skanska / Kuvatoimisto Kuvio

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 may 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%. For unbuilt construction sites, a specific tax rate of 1.0-3.0% is applied.

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

Capital gains taxes

Since the beginning of 2012, the tax on investment income (interests, net rental income and capital gains) was increased from 28% to 30%. 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.

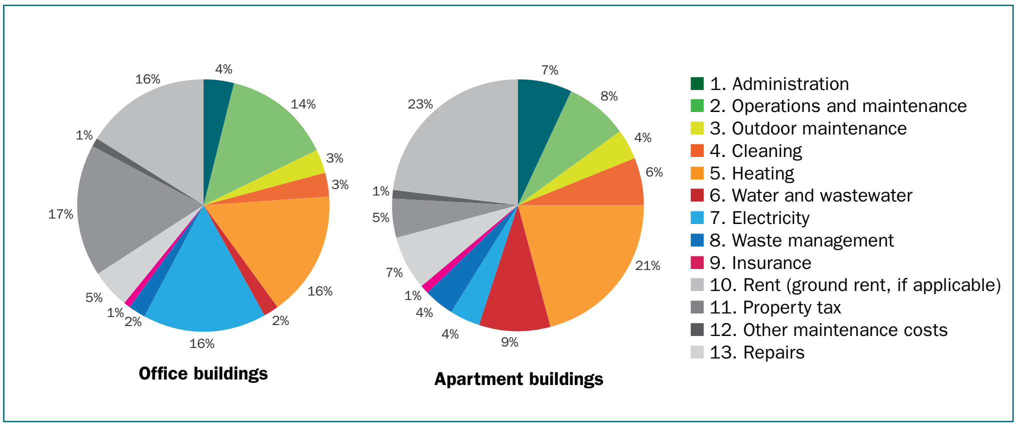
Dividend income is partially double-taxed in Finland. The tax consequences depend on the type of company that pays the dividend – whether it is publicly listed or not - and also, for non-listed companies, on the net assets of the company.

> "Transfer tax on transactions of mutual real estate company shares was increased in 2013"

Transfer taxes

Tax on the transfer of real property is 4% of the transfer price. Transfer tax for transactions made by buying shares in a housing or real estate company was increased in March 2013 from 1.6% to 2.0% of the transfer price.[3] At the same time, the tax base was increased to cover the total transaction price, having previously been levied on the net sales price (total price deducted by potential debt of the mutual real estate company). The changes increase the tax burden of newly built properties in particular, as it is common to use debt in the company level to finance the construction.

Distribution of operating costs, 2011



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.

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 cooperative societies, the profits are taxed as income attributable to the entity itself. Corporate income tax rate currently stands at 24.5%.

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. Of the dividend income from listed company, 30% is tax-free, and 70% is taxed as capital income at a 30% / 32% tax rate. Dividends from a non-listed company are divided into capital income and earned income portions based on the net wealth of the company. Capital income portion is, with certain limitations, tax free, and the rest is taxed as the shareholder's earned income using the progressive scale.

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.

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 currently stands at 24.5%"

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 Finnish pension funds, which receive 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 was increased to 24% in the beginning of 2013. VAT is calculated on the total charge for goods and services. There are some lower VAT rates for specific groups of goods and services. For food products the VAT rate is 14%, and for books, medicine and certain services, the rate is 10%

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 that 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.

In the Finnish system, the seller of goods or services is generally responsible for paying VAT. Since 2011, however, a reverse charge mechanism has been applied in the construction sector. This means that the buyer of construction services is responsible for VAT. This mechanism is applied on companies offering construction services on a continuous basis. This mechanism is particularly aimed at reducing the potential tax risk associated with VAT fraud.

VAT treatment of goods and services sold outside Finland always needs to be investigated separately. VAT is not usually levied on goods and services traded between companies in EU countries, provided that certain conditions are met.

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	**24%**	Special rates for food, restaurant and catering services (14%); medicine, books, transportation, cultural events, etc. (10%); 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, shares of mutual real estate companies	**2.0%**	Tax rate was increased on 1 March 2013. Tax is calculated on the total (gross) transaction price of the shares.
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

A new law limits the deductibility of interest expenses

In the beginning of 2013, a new act limiting the deductibility of interest expenses came into force. The act will be applied for the first time in taxation for 2014. The Act limits the maximum amount of deductible net interest expenses to €500,000. The deductibility of net interest exceeding this limit depends on the adjusted result of the business. The Act sets specific conditions for the deductibility of interest paid to related parties.

The Act was first planned to have a wider scope, but as finally decided it will only be applied to companies whose operations are taxed as a source of business income. As real estate companies' income is usually taxed under the Income Tax Act, they will not be affected by the new Act. The act also excludes financial, insurance and pension institutions from the scope of the law. The Act's impact on real estate investment is thus estimated to be insignificant.

Photo: Skanska / Kuvatoimisto Kuvio

2.5 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 in most cases the fund management company is the general partner. Tax issues are major drivers in these structures, as limited partnerships are tax transparent structures and investment income is taxed according to the investors' tax status, provided that certain conditions are met. Investment income from limited companies investing in property is subject to corporate taxation, and thus not favourable from an institution's perspective.

> "Indirect property investment is usually done through limited partnerships"

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 of its foundation. There is currently only one company aiming at applying for this status. Due to the limiting provisions set by the legislation, the volume of this kind of vehicles is not expected to become significant.

> "There are currently two special investment funds investing in property"

The Finnish legislation also enables the establishment of special investment funds that 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. Provisions for investments in and redemptions from these funds are stipulated in the fund rules. The rules may include limitations on the redemption and subscription frequency, and relatively long redemption periods may be applied. 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, to Finnreit Fund Management Company ltd. (Finnreit Rahastoyhtiö Oy). The company launched its first fund, eQ Care, in autumn 2012. The fund made its first investments in nursery properties in late 2012. In the beginning of 2013, another open-ended property fund was launched by Ålandsbanken. This fund invests in apartments and is mainly targeted at small investors.

> "Details of the implementation of AIFMD not yet known"

The AIFMD (Alternative Investment Fund Managers Directive) is planned to come into effect in Finland in July 2013. The Directive will increase the regulation on the management and marketing of alternative funds – including, for example, private equity, real estate, commodity and hedge funds. The Directive is outlined to be applied to "entities whose regular business is the management of alternative investment funds and which acquire capital from numbers of investors for investment in accordance with a defined investment policy." The Directive will make it mandatory for managers to have an official authorisation, and will regulate certain activities of the managers.

In late 2012, a draft government bill on general provisions of the implementation was circulated in Finland. However, the details of the application criteria of the directive have not yet been defined in detail. The most actively discussed issues are whether the Directive should be applied to listed property companies, and what will be the detailed definition of "numbers of investors" in the application criteria.

3. Structure and players in the Finnish property market

3.1 Ownership structure

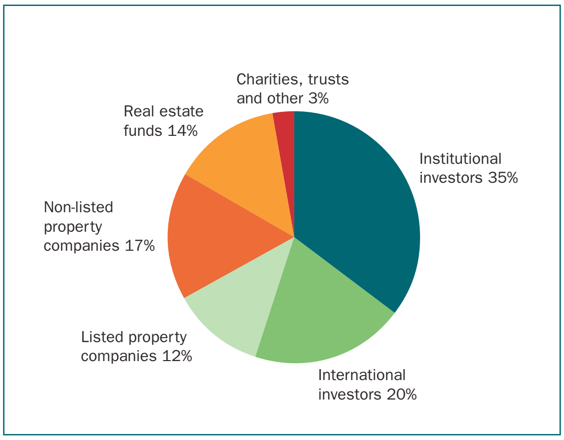
The size of the Finnish professional property investment market is around €45.7 billion. Institutional investors – domestic pension funds, in particular – remain the most significant players in the market, with a share of about 35% of the total investment universe. During 2012, most major players increased their investments in property, and the total size of the invested market increased by some €2.8 billion. The increase was a result of both new development, changes in value and some sale-and-leaseback deals.

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.

The total value of the investments of pension insurance companies and funds administering the statutory occupational pension schemes amounted to some €147 billion at the end of the third quarter of 2012, according to the Finnish Pension Alliance TELA.

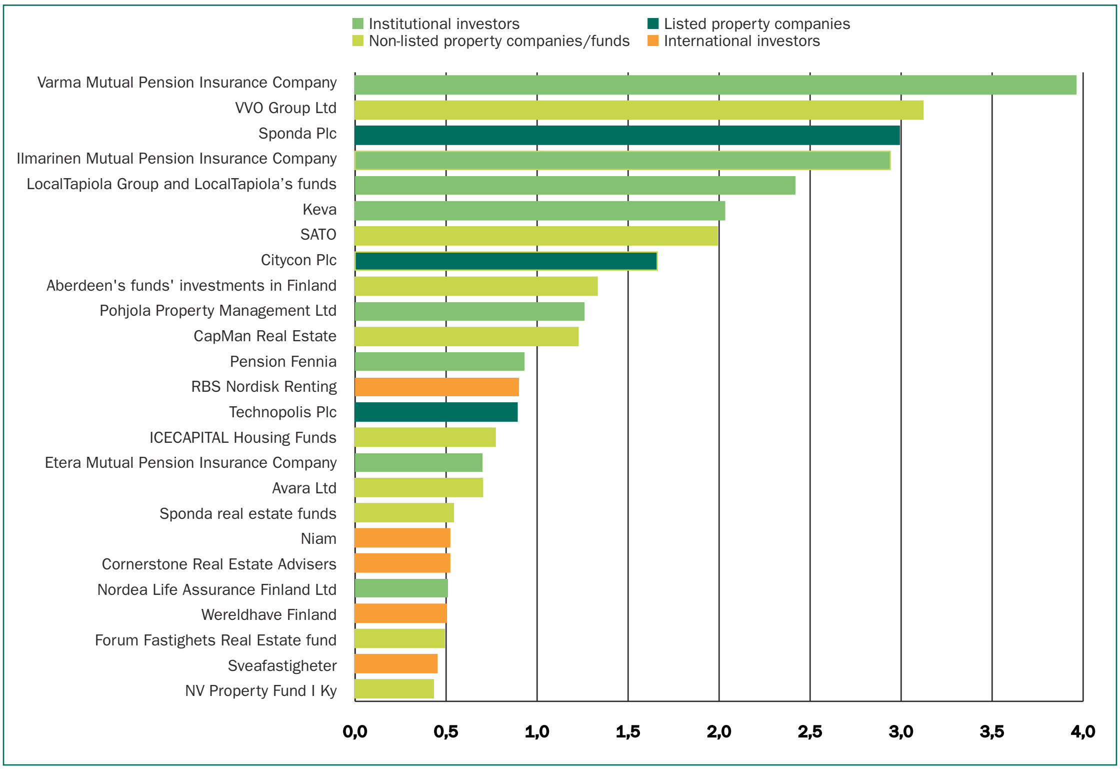
The structure of the Finnish property investment market (45,7 bn €)



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

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.

Direct property holdings of the biggest property investors in Finland (fair values of the properties at the end of 2012, EUR billions)



Source: Query for investors, annual reports

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 large numbers of people from the 1940s generations, 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 investments.

The seven pension insurance companies are the biggest players in the pension sector. In addition, there are specific pension systems for public sector workers, and 21 company or industry specific pension funds.

At the end of the third quarter of 2012, 42% of the pension institutions' assets were invested in listed shares or other equity investments. Some 47% was invested in bonds and money market instruments.

The share of property investments in the Finnish pension institutions' portfolios was 10.6%, amounting to €15.6 billion. (€15.2 billion at the end of 2011).

"Some 10.6% of Finnish pension investments are invested in property"

The vast majority - around 84% of all pension institutions' property investments - are in Finland. Property investments represent almost 28% of their total investments in Finland. At the end of September 2012, the amount of foreign property investments amounted to €2.4 billion (€2.2 billion at the end of 2011). The majority of foreign investments are invested within the euro area. Almost all foreign investments are mainly done through non-listed property funds.

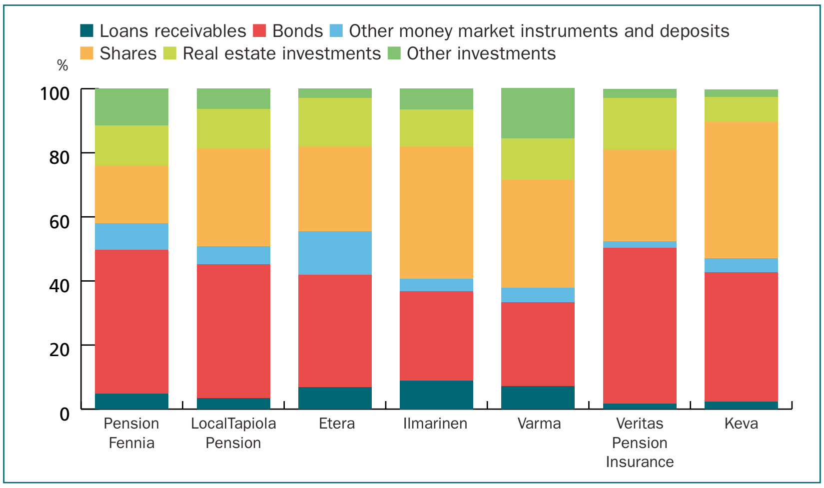
The seven pension insurance companies are the biggest private-sector participants in the Finnish pension system. Their property investments amounted to €11.4 billion at the end of the third quarter of 2012, representing a 12.6% share of their total investments (13.1% at the end of 2011). Real estate investments' proportion of the total investment, however, varies markedly between funds, from Ilmarinen's 11.7% to Veritas' 16.1%.

Varma and Ilmarinen are the two biggest pension insurance companies in Finland, with total investment portfolios of about €34.5 and €29.5 billion, respectively. They are also major property investors: Varma is the biggest property investor in Finland with a direct domestic portfolio of some €4.0 billion, and Ilmarinen's portfolio amounted to €2.9 billion at the end of 2012.

Another significant player in the pension sector is Keva (formerly Local Government Pensions Institution), which handles the pension matters of persons employed in the state and local governments and the Evangelical Lutheran Church of Finland. At the end of 2012, Keva's investment portfolio amounted to €34.4 billion, of which some 7.9% 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 only one that focuses solely on indirect property investments is the State Pension Fund. In the biggest funds' portfolios, the share of indirect

Portfolio allocations of major property insurance companies, 30.9.2012



Source: The Finnish Pension Alliance TELA investments varies between 10 and 25 per cent. The majority of indirect investments are made abroad, although 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 that investment decisions are 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 want to retain control on their tenant interface in particular and thus emphasise the importance of in-house asset management, whereas others have outsourced leasing and property management to service providers. Two of the main institutions, OP-Pohjola and LocalTapiola groups, have founded separate management companies to manage their property investment portfolios. These companies have also launched unlisted property funds.

The Finnish pension institutions reported relatively strong returns on their investment portfolios for 2012. Increase in returns is mainly a result of the recovery in equity markets, which produced a return of 15.5%. Also bond investments outperformed property in 2012 with total returns of 7.2%. Property returns remained rather stable compared to 2011. Of the big institutions, eg. Keva reported a total return of 4.7% (total property portfolio), and Ilmarinen a return of 5.7% (direct property portfolio).

Photo: Skanska / Kuvatoimisto Kuvio

"Property produced stable returns for institutional portfolios in 2012"

Listed property sector

There are 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 2012, the combined market value of these three companies stood at around €2.1 billion.

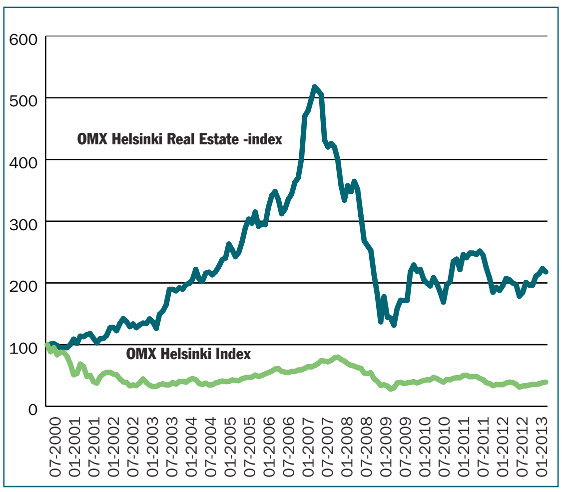
In 2012, the share prices of listed property companies developed differently: while both Sponda's and Technopolis' share prices increased strongly, Citycon's shares showed less favourable development. Altogether, the OMX Property Investment Sector Index clearly over-performed the OMX Helsinki 25 Index, showing annual changes of 14.5% and 9.5%, respectively.

At year-end 2012, Sponda's property portfolio amounted to €3.26 billion (€3.16 billion at the end of 2010). Sponda's portfolio consists of office, retail and logistics properties. In Finland, Sponda's investments are concentrated in the Helsinki metropolitan area and in other main cities. Sponda also has investments in Moscow and St Petersburg in Russia that were valued at €260 million at the end of 2012.

Sponda also has a separate fund management business unit, which is currently a co-investor and/or manager in five funds with a total GAV of some €542 million.

Share performance of the Finnish listed property companies

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



Source: Nasdaq OMX

Citycon owns and manages shopping centres and retail properties in Finland, Sweden, Denmark, Estonia and Lithuania. At the end of 2012, it had a portfolio of some €2.7 billion (€2.5 billion at the end of 2011). In late 2012, Citycon made a major investment by acquiring Kista Galleria Shopping centre in Stockholm in a joint venture deal with the Canada Pension Plan Investment Board for around €526 million. This acquisition increased Sweden's share in Citycon's portfolio to about 40% of rental income. Citycon currently owns or manages 38 shopping centres.

Technopolis specialises in leasing space and providing business support services related to facilities management. Technopolis currently owns 18 campuses: 16 in Finland, one in Tallinn and one in St Petersburg. The company's property portfolio totaled around €1.0 billion at the end of 2012. Its clients comprise both start-up and growth companies as well as more mature companies. The company has recently extended its client base in the public sector, particularly in the health care and education sectors.

Non-listed property companies

There are three major non-listed property companies investing in residential properties: VVO, SATO and Avara, each of which holds significant subsidised residential portfolios as well as major market portfolios.

VVO's portfolio consists of around 40,000 rental residential apartments in 45 locations. 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. At the end of 2012, the fair value of VVO's property portfolio stood at €3.1 billion. This was the first time the fair value was reported, and the company was thus ranked in the second place in the list of biggest property investors in Finland.

SATO's current holdings comprise about 23,500 apartments, of which around 320 are located in St Petersburg, with the rest being in major Finnish cities. The market value of the investment portfolio stood at about €2.1 billion at the end of 2012. Besides the development and management of rental residential buildings, SATO also develops residential properties to be sold for owner-occupiers. SATO's main owners include major institutions such as pension insurance companies Varma and Ilmarinen, as well as life fund Suomi and LocalTapiola Group.

Avara Oy currently owns and manages about 8,000 rental apartments mainly concentrated in the larger cities. Avara's shareholders are major Finnish institutions, with Pension Fennia being the biggest shareholder in the company.

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 a domestic specialised property investment company.

Photo: NCC / Alex Kadrieylev

Real estate fund management companies

There are currently some significant Finnish fund management companies offering non-listed funds for mainly domestic institutional investors. Some funds are also offered to private investors. The first major Finnish property fund was launched by CapMan in 2005. Since then, more than 20 new funds have been started. Most of the Finnish non-listed property funds are structured as limited partnerships, which from a taxation point of view is a favourable structure for domestic 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 LocalTapiola 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, offering funds to their shareholders and other investors. LocalTapiola has launched four funds with differing strategies. Pohjola manages two funds investing in Finnish properties, as well as a fund of funds investing abroad.

"There are about 10 significant property fund management companies"

ICECAPITAL and Auratum are examples of Finnish investment banking companies 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. They currently have three existing funds, and have previously exited three other funds.

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 and AB Forum Capita. Exilion is a joint venture of four Finnish pension funds, and their fund has invested in four major office properties in the Helsinki metropolitan area. Their most recent investment was the acquisition of Nokia headquarters in late 2012. NV's investors include three major institutions, and the fund's portfolio amounts to around €600 million. Forum Capita manages the Forum shopping centre in Helsinki CBD. These management companies typically have relatively small organisations and operate in close cooperation with their investors.

International investors

Between 2003 and 2012, 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. In total, foreign investors currently hold some €9 billion of Finnish properties.

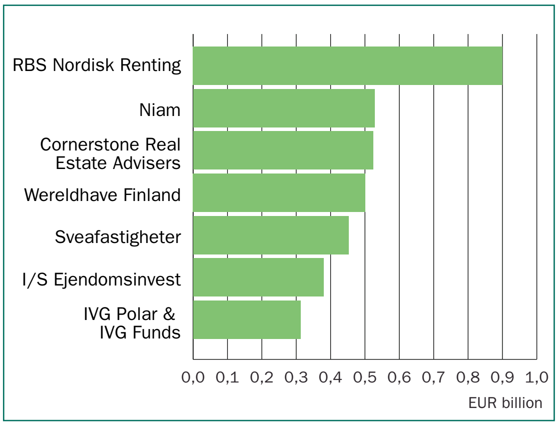
Foreign investors form a diversified group of players with varying strategies and management practices. Some of them have established their own offices in Finland (for instance, IVG, Sveafastighteter, Genesta), whereas some have Finnish co-investors as local representatives, with companies such as Sponda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

The biggest foreign investor in Finland, with a total portfolio of around €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 2012, foreign investors' total investment volume amounted to about €480 million, which is only slightly more than in 2011. This represented a 23% share of all transactions.

The most significant investment in 2012 was done by Niam, who acquired the so called Bronda portfolio's 17 properties in summer 2012. Sveafastigheter also continued increasing its portfolio in two retail property portfolio transactions in the first half of the year. Cordea Savills

Biggest foreign investors in Finland



Source: Query for investors, annual reports

Photo: Ovenia / Jussi Hellsten

invested around €90 million in Finland by acquiring two office properties in Helsinki. Union Investment continued German funds' activity in Finland by investing in newly built office properties in different areas in Espoo.

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 €4.7 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 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.

"Finnish municipalities own the majority of their properties"

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. They typically own the vast majority of the premises they use. It is estimated that their property holdings amount to around €15 billion. Some municipalities, such as the City of Helsinki, in particular, also have significant amount of space that they let 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. Owner-occupation is extremely common in industrial sector (approx. 85%), and fairly common in the retail properties (66%), whereas the majority of office properties are owned by investors.

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.

During the past five years, Finnish corporations have sold, in total, approximately €2.1 billion worth of properties. In many cases, the companies remained as tenants in these buildings through relatively long leases. In 2012, the most significant sale-and-leaseback transaction was carried out by Nokia when it sold its headquarters to Exilion's fund. In early 2013, Nokia entered in another sale-and-leaseback deal with Technopolis in Oulu.

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.

Owner-occupation of commercial properties

Source: KTI

Industrial companies still typically own their production properties. For office properties, more varied ownership and finance strategies are applied. In 2012, for instance, pension insurance company Etera completed the development of the new headquarters for media company Alma Media in the Töölönlahti area in Helsinki CBD. It is currently developing major office projects for KPMG and Ernst & Young in the same area, and Ilmarinen is developing the new headquarter for Finnair in Vantaa.

"Nokia sold its headquarter to Exilion's fund in 2012"

Photo: SATO

Companies such as professional services, media and IT/ telecommunication companies, which predominantly use office or light production space, 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.

3.2 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 2012, Ovenia acquired a shopping centre specialist Realprojekti Oy, and has thus organised its operations in three divisions: commercial property management, shopping centre development and management and residential property management.

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, and 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. In late 2012, a newly established management company Trevian Asset Management was also founded.

Corbel Oy is a Finnish management company that specialises in property and technical management. It has some domestic and foreign investors as clients, as well as some occupiers. Another 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. In early 2013, YIT announced that its construction services business and the building systems business would be split-up into two separate groups. Building services will be separated to a new independent company, Caverion, which will be listed on the Nasdaq OMX Helsinki.

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) who also currently offer management services include ISS, Lassila & Tikanoja and SOL. Coor Service Management 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. In 2012, Realia started cooperation with Savills in valuation 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. CBRE established its own office in Helsinki in 2009, having previously been represented through collaboration agreements. It currently offers transaction, leasing and valuation services. Colliers International has a small local Finnish office offering transaction and leasing brokerage, as well as project management services. Also Swedish-originated advisors Leimdörfer and Tenzing have offices in Finland.

Cushman and Wakefield is represented in the market through a collaboration agreement with the local transaction and leasing service company Tuloskiinteistöt Oy. Other local service providers include, for example, Finadvice Oy, and Finnish Property Partners, which concentrate on transactions. In property valuations, Peltola & co is an example of a local specialised service provider.

In addition to the actual transaction services firms, corporate finance services are offered by some domestic

"Most global property advisory firms have local offices in Finland"

companies, including Advium Corporate Finance and Aventum Real Estate. Also SEB Enskilda Corporate Finance has a separate real estate unit in Finland. 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 and Nordic banks, including Nordea Bank, OP-Pohjola Group and Danske Bank and SEB Merchant Banking. Of these banks, SEB has recently been the most active in financing commercial property transactions or projects.

During the market peak, the Finnish market also attracted some foreign specialised real estate lenders, most of which have, however, closed their local offices in Finland in recent years. The only international player currently active in the Finnish real estate market is Helaba (Landesbank Hessen-Thüringen).

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 also become a widely discussed topic in the Finnish market. In the early years of increasing debt, local banks, in particular, applied rather long loan periods. Local banks also tended to be patient with covenant breaks as long as the debtor is able to cover the interests. Therefore, the terminations of the debt are, compared to

"Availability of debt funding is currently tight"

Photo: Skanska / Kuvatoimisto Kuvio

many other markets, more evenly distributed across years. The total amount of debt in the Finnish property investment market is estimated to be some €20 billion, about one third of which is estimated to terminate in the next few years.

In the current market conditions, lenders are tending to concentrate on core assets with stable cash-flow and solvent investors, and are only offering lending for very moderate loan-to-value ratios. It is very difficult to get financing – or refinancing – for non-core assets in current market circumstances. Therefore, some degree of decrease in values of secondary assets is expected to be needed. The financing gap between terminating loans and debt available currently needs to be filled by either new equity investors – who are likely to require price adjustments – or new sources of debt.

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 cooperated 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 are major players in property development"

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 a project when the majority of the premises are pre-let. Their development strategies emphasise the redevelopment of 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 than commercial property development.

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 as well as 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. The company is currently carrying out a major project in Pori, where an old industrial building is being redeveloped for shopping centre and office use. Pension fund Ilmarinen is a co-investor in the project. Some property funds also include property development in their strategy. For instance, Auratum has acquired some old office properties in its portfolio to be developed for residential use.

Photo: Ovenia / Sami Pitkänen

4. Property sectors: investment performance, market structure and practices

4.1 Property investment market in 2013

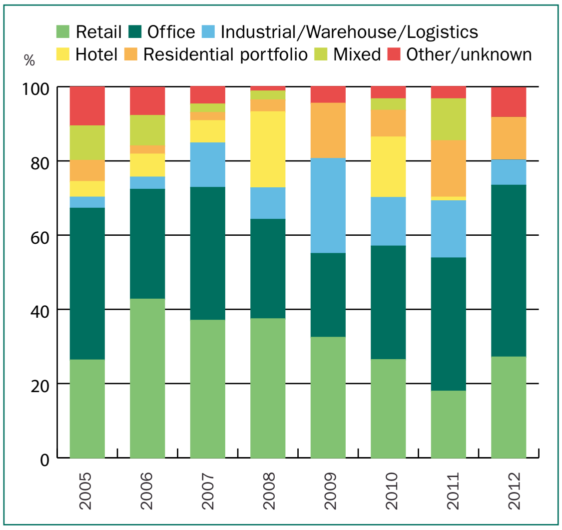
The property transactions volume totalled some €2.1 billion in 2012, which represents a 17% increase compared to 2011. This was the fourth consecutive quiet year in the market. In the spring, market participants were expecting market volumes to rise, but expectations became more negative towards the end of the year as the outlook for the economy worsened. Foreign investors' share amounted to €480 million, representing 23% of the total volume. On the sellers' side, foreign investors represented approximately the same proportion.

Of domestic investors, both institutional investors and property funds increased their activity compared to 2011, representing 27% and 24% of the total volume, respectively.

In the transactions market, offices strengthened their position, and increased their share to 46% of the total volume (36% in 2011). This is the biggest proportion in KTI Transactions' follow-up history since 2005. The Helsinki metropolitan area was still favoured by investors, representing some 54% of all transactions.

The transactions market was characterised by increasing differentiation between core and non-core assets. Investor interest mainly targeted low-risk prime assets with secured cash-flow, the yields of which continued compressing. However, current owners of these properties – most typically domestic institutions - want to hold on to their prime assets, and scarce supply of the most wanted assets was effectively preventing transactions from happening. On the other hand, properties in secondary locations and with potential occupancy problems do not attract investors in current market circumstances. In these kinds of assets, yields remained opaque due to the lack of demand, and, in some cases, quotes might not be available at all. However, according to many market participants, yields of these assets need to increase in order to attract investors.

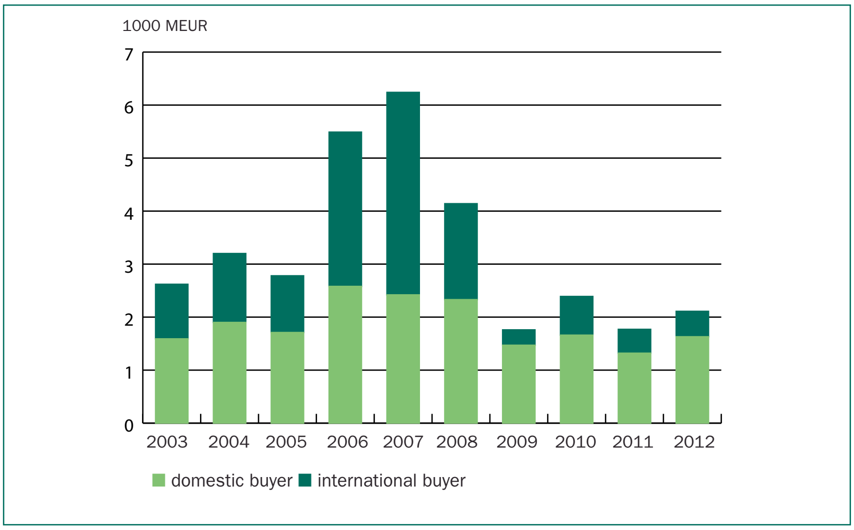
Distribution of transactions by property sector, 2005–2012



Source: KTI

The biggest transactions of 2012 included the acquisition of 17 properties of the so called Bronda portfolio by Niam in the summer, as well as the purchase of the Nokia head office in a sale-and-lease-back deal by Exilion in December. In the Bronda transaction, the Royal Bank of Scotland filed the properties for bankruptcy in the spring, and they were thus sold in realisation proceedings by the trustee. The Nokia deal, which amounted to €170 million, was the biggest single asset transaction in the Finnish office market ever. Sveafastigheter continued its expansion in Finland by acquiring 68 grocery store properties for some €100 million

Transactions volume in the Finnish property market



Source: KTI

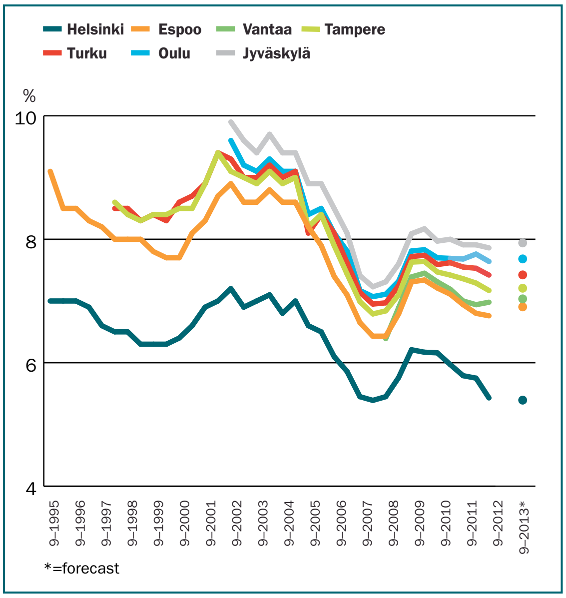
in the first quarter of 2012. Another major transaction was the acquisition of the Hämeenlinnakeskus shopping centre project by Keva for about €100 million. Cordea Savills and Union Investment made new investments in Finland, the biggest of which amounted to some €60 million for both investors. Otherwise, transactions were mostly rather small by size in 2012.

Low availability of debt financing effectively continued to prevent transactions from happening. Although the majority of debt financing is provided by Nordic banks, which are in relatively good condition, tightening bank regulation is decreasing their ability to finance real estate investments. Tighter conditions are applied to the overall availability, pricing and loan-to-value ratio of property debt. Banks' interest in financing is targeted at the same type of properties that currently attract investors, that is, low-risk assets with secure cash-flow.

The total amount of existing bank financing in property investments is estimated to be around €20 billion. Use of debt was at its highest during the market peak in 2006-2008, and the majority of debt taken during these years is expected to terminate within the next year or two. As some proportion of terminating debt is targeted at properties which would not be financed by banks in the current circumstances, alternative sources of capital need to be considered for refinancing. In cases where current owners are not able or willing to provide more equity, other actions have to be taken. However, as the demand for secondary assets is currently very limited in the investment market, realisation of these assets might not be possible, or would require significant adjustment of price.

The volume of distressed sales is not, however, expected to become significant, as banks aim at dealing with the problems in a sustainable manner. Some problems are already being dealt with quietly, but they do not have a significant impact on the market volumes or pricing in a more general level.

Prime office yields in Finnish cities

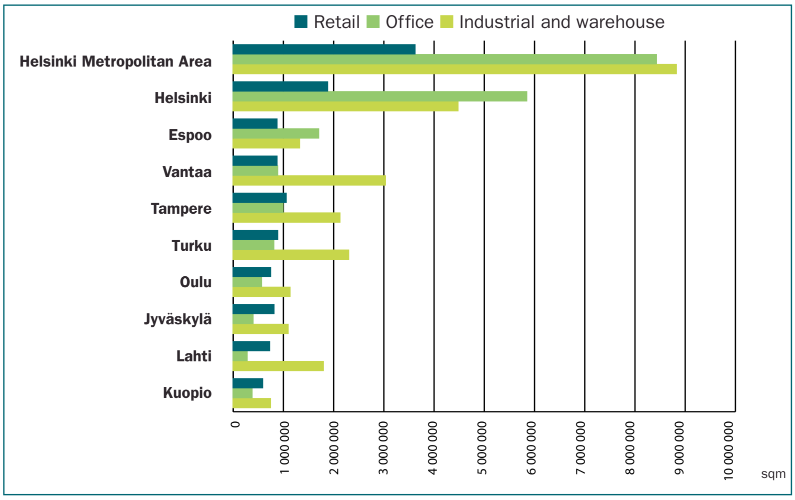


Source: RAKLI-KTI barometer survey

> "Total return on the Finnish property market amounted to 6.0% in 2012"

Photo: Skanska / Kuvatoimisto Kuvio

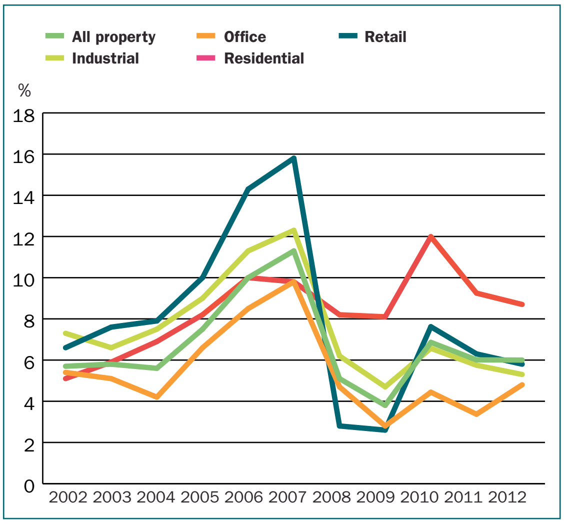
Commercial property stock, 31.12.2011



Source: Statistics Finland

According to the KTI Index, the Finnish property market produced a total return of 6.0% in 2012, consisting of a capital growth of -0.3% and a net income of 6.0%. Compared to the previous year, net income increased slightly (6.2% in 2011). Capital growth remained in the negative territory.

Total returns by property sector 2002-2012



Source: KTI Index

4.2 The office market

Stock

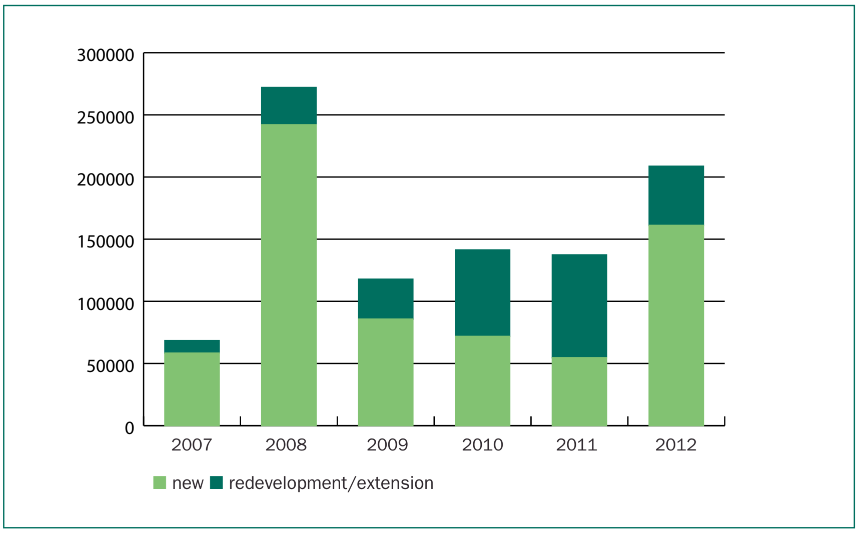
The total stock of office space in Finland is some 19 million square metres, about 8.4 million of which is located in the Helsinki metropolitan area, and another 3.4 million in other major cities. The dominance of the Helsinki metropolitan area in the Finnish economy and commercial property market is greater than in many other European centres of the same size, which is also reflected in the office stock. Office stock in the Helsinki region has increased significantly in recent years through completions of newly or redeveloped office space.

Players

Offices have traditionally played a dominant role in Finnish institutional property portfolios. In the KTI Index, for example, offices currently represent some 29% of the total database. About 75% of this is located in the Helsinki metropolitan area, and 16% in other major cities. In other regions, the majority of the office stock is owned by their users or local investors.

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 recent years, several companies have sold their headquarter properties to investors, and, in the case of new

Completed office projects in 2007-2012 in Helsinki metropolitan area



Source: KTI, RPT Docu Oy

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 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 and specialised non-listed domestic funds (for example, CapMan's, Exilion's and Aberdeen's funds). Foreign investors involved in office transactions in 2012 included Niam, Cordea Savills and Union Investment.

The majority of office transactions in 2012 were concentrated in the Helsinki metropolitan area. In Tampere and Turku, there were a couple of significant transactions registered in both cities. Outside the main cities, there was only one major transaction carried out in the second quarter of 2012, when Aberdeen's fund acquired a large office property in Seinäjoki in western Finland.

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 €3 and €4 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. The biggest cost categories include heating, electricity and property tax, each of which represents some 15-17% of total operating costs.

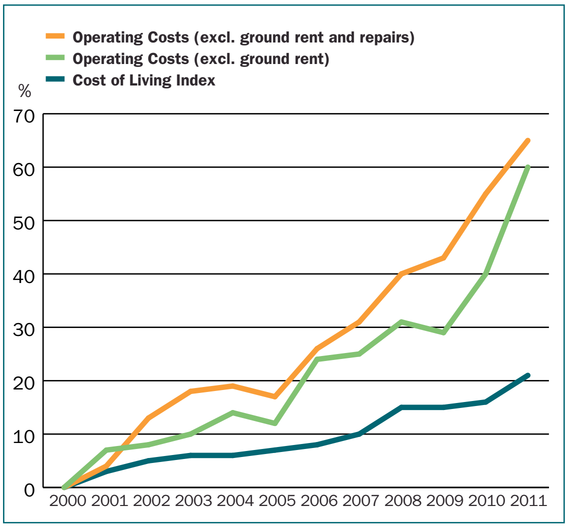
Indefinite lease terms are commonly applied in multi-tenant office buildings. In this kind of agreement, both parties can terminate the contract within the agreed notice period, which might be three, six or twelve months.

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 twenty 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 fifteen 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.

In the current challenging market conditions, various means are applied in order to attract and retain tenants in

Operational costs of office properties in HMA



Source: KTI, Statistics Finland

more demanding premises in particular. Rent-free periods and stepped rents are commonly offered, and tenant improvements are negotiated. One group of tenants who are actively approached by landlords and developers, are occupiers of the buildings completed some 4-6 years ago, as the rental agreements are typically set to expire after this period.

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

The office market in 2013

The spread between "good" and "not-so-good" offices, which has been apparent in the investment market for some time already, is clearly visible in the rental markets as well. Because of this, different submarkets and assets perform somewhat differently in the current market circumstances.

One submarket that is not suffering from the economic turbulence is the Helsinki CBD. This limited market area has shown strong performance, and continues attract both investors and tenants. Rental demand in the city centre also seems to be quite insensitive to market fluctuations. For many businesses and companies it is important to locate in the CBD, which is accommodating, for instance, all major law firms, many financial sector companies, business consultancies and other business-to-business service companies. In most other office areas, the performance is dependent on the characteristics of the individual asset in question. Submarkets that have recently attracted both investors and tenants include Leppävaara in Espoo, the airport area in Vantaa, and Ruoholahti in Helsinki, even though there is also some vacant space in all these areas.

Due to the 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. According to Catella Property, office vacancy rate of HMA stood at about 11% at the end of 2012, showing a clear increase from 10.2% in the second quarter. Oversupply is creating, in secondary areas in particular, continuing pressures for rents to decrease, especially in buildings that do not respond to the needs of increasingly demanding clients.

In KTI's rental database, the occupancy rate of office premises in major investors' portfolios stood at about 88% at the end of 2012 for all of Finland. Espoo remained the most challenging city with an occupancy rate of only 76%. In Helsinki, the vacancy rate remained moderate in the CBD, at about 6%, even though it has increased slightly during 2012. In other areas, vacancy rates have developed to different directions: in the challenging areas of Pitäjänmäki and Pasila-Vallila, for instance, the amount of vacant space decreased in 2012 due to successful new lettings. On the other hand, in the previously strong Ruoholahti area, vacancy rate increased significantly, mainly due to the closing of a major Nokia research centre. In Espoo, the amount of vacant space increased in most significant office market areas. Rents in these areas have, however, remained mostly stable, although rents always depend on the space in question and the position of the landlord and tenant.

"Office vacancy rate of HMA stood at about 11% in the end of 2012"

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.

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. In the KTI rental database, office occupancy rates remain well above 90% in all major cities outside the Helsinki region.

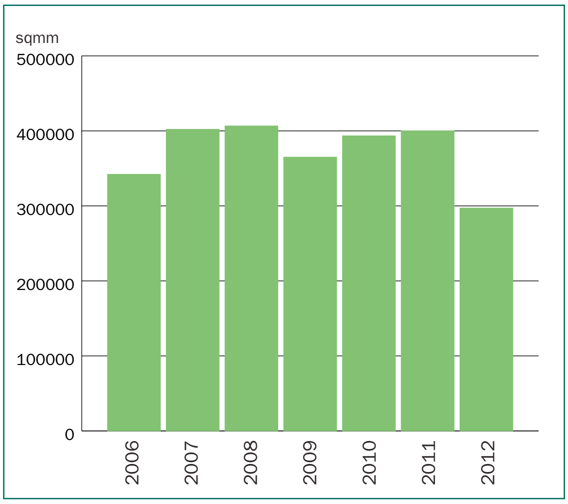
Despite the serious oversupply, office construction continues to be active. New construction is fuelled by the tenants' increasing demands for high-quality, efficient office space in locations with good traffic connections. In 2012, some 200,000 sqm of new or refurbished office space was completed in the Helsinki metropolitan area, and another 150,000 sqm was under construction at year's end. Increase in supply, together with weakish demand, is expected to increase the vacancy rate further in 2013. Gross take-up of offices decreased to about 300,000 sqm in 2012, having stood at some 400,000 sqm in 2010 and 2011.

> "Office gross take-up decreased by 25% in 2012"

Offices produced a total return of 4.9% in 2012 (3.6% in 2011). Net income increased to 6.1%, and capital growth was -1.2%. Despite low occupancy rates and increasing operating costs, net income increased compared to 2011. Capital values developed differently in different assets. In prime locations and modern properties, values developed positively due to stable yields and positive rental outlook. On the other hand, in areas and assets suffering from high vacancies, valuations were pressured by increasing yields and weak rental income. In the Helsinki CBD, capital growth amounted to 6.3%, whereas in the Helsinki metropolitan area as a whole, values continued decreasing by 1.4%.

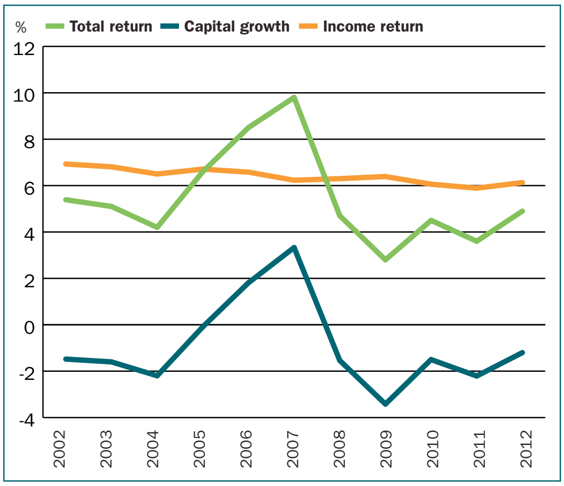
Photo: Skanska / Kuvatoimisto Kuvio

Gross take-up of offices, Helsinki metropolitan area



Source: KTI

Total returns on office investments, 2002-2012

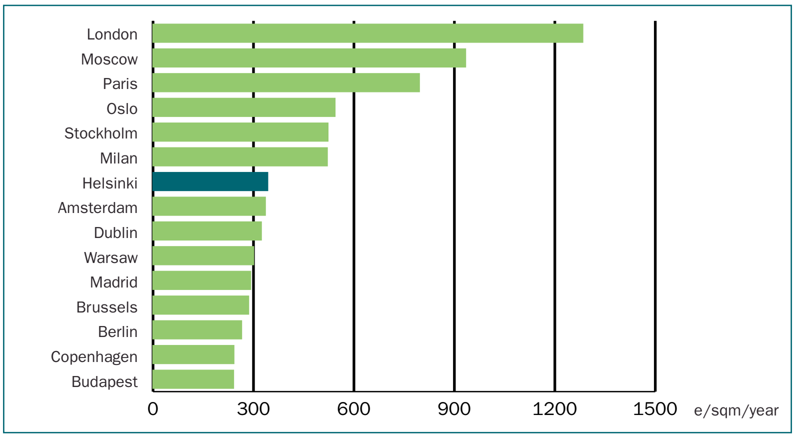


Source: KTI Index

Office rents and yields in Helsinki and other European capitals

Despite the challenging market conditions, the Helsinki office market continues to show more stability than most of its European peers, both in terms of rental development and yield movements. Rental and yield fluctuations are limited in the Helsinki CBD in particular due to its strong position, whereas other areas in the Helsinki metropolitan area typically show more volatility.

Prime office rents, Q3/2012



Source: Jones Lang LaSalle, KTI (Helsinki)

Development of prime office yields

Source: Jones Lang LaSalle, KTI (Helsinki)

4.3 The retail market

Stock

There are about 3.6 million sqm of retail space in the Helsinki metropolitan area, and 4.8 million in other major cities. Altogether, this represents some 30% of the whole country's retail property stock, showing that the major cities' role and weight in the retail market is clearly more limited than in the office market. In recent years, this stock has increased by some 3-5% annually.

According to the Finnish Council for Shopping Centres, there are 83 shopping centres with a total leasable retail area of 1.76 million sqm.

The relatively strong and stable performance of retail properties has supported the sector's attractiveness in the investment market. In the past 10 years, retail has produced the highest average annual total returns of all commercial property sectors. On the other hand, it has also shown greater volatility than, for example, offices. In the transactions market, retail was the most traded property sector between 2006 and 2009. During those years, both major shopping centres as well as portfolios of smaller retail buildings were transacted actively. In 2012, retail properties' share of all transactions was 27%.

Players

Retail is the second biggest sector in the KTI Index, and in 2012, its proportion increased to some 25% of the database. Retail is typically well represented in pension funds' investment portfolios. There are also some major players specialising in retail, Citycon being the biggest in this group. Some international investors have also concentrated on retail, investing 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. By value, about one third of all retail properties are owned by professional investors, whereas the rest is in the hands of the users or small investors.

The Finnish shopping centre market is dominated by Citycon, which currently wholly or partially owns 24 shopping centres in Finland, and, additionally, also manages one centre. Some Finnish pension institutions own whole, typically regional, shopping centres in which they typically invest in quite early phases of development. For example, Varma has in recent years invested in new shopping centres in the cities of Tornio and Hyvinkää, and Keva recently acquired the shopping centre project Hämeenlinnakeskus. 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 Pension Fennia, Unibail-Rodamco and some owner-occupiers. Ilmarinen is a co-investor in Renor's major renovation project Puuvillakeskus in Pori, where a former industrial property is being redeveloped into a major shopping centre.

The Finnish shopping centre market has also attracted foreign investors such as Wereldhave, Unibail-Rodamco, 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 on smaller centres in the Helsinki area and some larger ones in other cities. Sponda also owns some major shopping centre properties and development schemes.

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 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, both in city centres' retail areas as well as in major shopping centres.

Hypermarket and supermarket investments are traditionally favoured by Finnish institutions due to the typically long leases and secure cash flow. This sector has recently also attracted foreign investors. Retail operators, S-Group and Kesko in particular, remain major owners and developers 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 it will concentrate increasingly on shopping centres.

Rental practices

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

Rental agreements are normally longer in the 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. Kesko and S-Group both have strong in-house property management organisations steering the management of their premises.

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.

TOP 10 Shopping centres in Finland

CENTER	Retail GLA	Main Owners	Location
ITIS	106 356	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
MATKUS SHOPPING CENTRE	65 000	Ikano Retail Centres Kuopio Oy	KUOPIO
WILLA	54 000	Varma, CapMan RE II, Finesco Ltd, Ejendomsinvest, HOK-Elanto	HYVINKÄÄ
ISO OMENA	50 900	Citycon Plc, GIC	ESPOO
VETURI	48 500	Kruunuvuoren Satama Ltd	KOUVOLA
MYLLY	44 219	Kauppakeskus Mylly Ltd	RAISIO
HANSA	37 937	Several owners: institutions, non-profit fund, property companies	TURKU

Source: Finnish Council of Shopping Centres

Photo: Ovenia

The retail market in 2013

Retail sales continued increasing in 2012, with the growth amounting to 4.4%. The growth was mostly based on price changes, while the volume remained almost unchanged, showing an increase of 0.7%. According to the Federation of Finnish Commerce, retail sales are expected to remain unchanged this year in real terms. In total, the wholesale and retail trade volumes are expected to decrease by 1.5%. Volumes are pressured by the slow growth of the economy, as well as decreasing purchasing power of the consumers. Towards the year-end, sales are expected to return to a moderate growth path. This development, together with the increasing volumes of e-commerce, will have an impact on the retail property markets as well.

> "Zero growth expected for retail sales "

The Helsinki CBD has also shown very strong performance the retail markets. The city centre accommodates several shopping centres, including Kluuvi, Forum, Kamppi, Citycenter and Galleria Esplanad. Main shopping streets include Aleksanterinkatu and Northern Esplanade, as well as streets interconnecting these two streets.

Prime retail rents have continued increasing in the Helsinki CBD and in the best shopping centres. In autumn 2012, according to the RAKLI KTI Property Barometer, prime rents stood at €120 per sqm per month on average. In the very best premises and locations, rents are clearly above that. During the past years, the annual increase of prime rents in the Helsinki CBD has amounted to some 6% p.a. on average. Rents in the best shopping centres in the Helsinki metropolitan area have developed at about the same pace. The average monthly rents in HMA shopping centres are about €20 euros lower per sqm than in the CBD.

In 2012, three major new shopping centre projects were completed in different parts of Finland. In Kouvola, Kesko's Veturi centre, comprising some 48,000 sqm of leasable space, was opened in autumn. In Hyvinkää, the two first phases of shopping centre Willa with about 38,000 sqm of leasable retail space were completed. Pension fund Varma and CapMan's fund are the main investors in these projects, which also comprise some office and residential space. In late 2012, the new Ikano Matkus centre was opened in Kuopio, in the eastern part of Finland.

> "Shopping centre development is active"

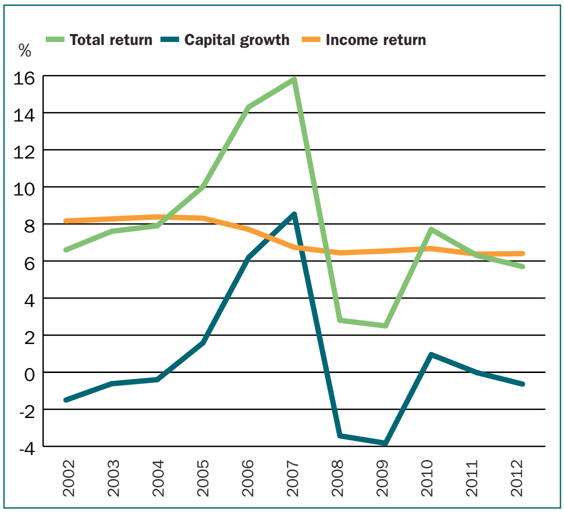
Hämeelinnakeskus and Puuvillakeskus are the two biggest new shopping centre schemes currently under construction with some 26,000 and 43,000 sqm of retail space, respectively. In addition, there are some major redevelopment / extension projects going on in various shopping centres, including those of Itis, Forum and Citycenter in Helsinki, Tapiola's retail centre in Espoo, Tullintori in Tampere and Hansakortteli in Turku. In 2012, redevelopment projects of for instance Ruoholahti shopping centre in Helsinki, Iso Omena in Espoo and Koskikeskus in Tampere were completed.

Total returns on retail properties have, in recent years, shown greater volatility than those of other main property types. Volatility is mainly caused by greater fluctuations in yields. In 2012, total return on the retail sector amounted to 5.7%, where the capital growth decreased to -0.6% (0.0% in 2011). Net income remained stable at 6.4% (6.4% in 2011). Shopping centres continued to show stronger performance compared to the sector as a whole.

Prime retail rent in the Helsinki CBD

Source: RAKLI-KTI barometer survey

Total return on retail investments, 2002-2012



Source: KTI Index

Photo: NCC / Sini Pennanen

4.4 Rental residential sector

Stock

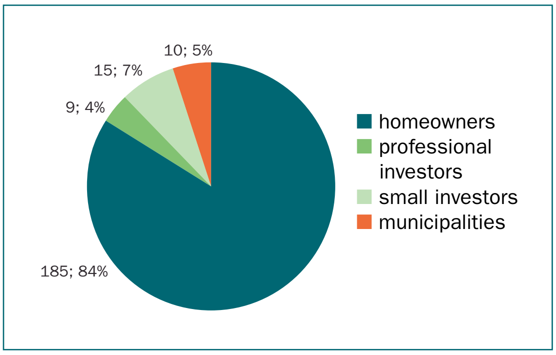
There are some 2.5 million dwellings in Finland. Of these, about 40% are single-family homes. More than 44% of the dwellings are in apartment buildings. The average size of a Finnish household has decreased constantly and is currently 2.1 persons. Some 41% of the Finnish households are single person households, and another 33% consists of only two persons. Therefore, the demand for smaller dwellings has increased steadily, especially in urban locations. In Helsinki, for example, the share of single person households is close to 50%.

Some one fourth of all dwellings are located in the Helsinki region. In Helsinki, the housing density is somewhat lower than in the whole country, at some 35 sqm per person in the Helsinki metropolitan area, compared to around 40 sqm per person in the country as a whole.

Some 70% 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. In Helsinki, rented housing is more common than in the country on average, and some 45% of all dwellings are rented.

In total, 29% of the Finnish households live in rented dwellings. There are some 820,000 rental apartments. Of these apartments, almost half have been provided with some kind of public subsidy, such as state-guaranteed loans or an interest subsidy for development of rental housing. Some 60% of subsidised dwellings are owned by municipalities

Ownership of the Finnish housing stock, total 220 bn€



Source: KTI, Kansanvarallisuustutkimus, ROTI

Photo: CapMan / Heikki Tuuli

or their daughter companies. Private sector companies with specific public utility status – eg. VVO, SATO and Avara – own about 15% of the total subsidised housing stock. 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 cost-based, 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 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 €85 billion in 2012.

Players

Some two thirds of the subsidised housing stock is owned by the Finnish municipalities. The City of Helsinki is the biggest player in this segment with around 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 special groups such as students and senior citizens.

The majority, some 55-60%, 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 180,000 dwellings. The scattered ownership affects the rental markets and results in great differences in market practices, rental levels and the professionalism of players.

Many pension funds are also significant players in the residential rental markets. Residential properties are a recognised sector in the institutional investment market, and Varma, Ilmarinen, Keva and Tapiola, for instance, all have several thousands of 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. In the KTI Index, residential properties represent some 19% of the total database.

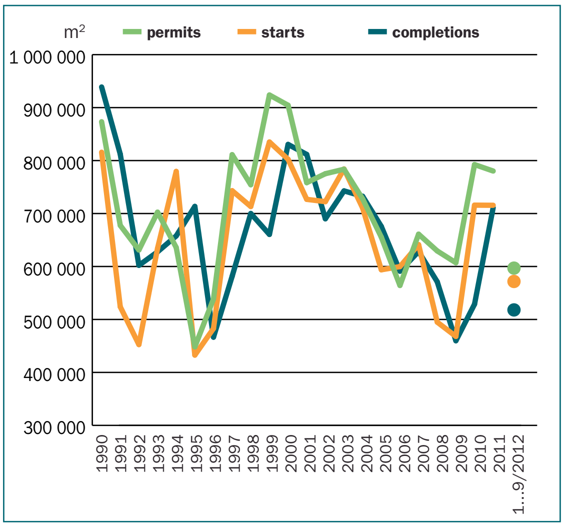
Currently, there are also some non-listed property funds specialised in residential property investment, including funds managed by ICECAPITAL, and LocalTapiola Real Estate, for instance. These funds typically have domestic institutions as investors.

Foreign investor interest in the Finnish residential market has increased in recent years. However, their market entry has been slowed both by the low yields for residential investments, as well as by 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. These are still the only foreign investors in the Finnish residential market.

Housing construction

According to the VTT, the Technical Research Centre of Finland, the long-term need for new dwellings is estimated to be around 24,000–29,000 dwellings per year, and, in total close to 500,000 dwellings within the next 20 years. About one-third of the total need would replace the loss of the older housing stock. More than 30% of the total new production would be needed in the Helsinki region and other major cities. Internal migration increases the need for moderately priced housing in the Helsinki region in particular.

Residential construction activity in Helsinki metropolitan area



Source: Statistics Finland

The emphasis on 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 residential rental construction.

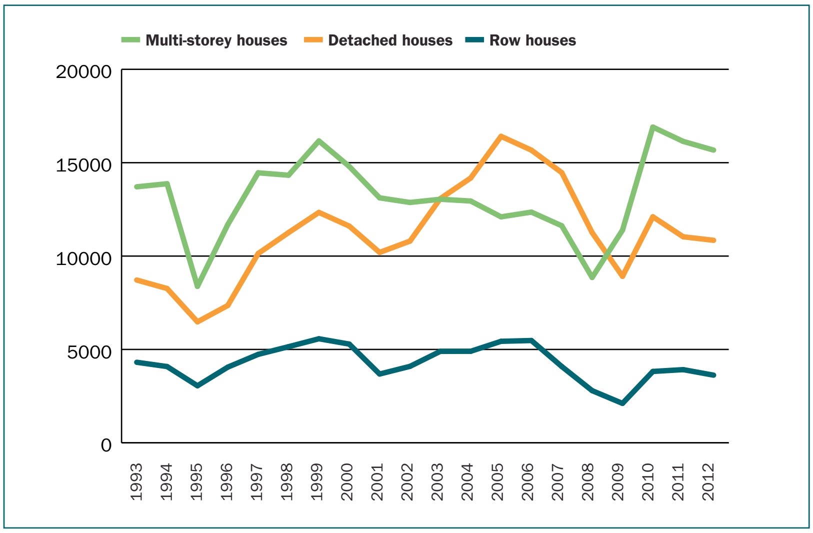
According to the estimations of RT, the Confederation of the Finnish Construction Industries, construction began on some 28,500 dwellings in 2012. For 2013, a decrease of some 1,500 dwellings is expected in new construction starts. Of all starts in 2012, some 6,500 were state subsidised housing, the majority of which were targeted at some specific groups like students or seniors. Subsidised housing, where rents are cost-based, does not interest players in current conditions, as terms are very restrictive in terms of length of restriction periods, for instance, and state subsidy is insignificant. Therefore, residential companies are pleading for reforms in regulation, as well as targeted production subsidies in areas with most severe shortage in supply.

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 a 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. In dwellings produced with the specific interest subsidy in 2009–2010, the aim of which was to stimulate both housing supply and employment in the construction sector, 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.

Start of new dwellings in Finland, 1993-2012



Source: Statistics Finland, RT

Photo: Ovenia / Sami Pitkänen

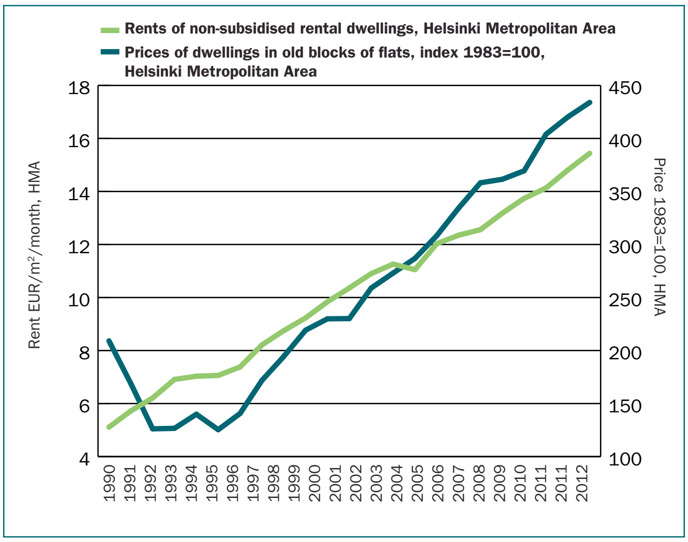
The residential market in 2013

According to the preliminary statistics of Statistics Finland, prices for old residential dwellings increased by 1.7% in 2012. Within the year, prices increased briskly during the first half of the year, whereas towards the end of the year prices decreased slightly in some areas. In the Helsinki metropolitan area, the increase amounted to 2.4%, whereas in the rest of Finland, prices increased only by 1.1%. The spread between the Helsinki metropolitan area and other parts of Finland has widened markedly since the start of the financial crisis. Since 2009, housing prices have increased in the HMA by 27%, compared with about 16% in the rest of the country.

According to the forecasts of Pellervo Economic Research PTT, housing prices will increase by some 1.5% in 2013. The increase is estimated to be strongest in Helsinki (some 2.5%) and in other main cities (between 1.5 and 2%), whereas in all other areas the prices will remain almost unchanged. For 2014 and 2015, PTT forecasts increasing risks for unstable development.

> "Housing prices estimated to increase moderately in 2013"

Prices and rents of dwellings, Helsinki metropolitan area



Source: Statistics Finland

Demand for rental housing remains strong, especially for small apartments in the major cities. During the past couple of years, nominal rents in Helsinki, Espoo and Vantaa have increased annually by some 3–5% on average. However, the increase in rents slowed down towards the end of 2012, as economic uncertainty increased. In the best areas in Helsinki, however, strong demand pushed rental prices up also in late 2012.

In Tampere and Turku, the annual increases have been somewhat lower, at 3-4% on average. In Jyväskylä, Oulu and Lahti the increase in rents almost stopped in 2012.

The outlook for rental development is turning slightly more uncertain. On the one hand, rental demand for small apartments in major cities remains strong. On the other hand, however, the economic uncertainty and low increase in earnings are preventing rents from significant increases. In the very best areas in the Helsinki metropolitan area, however, rents will probably continue increasing further. Of the big cities, Oulu shows more uncertainty than the others. Occupancy rates of residential portfolios remain typically high, at 98%, on average.

From an investment point of view, the residential sector's relative attractiveness has increased together with the turbulence of commercial property sectors. 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.

During 2012, investments in residential properties continued to be done mainly through new development. The volume of residential property transactions amounted to some €240 million in 2012, and a large proportion of these were newly developed or still under construction.

In the KTI Index, residential has been the best performing sector for several years. Its performance continued to be strong also in 2012, showing a total return of 8.6%, consisting of capital growth of 3.0% and net income of 5.4%. Compared to the previous year, capital growth decreased slightly.

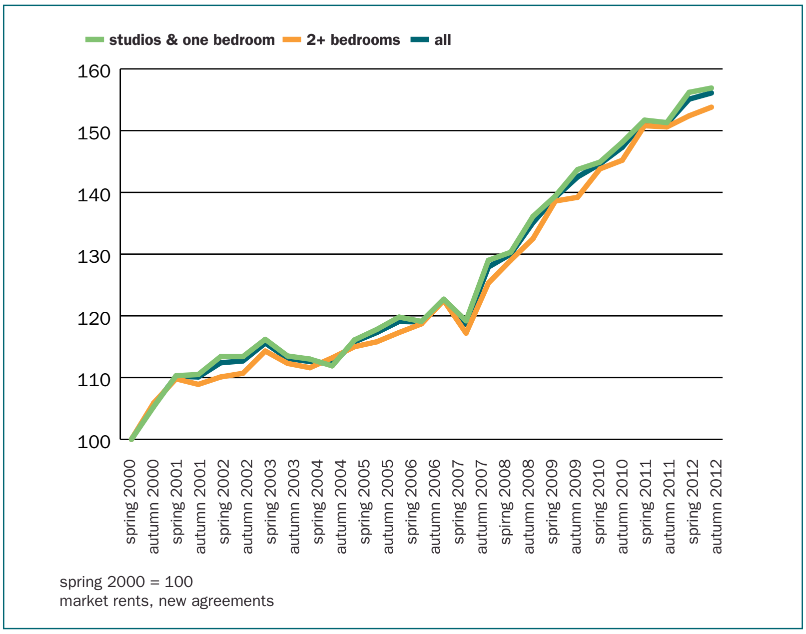
4.5 Industrial / logistics market

Stock

The industrial and logistics property stock amounts to some 65 million square metres. Of this, the Helsinki metropolitan area accounts for some 15%. Industrial properties in particular are typically located outside the major cities.

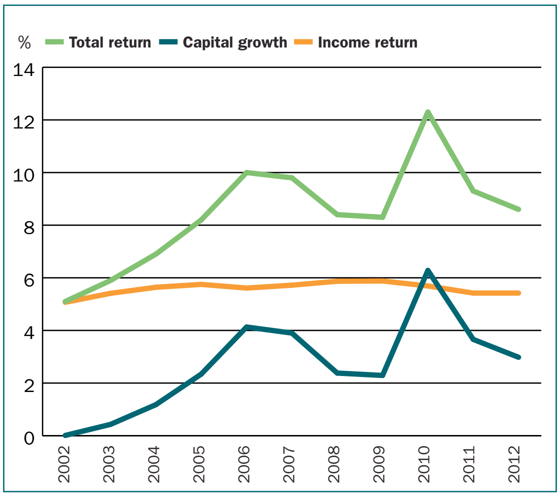
The industrial property market can be divided into various sub-categories with varying market structures and practices, as well as a heterogeneous investor and customer basis. Large industrial corporations' manufacturing properties, light manufacturing properties, and modern warehousing and logistics 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

KTI Residential rent index, Helsinki metropolitan area



Source: KTI

Total return on residential property investments, 2002-2012



Source: KTI

logistics systems. As these major players have dominated the market, there has been neither space demand nor supply in the market. However, increasing foreign trade, restructuring of retail sales, as well as reorganisations of supply chains and logistics systems increase and reshape the space demand towards modern efficient logistics space. Since 2005, the total stock of warehouses has increased by some 18%.

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. Of the total stock of industrial and warehouse properties, about 85% is estimated to be owner-occupied.

Sponda is a significant domestic developer and investor in the logistics market. It has an extensive portfolio of logistics and warehousing properties mainly located in the Helsinki area. The company is a strong player in the new Vuosaari harbour area, where its PortGate project comprises some 70,000 sqm of logistics and warehouse space. Market value of Sponda's logistics properties stood at €414 million at the end of 2012. Sponda also acts in this market through three non-listed funds that have domestic institutions as investors. At the year-end, the combined value of the portfolios of these funds amounted to some €440 million.

Foreign investors in this sector include AB Sagax and NREP. Logistics and industrial properties are typically represented also in institutional portfolios. Of domestic funds, Pohjola's Real Estate Fund, for example also invests in logistics properties.

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 fifteen years. In these kinds of leases, rental levels are partly determined by the tenant's rating.

The industrial/logistics market in 2013

Vacancy rates for modern industrial and logistics properties have remained low. According to Catella Property, vacancy rates vary between 1 and 4% in major Finnish cities. Rents have remained fairly stable or have increased slightly in recent years with the modern premises leading the development.

The share of logistics and industrial properties in total transactions volume remained very low, at some €140 million in 2012. Of this, one portfolio transaction represented almost two thirds. This transaction was published in summer, when Sponda set up its third logistics fund, and the fund purchased €90 million worth of logistics properties from its investors Sponda, Varma and Etera.

New development of logistics and warehouse properties continues to be active. Development is concentrated in locations with good traffic connections. In 2012, new properties were completed especially in Vantaa, where, altogether, seven projects were completed. In Sipoo, SOK's new 75,000 sqm logistics centre was completed in the first half of 2012. Some significant projects were also completed in Hämeenlinna and Nurmijärvi. Itella Real Estate's major 75,000 sqm logistics centre project in Orimattila, close to Lahti, is due for completion in the second quarter of 2013.

Industrial / warehouse properties account for around 7% of the KTI Index database, with warehouses and logistics properties representing a vast majority of that. In 2012, the sector produced a total return of 5.2% (6.1% in 2011). Capital growth remained negative at -2.5 %. Income return remained stable at 7.9%.

4.6 Hotels

Stock

According to the Finnish Hospitality Association MaRa, there are 745 hotel units in Finland, comprising some 50,000 rooms, with a total capacity of about 106,000 beds. In Helsinki, there are 53 major hotels.

Players

The two biggest hotel property owners in Finland are CapMan's hotel fund, which owns 39 hotel properties in Finland, and Norgani Hotels – part of the Swedish Pandox – with a portfolio of 14 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 hotels across the country. Restel, who operates hotels under the brands Cumulus, Rantasipi and Holiday Inn, for instance, currently has 49 hotels in their chains. Other major hotel operators include Finlandia Hotels with 25 hotels, as well as 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 is a significant amount of other space, for example, in retail use, responsibilities between the landlord and tenant might be allocated differently.

Hotels market in 2013

According to the preliminary statistics, total sales of the Finnish hotels grew by some 5% in 2012. The first half of the year was rather positive, but the situation worsened towards the end of the year. The occupancy rate of hotels remained unchanged compared to the previous year. The increase in sales was caused by the increase of the average room prices by some 6%. A decrease in domestic guests was compensated by an increase in the number of Russian tourists.

According to the KTI Index, hotel properties delivered a total return of 5.7% in 2012 (7.3% in 2011). Capital values decreased by 0.5%, and net income amounted to 6.2%.

Total return on industrial property investments, 2002-2012

Source: KTI Index

Photo: Skanska / Kuvatoimisto Kuvio

5. Property markets in different regions – outlook for 2013

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 45% of the total office stock in Finland is located in the Helsinki metropolitan area. Measured by value, its share increases to about 60%.

The Helsinki metropolitan area is the dominant property investment area. Of all the properties included in the KTI Index, some 65% is located in the Helsinki metropolitan area. It is also the most liquid market area: its share of total transactions volume amounted to 54% in 2012.

The second-tier markets – typically the regional growth centres of Tampere, Turku, Oulu and Jyväskylä – are traditionally popular among domestic institutions, but they have 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.

5.1 The Helsinki metropolitan area

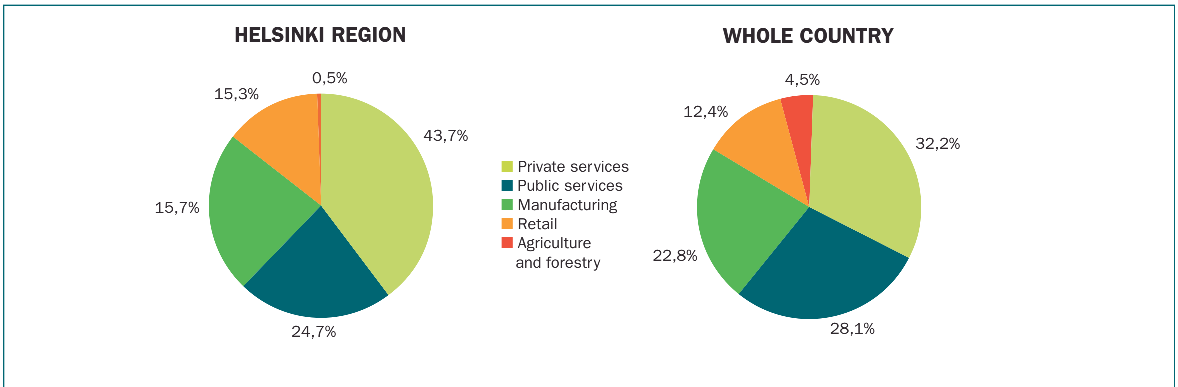
The Helsinki region has, in many respects, a dominant position in Finland, which means that its importance is also significant from the property market perspective. The entire Helsinki region consists of 14 municipalities. The Helsinki region accommodates one-quarter of the Finnish population and some 30% of all jobs, and delivers more than one-third of the Finnish GDP.

The Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen, has a population of nearly one million people. Nearly all major company headquarters, as well as most government agencies, are located in the Helsinki metropolitan area. Jobs, administration activities, and the majority of the population of the Helsinki region are concentrated in these cities.

Population:	Helsinki:	604,000
	Espoo:	257,000
	Vantaa:	205,000
	Helsinki region:	1,370,000
Economic base:	Professional services, high-tech industries, logistics, public sector services	

The economic structure of the Helsinki region differs significantly from that of the country as a whole. Compared to the rest of the country, the proportion of jobs in the private service sector is significantly higher in the Helsinki region. There are some 750,000 jobs in the region, and some 44% (32% across the entire country) are in private service sectors. Specialist professional services, as well as high-tech industries and logistics businesses, have a stronger role in Helsinki. The proportion of industrial occupations is lower (16%) than in the entire country (23%).

The structure of the economy, percentage of jobs, 2011



Source: Helsinki Chamber of Commerce

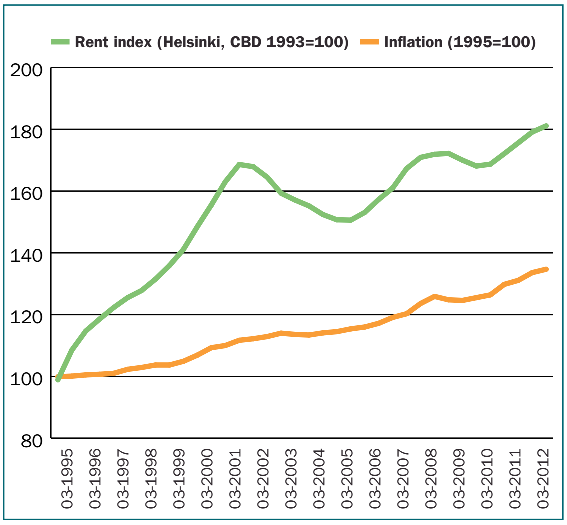
Due to the emphasis on private sector businesses, as well as to the greater exposure to international development, the Helsinki region is more sensitive to cyclical fluctuations in the economy than the country as a whole. In the economic upswing, jobs and production increase more, and, respectively, economic recession has a greater impact on Helsinki than on other regions. Therefore, the prolonging Euro crisis increases the uncertainty of the economic development of the Helsinki region in particular. Structural changes in the economy also have a different impact on different regions: negative development in the IT industries has a direct impact on the Helsinki region, whereas the decline in the forestry industries only impacts Helsinki indirectly through professional services, logistics and wholesale sectors.

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. Main shopping centres are located in Itäkeskus, Leppävaara, Aviapolis and Matinkylä areas.

"The majority of office stock in HMA is located in Helsinki"

Of around 8.4 million sqm total stock of offices in the Helsinki metropolitan area, some 70% is located in Helsinki. Espoo accommodates about 20% and Vantaa about 10% of the area's total stock. Retail space stock amounts to about 3.6 million sqm, representing some 13% of the total stock in the whole country.

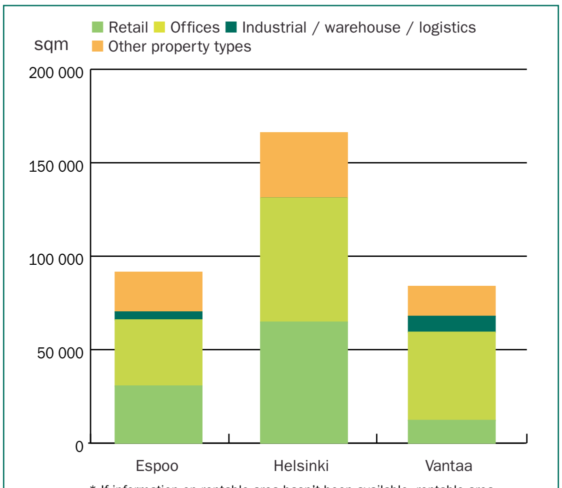
Office rent index and inflation



Source: KTI and Statistics Finland

Building projects under construction in December 2012

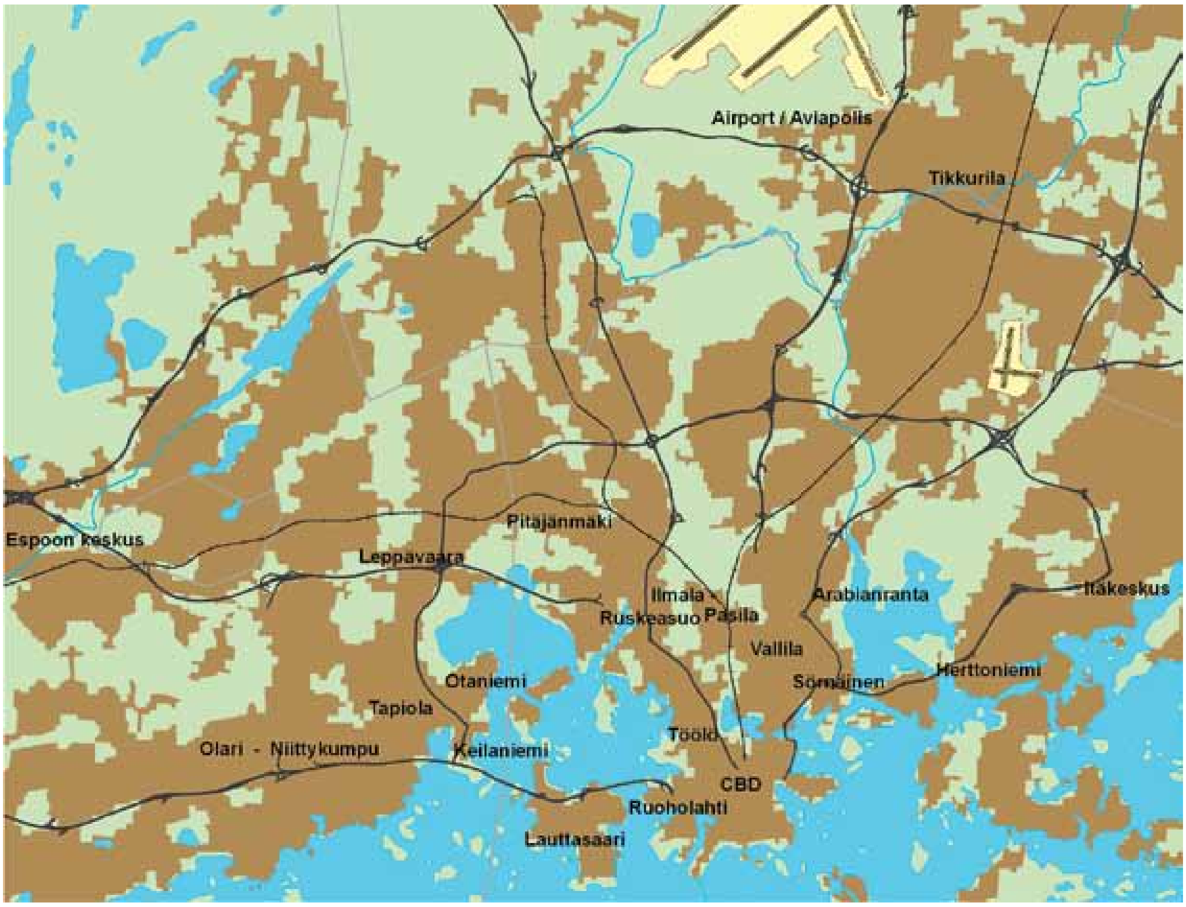
New and redevelopment projects, rentable area*, sqm



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

Source: KTI, RPT Docu Oy

Main office areas in the Helsinki metropolitan area



5.1.1 Helsinki

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.

Office users in the city centre are mostly companies offering business-to-business services – business consultancies, law firms, investment banks, etc – together with some company headquarters and public sector organisations. The majority of the office stock in the CBD was built in the late 1800s and early 1900s. The office 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 property market holds well in challenging market conditions"

The office supply is currently expanding in the Helsinki CBD, which is an exceptional situation in this limited market area. The first of four major office projects in the Töölönlahti area, the new head office of media company Alma Media, was completed in late 2012, and the buildings for KPMG, Ernst & Young and UPM Kymmene will be completed in 2013 and 2014. The total gross area of these four buildings amounts to some 68,000 sqm. The buildings are in the immediate vicinity of Finlandia Park's cultural buildings including Kiasma Museum, the new Music Hall, Finlandia Hall, as well as National Opera building.

The four companies moving to the Töölönlahti area have their old offices in the CBD. Their relocation thus causes significant turnover of tenants in the city centre. New users for the old offices of both UPM and Alma Media have already been published – both major law firms – and there will most probably be demand for the other two as well.

The Helsinki CBD has remained almost unaffected by the oversupply of office space in the Helsinki metropolitan area, and vacancy rates have remained low. However, rental activity slowed down markedly towards the end of 2012, and the amount of vacant space increased moderately also in the CBD.

KTI's rental index for Helsinki CBD offices showed an annual increase of 3.1% in 2012. During the latter half of the year, the increase was only 1.1%. Rents held well with the upper quartile remaining at €28 per sqm, and best premises were rented for well above €30 / sqm, according to the KTI rental database.

The Helsinki CBD also retained its position in the investment market. According to the RAKLI-KTI Property Barometer survey, prime office yields decreased to 5.4% in late 2012, whereas in most other areas yields showed a slight increase due to economic uncertainty. The biggest transaction in the CBD was published in July, when Cordea Savills acquired an office and retail property in Aleksanterinkatu for €60 million, from Nordea Life Assurance. Otherwise, lack of supply prevented transactions from happening. Main shopping centres in the CBD include Kamppi and Forum in the Kamppi area, Galleria Esplanad and Kluuvi in the Kluuvi area, and Citycenter next to the main railway station. Of these, both Citycenter and Forum are undergoing major redevelopment and extension projects: Citycenter's seven-year project will be completed in early 2013, whereas Forum's refurbishment is due for completion in 2015.

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 during the next year. In the KTI rental database, upper quartile for retail rents in the CBD has been around €100 per sqm per month for a couple of years, and in smaller premises in the very best locations, rents can even be even double this amount. The CBD's refurbished retail premises have also recently attracted several new international brands.

Ruoholahti – Salmisaari – Jätkäsaari

Ruoholahti is a modern office area near the CBD at the starting point of a major western radial route. Ruoholahti and the newly developed adjacent Salmisaari area accommodate a variety of businesses, such as high-tech and industrial companies, business consultancies, banks and insurance companies.

Office rents in Ruoholahti are about 10-15% lower than in the CBD, except in the newly completed buildings, where rents can be close to CBD levels. Rents in the area have remained rather stable, although the amount of vacant space has increased markedly during the past year. According to Catella Property, vacancy rate stands currently at about 15%. The Nokia Research Centre's move out of the area left two major office buildings unoccupied. Leasing of these buildings is likely to require refurbishment to multi-tenant offices, which means that absorption of this space will probably take some time.

> "Ruoholahti is suffering from office vacancy"

In late 2012, the second phase of Technopolis Ruoholahti business centre was completed. Sponda's 7,000 sqm office project is scheduled to be completed in the second quarter of 2013.

Also in the area is the 26,000 sqm shopping centre Ruoholahti, occupied mainly by the retailers of the K-Group, which went through a facelift project in 2012.

Recent transactions in the Ruoholahti area include the acquisitions of office buildings by Cordea Savills and Fennia Life in late 2012 and early 2013, respectively.

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. Traffic connections to Jätkäsaari have recently been improved by the completion of a new bridge, a new light transport route, and an improved tram connection. Residential development is active in the area. The first commercial property development projects were completed in 2011. A major 33-storey hotel housing 380 rooms is being planned in the area. Also the adjacent Telakkaranta and Hernesaari areas are planned to accommodate thousands of both residents and jobs in the future.

> "The waterfront areas in Jätkäsaari and Kalasatama are being redeveloped for residential and commercial use"

Pasila – Vallila – Sörnäinen – Ruskeasuo – 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. Compared to the CBD and Ruoholahti, these areas are typically considered as secondary office locations. They also tend to be more sensitive to economic fluctuations, and the amount of vacant space has increased during the past years.

Pasila is a multifaceted property market area north of the city centre, which has an important railway hub characterised by its train station and surroundings in the centre of the area. Pasila consists of several areas, including traditional submarkets of Eastern and Western Pasila, the developing Ilmala, Northern and Upper Pasila areas north of them, and the old railroad machinery area south of the station. For all of these areas, major development projects are being planned, totalling some 1.1 million sqm of commercial premises and 450,000 sqm of residential properties. However, as these projects will require significant investments in infrastructure, a long-term view on planning, as well as favourable economic conditions, at least some of these plans will take a long time to materialise.

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, banks and telecommunications companies. There is typically not much new development in the area, but OP-Pohjola Group is currently carrying out a major refurbishment, extension and new development project for its head office. When completed in 2015, the project will comprise 132,000 sqm of office space, about 60,000 sqm of which is new development. The campus will accommodate about 3,400 employees.

Next to Pasila is the developing Ruskeasuo office area with mostly modern space supply. The first two phases of Skanska's Manskun Rasti project were completed in the area in 2012, and Skanska moved its own head office into the first building. When completed, the whole project will comprise four office buildings. NCC Property Development is also developing a new business park concept in the area, called Aitio Business Park, the first phase of which will be completed in the second quarter of 2013.

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. This is another area where living, working and public and private services will be combined, and where development requires significant investments in infrastructure and redevelopment of old industrial buildings as well as extensive new development. At the moment, construction work in the area concentrates on residential projects. In the centre of the area, the new 58,000 sqm Redi shopping / leisure centre is being planned by SRV. The first phase of the project is scheduled to be completed in 2016. SRV also plans to develop several high-rise projects in the area, mainly for residential use, but which will also include commercial premises.

Photo: City of Helsinki

Photo: SATO

Pitäjänmäki

Pitäjänmäki, situated seven kilometres north of the city centre, is an old industrial area that has been converted into mainly office use in the 1990–2000s, comprising both multi-tenant office buildings and 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 and buildings in Pitäjänmäki. In older buildings in particular, investors have been forced to attract tenants through relatively low rents, whereas the modern buildings closer to the railway station have retained their attractiveness among, for example, IT and professional service companies. Partly due to attractive pricing, rental demand increased in Pitäjänmäki in 2012 and the vacancy rate decreased to 13.9%, according to Catella Property. New construction in the area has, in recent years, concentrated only in residential development.

Eastern Helsinki

East of the central city area is Arabianranta area, which was the origin of industrial production in Helsinki. This area has also been developing rapidly recently. The area currently accommodates about 10,000 residents, 5,000 jobs and 6,000 students. The area also accommodates the shopping centre Arabia, and the office and retail centre Arabiakeskus, both of which have been developed within old industrial buildings. Residential construction has also 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 residential and industrial 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 only amounts to some 25,000 sqm. Part of the excess supply is being dealt with by redevelopment into alternative uses. Residential development remains active in Herttoniemi.

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 metro line, supports its development as an attractive area for retail and living. The Itis shopping mall is one of the largest shopping centres in northern Europe with a gross leasable area of 115,000 square metres. A major refurbishment project was started in 2012 in the shopping centre.

Vuosaari, the new harbour area, is another area that has been developing rapidly in recent years. The harbour currently accommodates about 2,000 jobs as well as an extensive logistics property stock. Next to the Vuosaari metro station is the 21,000 sqm shopping centre Columbus. Vuosaari and the adjacent Rastila areas are also rapidly developing residential areas.

5.1.2 Espoo

Espoo, Finland's second biggest city, has property stock scattered within five regional centres. The city's commercial property stock is multifaceted, which can also be seen in the divergent development of rental levels and vacancy rates in different areas and properties.

Office vacancy rates have been a problem for many areas in Espoo for the past few years. Despite high vacancy rates, new office development has remained active. The amount of new or redeveloped office space completed in 2012 increased to almost 100,000 sqm. At the year-end, some 35,000 sqm was still under construction. Most projects are typically business park properties located close to good traffic connections.

The construction of the new western metro line is boosting property development in the vicinity of the new stations. The metro will start operations in 2015, and is planned to be extended by another five stations by 2018. Altogether, it is estimated that the new metro line will boost several billion euros' worth of property investments within the next years.

Keilaniemi – Otaniemi – Tapiola – Niittykumpu - Matinkylä

New metro stations will be located in Keilaniemi, Otaniemi, Tapiola, Niittykumpu and Matinkylä. These are all established commercial property submarkets, where significant development projects are currently being carried out. Some of these areas do, however, currently suffer from serious oversupply of office premises, which has even worsened further during the past year. Altogether, five new office buildings were completed in these areas in 2012. Tightening economic conditions did not, however, allow new starts in 2012, and there are currently only two office projects under construction in Matinkylä, with several more in the pipeline waiting for the conditions to improve.

"New metro line is stimulating property development in Espoo"

Keilaniemi is a modern office area accommodating several major head office properties, including Nokia, Kone and Fortum. In the area, the Nokia head office was sold to Exilion's fund in late 2012. Two new business park properties – both of which have been sold to domestic institutions – were completed in 2012. The vacancy rate of offices remains high in the area, and even increased during 2012. SRV is planning to develop four high-rise residential buildings in this traditional office area.

Aalto University is located in Otaniemi area, next to Keilaniemi. Due to the recent merger between the Helsinki University of Technology, the Helsinki School of Economics and the University of Art and Design, the University is currently planning to expand its campus area. The area also accommodates several research institutes as well as business parks targeted at high-tech companies. The supply of vacant office space has increased in Otaniemi during the past year.

Tapiola and Matinkylä, the next stations along the metro line, are also significant retail centres in Espoo. The refurbishment of the traditional Tapiola retail centre is currently under construction. 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. Several new

Photo: CapMan / Heikki Tuuli

residential projects are also planned in the area. In Matinkylä, the extension of Iso Omena shopping centre was completed in 2012.

West of Tapiola, a new 325 hectare Suurpelto area is currently being developed. In the first phase, construction is concentrating on residential buildings, the first ones of which were completed in 2012. In total, the Suurpelto area is planned to comprise some 1.0 million sqm of building rights, which are planned to be built upon within the next 10–15 years, including residential, offices as well as premises for public services.

Leppävaara

Along Ring Road I and by the western railroad 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 2012, three new business park properties were completed in Leppävaara, and one more is still currently underway.

Leppävaara area has been able to attract new tenants, and, as a consequence, new projects have also interested both domestic and foreign investors. The amount of vacant space has increased close to 10%, but rental levels of new office premises in particular have held well despite the increasing supply.

"Leppävaara area is developing rapidly"

Next to Leppävaara, in the Perkkaa area, the first phase of SRV's Derby Business Park was completed in 2012, and the company moved its head office there. The second phase is currently under construction. In the area, a new building for Ikea is also being planned, as well as a major shopping and leisure centre Superlife Lab, the start of which, however, depends on investor interest and the availability of financing.

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.

The shopping centres Espoontori and Entresse are located in Espoo centre. A change in the city plan is currently pending that would connect and extend the two shopping centres as well as connect the centres to the new bus terminal. Additionally, new residential and hotel projects are being planned in the area.

A new extensive residential and business area is being planned in Lommila, which is situated next to Espoo centre at the junction of the Turku motorway and Ring Road III. The area currently accommodates several retail units trading large unit-size goods. Plans to develop a major shopping area in Lommila experienced a setback in late 2012, when the city council rejected the proposed plan for the area, and required a decrease in the planned amount of hypermarket space.

5.1.3 Vantaa

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 2015, 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, all major property developers as well as several property companies. There are currently some 17,500 inhabitants in the area, and the City of Vantaa expects it to increase significantly. The area currently accommodates about 1,100 companies and some 35,000 jobs.

The new Ring Rail Line will have stations at the airport as well as in Aviapolis, thus linking the area with the city centre and main railway connections.

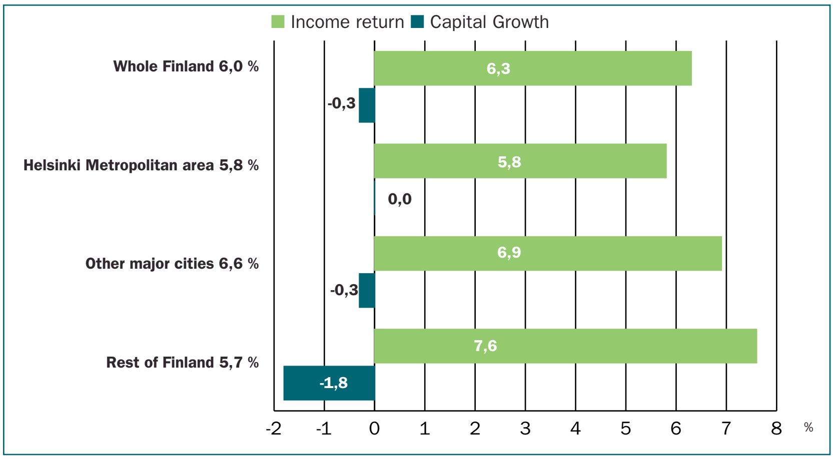
Commercial property stock in the Aviapolis area includes modern office premises, logistics properties and abundant retail supply. Besides properties directly related to the airport, Aviapolis is an important logistics hub with some 6,000,000 sqm of warehouse and logistics premises – most of which is rather modern and accommodated by, for instance DHL, DB Schenker and Itella Logistics.

The 85,000 square metre Jumbo shopping centre is the major retail centre in the area. In 2012, Jumbo was the biggest shopping centre in Finland measured by sales. In the immediate neighbourhood there is also the Flamingo leisure centre comprising hotel, office and leisure premises. In the vicinity of Aviapolis, the Pakkala and Tammisto areas are also important retail areas favoured by big-box retail units, such as outlets for motor vehicles, furniture and gardening.

Modern office space supply is abundant in the area, including World Trade Center in the airport area as well as several business park complexes by the Ring Road III.

During 2012, two business park properties were completed in the area, and four more were underway at the year-end. Retail space supply increased with one completion at the Aviapolis area, as well as with completion of the 13,000 sqm Ikano Retail Center in the nearby Porttipuisto

Total returns in different regions, 2012



Source: KTI Index

area. In addition, about 55,000 sqm of new logistics space was completed during 2012. Most of the newly developed properties have been sold to investors. Domestic institutions, property funds, as well as foreign funds are represented in the area.

Office rents in the best premises in the Aviapolis area are slightly lower than in the Ruoholahti and Keilaniemi areas, but close to the rents in Leppävaara. Despite the increased supply, vacancy rates have remained moderate.

Kivistö

Vantaa's biggest development area is in Kivistö, formerly called Marja-Vantaa project, which is close to Ring Road III and the Hämeenlinna motorway alongside the new Ring Rail Line. Some 30,000 new inhabitants and nearly as many jobs are being planned to be accommodated in the area. The biggest individual project planned 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 residential projects will be started in the Kivistö area in 2013.

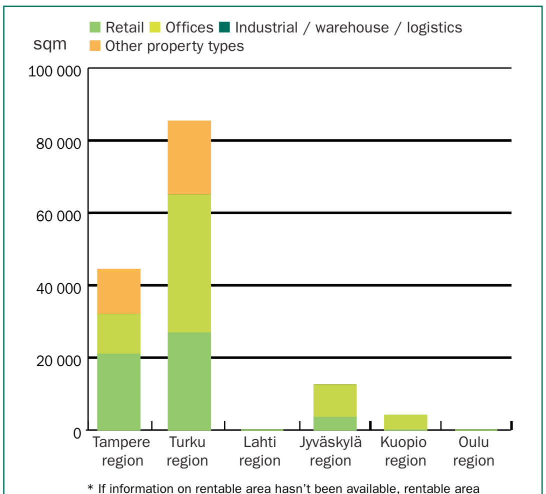
> "New Ring Rail connection impacts the development of property submarkets in Vantaa"

Tikkurila

Tikkurila is the main urban centre and – alongside the airport area – the most important office and retail area in Vantaa. Tikkurila also accommodates most of the city's administration buildings. The completion of the Ring Rail Line will enhance Tikkurila's position as a logistics hub for connections between the airport, long-distance trains and Helsinki centre. The area is currently under major redevelopment. The City of Vantaa is developing the infrastructure and several property investors are making new investments in the area, including, for example, YIT, which started the Tikkurila Commercial Centre office and retail project in October 2012. The first phase, comprising some 14,000 sqm, will be completed in 2014. In the future, the plan includes a new station centre as well as new residential and commercial premises.

Building projects under construction in December 2012

New and redevelopment projects, 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

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

Tampere

Location: 170 km north of Helsinki; the biggest inland city in the Nordic countries
Population: Tampere: 217,000
Tampere region in total: 360,000

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 and healthcare technology. The Tampere region consists of eight municipalities pursuing active cooperation in developing the business environment in the area.

As the second biggest city region, Tampere is also the most active property market area in Finland outside the Helsinki region. The region has attracted both domestic and international real estate investors. During 2012, the main transactions in the region comprised the acquisitions of a new retail centre in Lielahti by Keva, the YLE Tohloppi complex by Technopolis and the office development project in Ratina by a fund managed by Pohjola Property Management.

In Tampere, modern office space is found in the city centre, in the areas of Hatanpää and Tulli areas close to the centre in Kauppi near the University hospital and in Hervanta alongside the Technical University. In the best office premises in, for example the Tulli area, where office supply has increased markedly in recent years, rental levels are well above €20 per sqm. Tampere is also known for its redeveloped industrial properties in the city centre and the immediate vicinity, for both office and residential use.

The amount of vacant office space has remained moderate, although it has recently increased due to, for example, major reorganisations of Nokia in Hervanta. New development continues to be active; in 2012, two new office buildings were completed by Technopolis: one in Hervanta and another in the city centre. At the year-end, the 11,000 sqm office project in Ratina was still underway, to be completed in 2013.

The most expensive retail space in Tampere is situated along the main street, Hämeenkatu, and in the Koskikeskus shopping centre next to Hämeenkatu. Citycon completed the refurbishment and extension project of Koskikeskus in 2012. In the vicinity of Koskikeskus, Sponda plans to develop a 55,000 sqm Ratina shopping centre, the schedule of which has been postponed due to tight economic conditions. Rental negotiations are currently underway, and the construction is planned to be started during 2013. Retail space supply has also increased due to the extension of the Stockmann department store in Hämeenkatu. In addition to the ongoing 13,000 sqm Lahdesjärvi retail centre project, two other major new retail projects are planned to be started in 2013 in the area by Ikano and NCC.

Plans to build a major multi-use arena in the vicinity of the Tampere railway station have been postponed due to the prolonged planning process and financing negotiations. Currently, the first phase of this so called Sori Deck project, which will consist of the central arena, some business premises and apartment buildings, is planned to be completed in 2016.

"Property development continues to be active in Tampere"

Industrial / logistics projects were completed in 2012 in Sarankulma and Lahdesjärvi areas, by Alma Media and Tamro, respectively. Hotel property development is also active in the region: in 2012, two new hotel buildings, totalling about 20,000 sqm, were completed in the centre, and another one - of almost the same scale - is underway in the Tulli area.

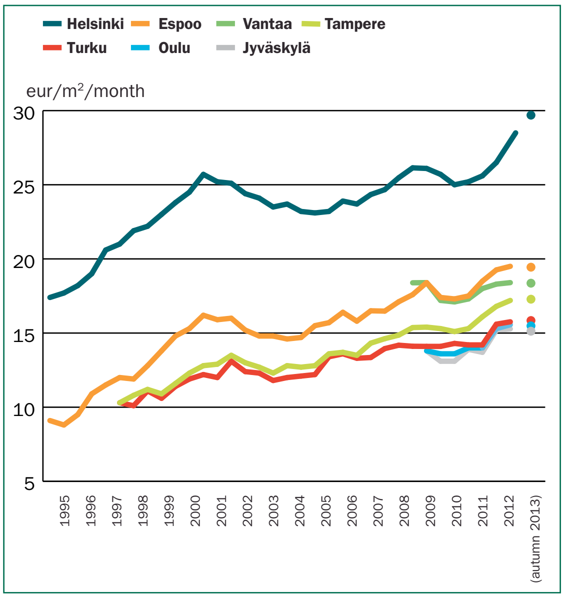
Oulu

Location: 600 km north of Helsinki
Population: Oulu: 191,000
Oulu region in total: 230,000

The City of Oulu became the fifth biggest city in Finland in the beginning of 2013, as the surrounding municipalities of Haukipudas, Kiiminki, Oulunsalo and Yli-Ii merged with Oulu. The Oulu region has been one of the fastest growing city regions 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 emphasis of the region's economic structure is on services. Information technology services and other technology sectors are regarded as specialities of the region. The biggest manufacturing sectors include paper, metal and chemical industries.

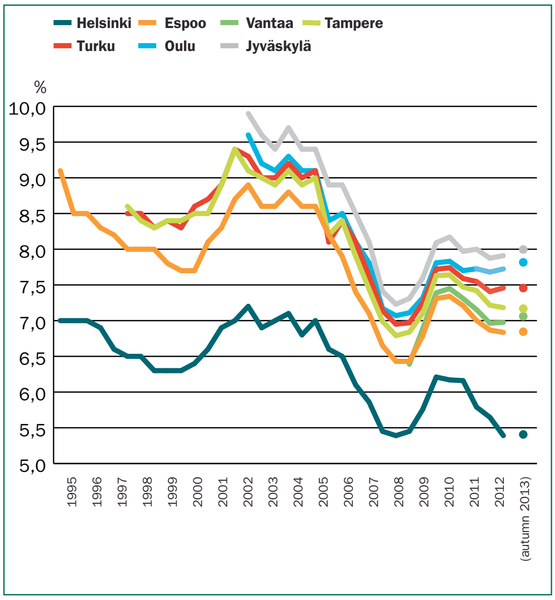
Oulu's real estate market is large enough to attract domestic pension funds, whose position in the market has remained quite strong. Listed property company Technopolis, originally founded in Oulu, is an important player in the office market. Technopolis recently increased its dominance in Oulu with the acquisition of the 37,000 sqm Nokia campus in Kontinkangas area for €31 million in a sale-and-leaseback deal in early 2013.

Prime office rents in major Finnish cities



Source: RAKLI-KTI barometer survey

Prime office yields in major Finnish cities



Source: RAKLI-KTI barometer survey

> "Oulu's population increased in a merger between five municipalities"

The other recent property transactions in Oulu have taken place in the city centre, where Citycon acquired a retail property and Ilmarinen a retail and office property during 2012. The city centre is currently involved in a development project where the construction of an underground parking garage was started in the summer 2012.

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. The quality of the stock in the area is dispersed, which affects rental levels. Technopolis is the main private investor in the area.

The office vacancy rate has remained very low for the last several years, but has recently increased slightly, to about 5%.

Turku

Location:	160 km west of Helsinki; in south-western corner of Finland
Population:	Turku: 180,000 Turku region in total: 300,000

Turku region consists of eleven municipalities in the south-western corner of Finland. Turku is a strong traditional university city, accommodating, for example, the main Swedish-language university in Finland. The region's current 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 has traditionally been of great importance from the region's economic development point of view but which is currently experiencing some difficulties. The proportion of private services in Turku region is higher than in most other Finnish growth centres.

The Turku property investment market has, in recent years, been dominated by domestic and local players. In 2012, the main transactions in the region comprised the acquisition of the Stockmann department store property by Keva, and the purchase of the Intelligate II office project in Kupittaa by LocalTapiola Pension. Auratum's fund invested in a healthcare centre of Lääkärikeskus in the city centre.

> "Domestic investors were active in Tampere and Turku in 2012 "

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. Residential development has also been active in the area recently. In the modern office space in the Kupittaa area, rents are clearly higher – at about 15€ per sqm per month - than those in the city centre (12-14€ per sqm). The main player in the area is Turku Technology Properties, a joint venture between the City of Turku and other investors in the Turku Science Park area. The company owns around 86,000 sqm of space in the Kupittaa area, and is currently refurbishing the DataCity building, which is the biggest asset in its portfolio. After rapid development in the office stock in the area in mid 2000s, construction was quiet for several years. In 2011, one new office project was completed, and in 2012, the construction of two new properties was started. Elsewhere in Turku, Peab started the construction of the Nereis Business Park in Pitkämäki, north of the city centre, in late 2012.

The retail market in Turku is concentrated in the city centre and some regional centres outside the city, such as Länsikeskus and Skanssi areas in Turku and the surroundings of the Mylly shopping centre in Raisio. In the city centre, the redevelopment of Kultatalo, which is a part of the Hansa shopping centre, was completed in 2012, and refurbishment is continuing in other parts of the centre. In the Skanssi area, the properties for Gigantti and Starkki were completed in 2012, and the one for Rautakesko is due for completion in the second quarter of 2013. There is also a retail project underway in Kuninkoja. New retail space is likely to increase the amount of vacant space elsewhere in the region.

Jyväskylä

Location:	270 km north of Helsinki, in the centre of Finland
Population:	Jyväskylä: 133,000
	Jyväskylä region in total: 175,000

Jyväskylä is a dynamic university town that emphasises both traditional industries and new technology. The Jyväskylä region's industry areas cover wood and construction materials and ICT as well as healthcare industries. In its regional strategy, the region also emphasises knowledge-intensive services. Two-thirds of the region's jobs are currently in services. Jyväskylä's location is favourable because it is at the junction of several important national main roads.

The city centre is the most important office market area in the region, where, however, no new stock has been developed recently. Office development has recently concentrated in the Lutakko area, where Technopolis completed the second phase of the Innova Business Park in 2012 and is currently building the next phase. Other office areas with modern supply include the Mattilanniemi/Ylästönniemi area, and Tourula, where old industrial properties have been redeveloped into office use.

"Transactions market remains quiet in regional cities"

In the retail property market, Jyväskylä's 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, but in 2012, no major projects were completed or started. In the city centre, the redevelopment of the Torikeskus shopping centre is due for completion in late 2013. Several major projects are planned, for instance in the Seppälä area, but wait for improvement in the market.

Only few, mainly smaller transactions were reported in Jyväskylä in 2012.

The amount of vacant retail space increased slightly in 2012, although the vacancy rate remained rather low. Modern offices, in particular, have continued attracting tenants. In prime properties, rental levels are close to the Turku and Tampere levels. Rents have remained stable. Despite active new development, the pedestrian shopping district's market position remains strong, and that is where the highest retail rents are still found.

Kuopio

Location:	400 km north-east of Helsinki
Population:	Kuopio: 105,000
	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 around 46,000 jobs in the region, some 11% are in industries. The proportion of occupations in the public sector is greater than in other major cities. In its strategy, the city emphasises food, health and bio, and environmental industry sectors.

The property investor base in the Kuopio property market is dominated by domestic players consisting of both national and local investors. There were no transactions published in 2012.

The Kuopio office stock is concentrated in the city centre as well as in Technopolis Kuopio's two areas, close to the university and hospital areas. The amount of vacant space is relatively high, and remained unchanged in 2012.

The divergence of supply is seen in differing rental levels between the buildings.

The two major retail projects completed in 2012 were Ikea and Ikano's Matkus Retail Center, with gross areas of 36,000 and 54,000 sqm, respectively. In the city centre, two department / hotel building redevelopment projects were completed.

Lahti

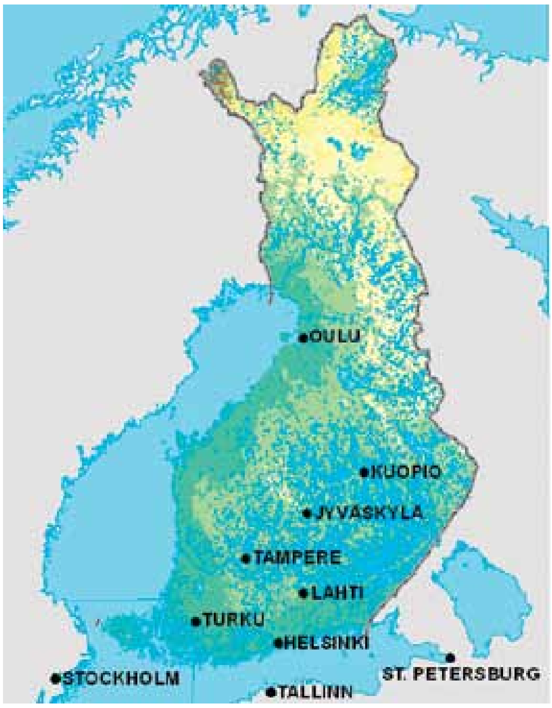
Location:	104 km north-east of Helsinki
Population:	Lahti: 103,000
	Lahti region in total: 200,000

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. The region emphasises competence in cleantech and design, where there is also a strong educational base. 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%.

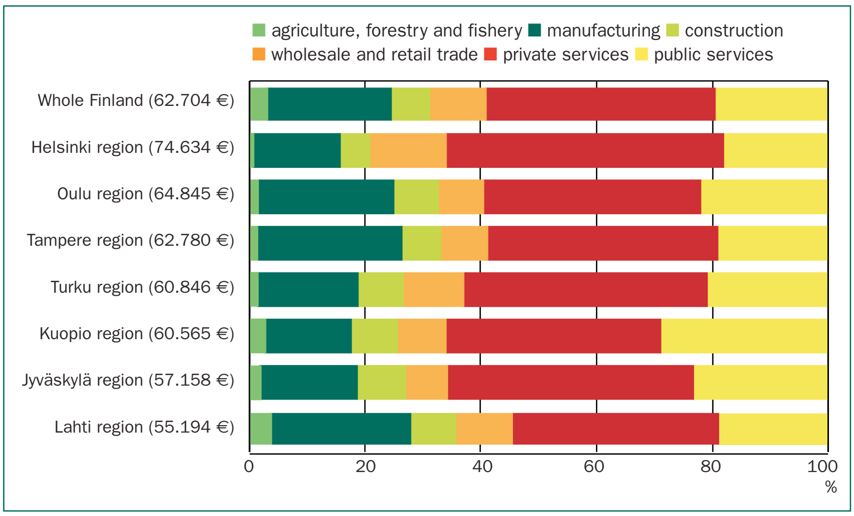
The attractiveness of the city centre has increased as a result of redevelopment efforts that have transferred old industrial buildings into modern offices. Property development in the city centre is concentrated on redevelopment. The office vacancy rate is higher than in most other cities, at around 10%. In the office market, there are no ongoing or planned new development projects.

Retail supply in the city centre concentrates around the Trio shopping centre and in the main street. Retail and office supply increased recently through the renovation of Trio. In the Karisto area, there is a shopping centre with a leasable area of 34,000 sqm, which was completed in late 2011.

L-Fashion's new 13,000 sqm head office and retail property in Renkomäki was completed in 2012. The most significant ongoing development project in the region is Itella's 77,000 sqm logistics centre in the Pennala area in Orimattila, which is scheduled to be completed in the second quarter of 2013.



Value added by sector and region 2010, %
Value added by employee (€) in parenthesis



Source: Statistics Finland

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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

CBRE is the world's leading commercial real estate adviser. With 300 offices across 50 countries, we have more consultants advising more customers than any other property firm. This allows us to deliver local talent with local expertise, no matter where you do business.

In Finland, CBRE provides the full spectrum of property consultancy services - including investment, agency and general advice to a wide range of clients, such as national and international companies and institutional and private investors. Our commercial real estate market services cover the whole of Finland.

Global Corporate Services team offers transaction management, tenant representation, lease and negotiations services as well as real estate consultation for companies. The GCS team aligns real estate strategy with corporate business strategy to support the core business of the client.

CBRE's Agency team represents landlords to maximize the value of their properties through securing the best possible tenants under the most favourable conditions. In transaction projects, CBRE's Finnish investment team advises both global and local investors working closely with the CBRE EMEA Capital market team.

Valuation team's experience and comprehensive market knowledge forms the basis of the valuation, analysis and research work. With constantly updated market databases and the expertise of our specialists, CBRE provides valuations of all kinds of properties and projects. www.cbre.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 include:

- 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 ownership, leasing and development in the Helsinki metropolitan area. IVG Polar also manages properties owned by IVG Funds. The company has assets under management worth €313.5 million with leasable facilities amounting to 187.1 sq. metres with around 600 customers operating in them.

IVG Polar is a member of the German IVG group (IVG Immobilien AG), which is one of Europe's largest real estate and infrastructure companies. The company manages assets worth approximately €21.4 billion and has about 550 employees in 19 major German and European cities. Through its network of branches in German and European cities, IVG manages, among other assets, office buildings in its own portfolio with a market value of €3.3 billion

IVG also constructs and operates underground caverns for the storage of oil and gas in northern Germany as an important investment in the area of energy infrastructure. In the fund sector, IVG is the market leader for special property funds for institutional investors. Together with closed-end real estate funds for private investors, IVG manages funds and mandates with a volume of €15.4 billion. www.ivgpolar.fi

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, investors and financiers. This gives KIINKO Real Estate Education excellent insight into the needs of its customers and their businesses.

The Annual Convention of Property Investments Prospects is one of the main events of KIINKO Real Estate Education. With its 500 participants it is the most important real estate convention in Finland, combining seminars and extensive networking. 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 and has 18,175 employees. In 2012, annual sales totalled €6.57 billion. 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. In Finland, NCC's annual turnover stands at €980 million, and it employs 2,900 persons.

NCC Property Development acquires, develops, sells and leases office, retail and logistics 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's 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 the fifth consecutive year by the international financial magazine Euromoney. All projects are carried out according to the international BREEAM Environmental Assessment Method. NCC Property Development has gained first BREEAM Very Good certifications in Scandinavia for office buildings and it is also EU's Green Building partner. www.ncc.fi

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

Founded in 1989, Newsec Finland is a part of the Newsec Group, which is headquartered in Stockholm, Sweden. Newsec has about 160 employees in Finland, with offices in Helsinki, Tampere, Turku, Jyväskylä, Hämeenlinna and Oulu. Its clients are among the leading Finnish and international real estate investors and corporations. In a survey carried out 2013 by the Great Place to Work Institute® Finland, Newsec Finland Oy was nominated for the sixth time amongst the top workplaces in Finland and is the best workplace within the real estate industry.

Newsec – The Full Service Property House in Northern Europe – is by far the largest specialised commercial property firm in the region. Newsec offers a comprehensive range of services within the business areas Capital Markets, Leasing, Asset & Property Management, Valuation & Advisory and Corporate Solutions to property owners, investors and occupiers. Newsec was founded in 1994 and is owned by its partners. Today, the Group employs over 550 professionals in over 20 offices.

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

The Ovenia Group is Finland's leading provider of asset, property and facility management services. Ovenia provides a wide ranging customer-driven real estate service portfolio for maintaining and developing the value of real estate assets.

Ovenia has four key strategic business units: commercial real estate management, business premises management, residential property management and housing services. Ovenia's main services are leasing (commercial and office premises), property development, shopping centre management, construction and maintenance management services (technical services), housing, real estate financial administration and business premises facility management (incl. business parks).

With over 30 years of experience in business and commercial premises and over 70 years of experience in residential real estate management, Ovenia is the largest and oldest company in its field in Finland. In recognition of its work, Ovenia was the first company in Finland to receive ISO 9001 certification for property management. The company's comprehensive service offering covers all sub-areas of real estate asset management. The Ovenia Group administers a property portfolio amounting to over 10 million square metres across Finland and the Group's turnover for 2012 was over €40 million. The company employs more than 500 property professionals in 21 locations. www.ovenia.fi

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 200 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 coordinate 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 23,500 rentable homes in Finland's largest centres of urban growth, as well as in St. Petersburg. Its investment assets have a fair value of roughly €2.1 billion.

SATO aims to be the most successful and progressive operator in the market and to stand out through design, a good customer experience and our highly motivated personnel. Our entire organisation is committed to producing the best possible service for our customers. We also expect the same of our partners, who hold responsibility for things like building management and maintenance as well as renovation and construction.

Investment activities create a framework for growth. In the 21st century, SATO has invested a total of roughly €1.5 billion in rented housing and aims to invest an average of roughly €150 million annually in Finland and St. Petersburg.

SATO's biggest shareholders are Finnish pension insurers and other insurance companies. The Group's turnover in 2012 was €286.9 million and profit before taxes was €60.6 million. Operating profit was €99.1 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 2,700 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 properties and residential projects as well as public-private partnerships. Based on the Group's global environmental know-how, Skanska aims to be a leader in the development and construction of green projects.

The Group currently has 57,000 employees in selected home markets in Europe, the U.S. and Latin America. Skanska's revenue in 2012 totaled over €15 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 2012 were €1 billion, and the company employed about 2,460 people.

Skanska Commercial Development Nordic initiates and develops property projects in offices, logistics, business premises and commercial buildings. The company's operations are concentrated in the three metropolitan regions in Sweden, the Copenhagen region in Denmark, the Oslo region in Norway, as well as Helsinki in Finland. The development of logistics and volume retail properties is conducted in strategic locations in Sweden, Denmark and Finland. www.skanska.fi

Sveafastigheter is a leading Nordic property fund manager based in Stockholm, with offices in Helsinki and Malmö. The company was founded in 2003, when it launched its first fund, Sveafastigheter Sverige I. In 2006, Sveafastigheter launched its second fund, Sveafastigheter Fund II. Sveafastigheter is currently investing its third fund, Sveafastigheter Fund III, which has committed capital of €317 million and primarily targets investment opportunities in the Nordic countries. The fund's investment strategy is opportunistic with a value-add approach to asset management. Sveafastigheter Fund III has so far made several acquisitions in Finland, Sweden and Denmark, and is actively looking for new investment opportunities.

Through its funds, Sveafastigheter has completed acquisitions with an underlying value of €1.5 billion, approximately two-thirds of which are still under management. Sveafastigheter's investment philosophy involves working with local asset management partners who in turn work closely with the tenants in order to provide the best possible tenant services. We encourage, and often use, incentive schemes and co-ownership structures with the managers.

Sveafastigheter has been named Best Real Estate Investment Manager in the Nordic and Baltic Region in 2009, 2010 and 2012 by Euromoney. It was also named the Best Real Estate Investment Manager in Finland in 2012.
www.sveafastigheter.com

Key terminology

Property	Kiinteistö
Building	Rakennus
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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