The Finnish Property Market 2014

KTI

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Preface

The Finnish Property Market 2014 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.

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

The report is also available in PDF format at www.kti.fi.

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We hope you find the report interesting, relevant and 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	5.45 million Density: 17.9 inhabitants per square kilometre Helsinki 2,825.6 per km² Uusimaa region (southern Finland): 172.2 per km² Lappi region (northern Finland): 2 per km²
Languages	Two official languages: Finnish, spoken by 89.7 % Swedish, spoken by 5.4 % People with foreign origin 5.2 % of population
Religions	Lutheran 76.4 % Orthodox 1.1 %
Capital city	Helsinki: 613,000 inhabitants Helsinki region: 1.4 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo: 261,000 Tampere: 217,000 Vantaa: 207,000 Oulu: 194,000 Turku: 182,000 Jyväskylä: 135,000 Kuopio: 106,000 Lahti: 103,000
Economy	
GDP per capita	€29,100 (2012)
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 (38), The Center Party (35)

1 The Finnish economy

1.1 The structure of the economy

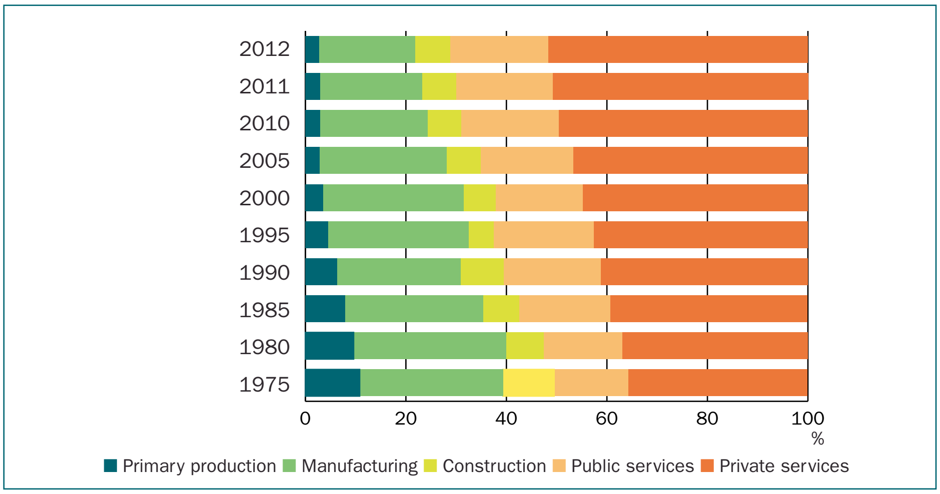
Within the past few decades, Finland has transformed itself from a society largely based on primary production and agriculture to one of the richest and most multifaceted economies in the world. The deregulation of the financial markets in 1980s, as well as reforms made following the deep recession in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

Private services currently account for roughly half of the Finnish gross domestic production, which makes this the biggest sector in the economy. Their share has increased constantly while that of primary production and industry has decreased. Industrial production currently accounts for some 20 % of the Finnish economy.

Industrialisation started in Finland later than in most other OECD countries, but has been very rapid. Due to its significance in Finnish exports, industrial production plays an important role in the economy. After the economic recession in the early 1990s, electronic industries developed rapidly and became one of the main industrial sectors, together with the traditionally strong forestry and metal industries. Since the financial crisis started in 2009, the structure of the Finnish economy has, again, gone through profound changes. In recent years, the Finnish manufacturing sectors have suffered from the simultaneous decline of forestry industries and Nokia, which was the most prominent industrial corporation in Finland's history. In recent years, chemical industries' share of total production has increased while that of forestry industries has decreased.

The share of foreign trade of 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 order to survive, both in terms of increasing their cost competitiveness and developing productivity. During the past couple of years, however, the Finnish exporting industries have faced challenges with regard to their international competitiveness, which has coincided with the structural change in the exporting industries. Also, the heavy weight of investment goods in the Finnish exports has caused difficulties for Finnish exports, as demand for investment goods is depressed by weak economic conditions in the most important target markets.

Finnish economic structure, %



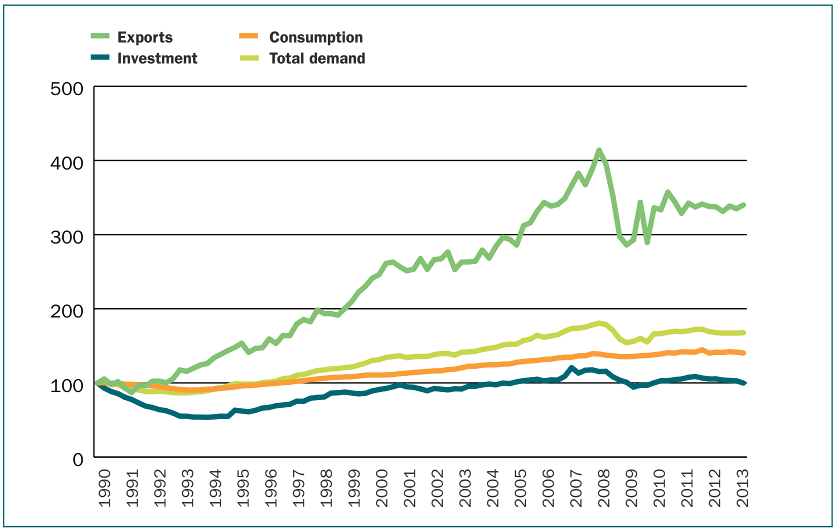
Source: Statistics Finland

> "Finnish exports are challenged by structural change in the manufacturing industries"

Together with structural challenges, the competitiveness of the Finnish exporting industries has been pressured by labour costs, which have risen more rapidly than in most other countries. In late 2013, a collective wage agreement was reached, which guarantees minimal wage increases for the next two years. This supports the competitiveness of the exporting industries, but, on the other hand will restrain domestic demand.

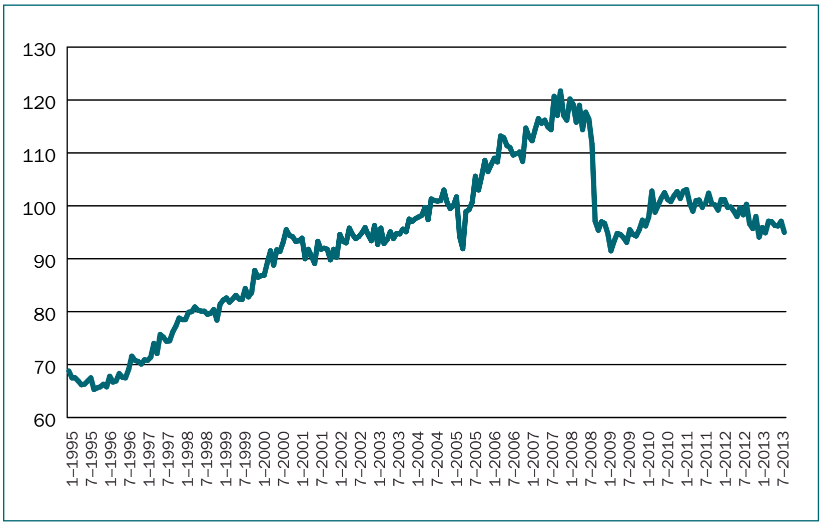
In 1990, exports accounted for only 22 % of the Finnish GDP, whereas at its peak in 2008 its share amounted to 47 %. Due to the global recession, the share of exports decreased to 37 % in 2009. The sharpest drop has been seen in the exports of the electrotechnical industries. In 2012, exports accounted for some 40 % of the Finnish GDP, and in 2013, the volume of exports remained almost unchanged compared to the previous year. Exports are expected to start increasing slightly in 2014 – provided that the demand in the main target countries starts to improve. The main target countries for Finnish exports include Sweden, Germany and Russia. In 2012, some 54 % of the total exports of goods went to EU-countries. Russia's share stood at 10 %.

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



Source: Statistics Finland

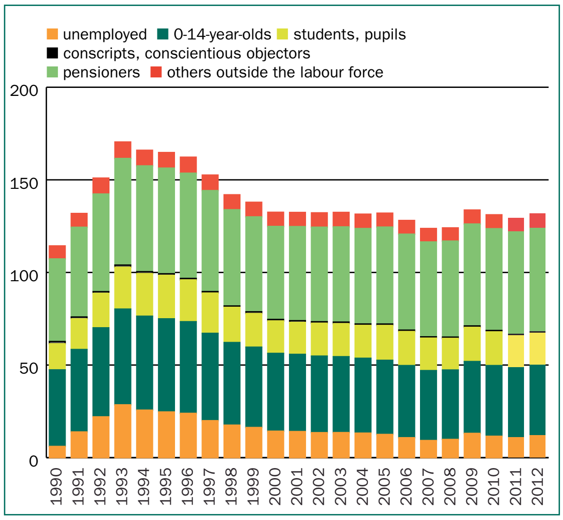
Volume index of industrial production, seasonally adjusted (index 2010 = 100)



Source: Statistics Finland

Photo: NCC / Sini Pennanen

Economic dependency ratio



Source: Statistics Finland

1.2 Finnish public finances

Compared to most other European countries, Finnish public finances are relatively strong and well-balanced. Together with Luxemburg, Finland is 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 general government debt currently stands at some 58 % of GDP.

However, challenges faced by Finnish public finances have increased significantly since 2009. The government budget has remained in deficit for the past five years, which means that the general government debt continues increasing and is expected to exceed 60 % of GDP in 2014. In 2013, the EMU deficit amounted to some 2.2 % of GDP.

Despite the challenging economic environment, Finland is one of the few euro countries that still maintains its "AAA" rating from all important credit rating agencies. According to some specialists, the Finnish economy is the best balanced among the euro countries.

"The fiscal position is still strong but deteriorating"

The tightening economic environment has put increasing pressure on Finnish public finances in recent years. Also, mainly due to the rapidly ageing population, structural reforms are needed to control public spending and support fiscal sustainability. According to the EU Commission, the sustainability gap of the Finnish economy is clearly above the EU average. The gap has deteriorated rapidly during the past few years, as the government debt has increased and structural balance of the economy has weakened. However, as the central government debt currently stands at a relatively moderate level, the total consolidation requirement is lower than in OECD-countries on average. According to OECD estimates, in order to maintain the 60 % government debt level, fiscal consolidation of 2.4 % would be required in Finland, while the average requirement for all OECD countries stands at 3.0 % of the estimated GDP.

The current government's programme includes plenty of balancing actions for the public finances, but as the economic environment has worsened significantly after the programme's introduction in 2011, new measures are currently being discussed in order to sustain economic stability. These measures include both cuts in public spending and increases in taxes, which will likely have a negative impact on economic growth in the short term. In November 2013, the government published the long-term plan for the implementation of its structural policy programme. The decision included actions regarding, for example, the reduction of tasks and obligations of the municipalities, reform of the provision of social welfare and healthcare services, as well as means for lengthening working careers. However, various challenging political issues still remain to be solved before these actions start to materialise, and some of them are likely to be postponed to the next government, which is to be assembled after the parliamentary election in early 2015.

"The Finnish government published its structural policy programme in 2013"

The Finnish welfare society is largely based on comprehensive supply of public services, including, for instance, free education and healthcare, as well as social support for families in the forms of child allowances for all families and municipal day-care provision, which is widely used in all income categories. Extensive public responsibility and tax funding are the cornerstones of the Finnish social welfare society. As a result, government expenditure accounts for some 58 % of the Finnish GDP, while the average in OECD countries stands at 44.5 %. The sustainability of the large share of public expenditure has been widely discussed in connection with the structural policies.

One of the key issues in the policy discussion is the position of Finnish municipalities. In the Finnish system, the central government plays a strong guiding role in setting the basic principles of social welfare and in monitoring their implementation. However, the actual provision of social welfare is carried out at the local level, in 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' expenses currently amount to EUR 42 billion, and account for some 23 % of GDP. The biggest municipal service areas include healthcare, education and social welfare services. In total, there are 437,000 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.

"The municipal structure is widely discussed"

Reforms in the municipal structure and service provision are 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. However, due to the high level of autonomy and strong self-government of the municipalities, these reforms are facing significant political challenges. In early 2014, the government published its plans to implement means of compulsion in municipal consolidation in major city areas in cases where smaller, typically wealthier neighbouring municipalities refuse to merge with bigger central cities. These plans are, however, facing significant resistance from the political opposition, and as the needed legislative changes would take a lengthy amount of time, it is still questionable whether the current government will be able to execute these changes.

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-boomer generations born after World War II, as well as the increasing life expectancy of the population.

Increasing the supply of workforce by, for instance, lengthening the duration of working life is actively discussed as an effective 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. The official retirement currently stands at 63-68 years, but people typically exit the labour force earlier, the average exit age being 60 years.

Other means for increasing the supply of workforce include, for instance, shortening career breaks during maternity leaves, introducing wage subsidies and partial unemployment benefits for low-wage jobs, and increasing obligation of the unemployed to accept jobs. The aim is to increase the proportion of active workers of the total labour force, which was 75 percent in 2012 according to OECD. These issues are mainly discussed by the labour market parties, and agreement has proven to be rather difficult to reach.

1.3 Outlook for the Finnish economy

The Finnish gross domestic production per capita amounted to €29,100 in 2012. This is about 14 % above the EU average. In 2013, the GDP contracted by some 1.3 %. Due to the negative growth figures of the past couple of years, the absolute volume of production still stands well below the peak level of 2008.

> "The Finnish GDP contracted by 1.2 % in 2013"

Due to its dependence on foreign trade, the Finnish economy is highly exposed to developments in the global economy. As a result of the global turmoil and financial crisis in 2008, the Finnish GDP decreased by 8.5 % in 2009, mainly due to the collapse in exports. Continuing uncertainty and tightness of the global economy has caused pressures on the outlook for the Finnish economy ever since.

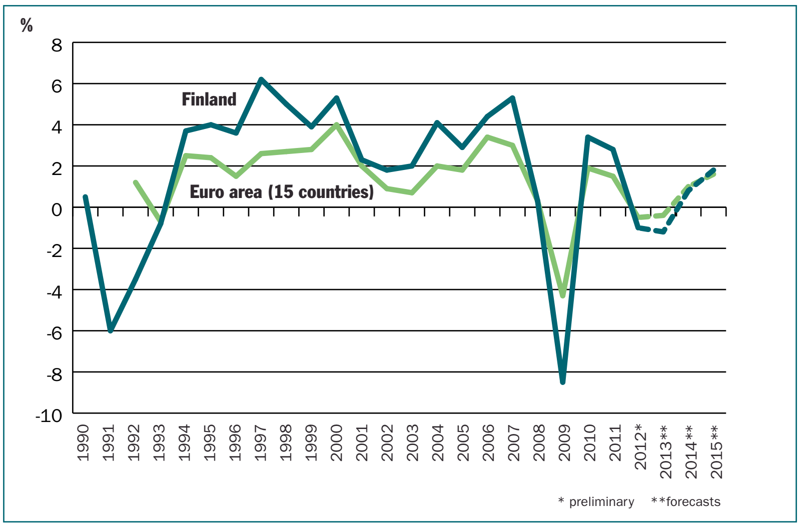
> "The Finnish economy suffers from cyclical factors due to the low external demand for investment goods"

The expected recovery in the demand for Finnish exports was not able to support the economy in 2013, and the volume of exports continued to decrease slightly, by some 0.8 %. Other components of total demand were not able to sustain economic growth either: private consumption showed negative growth figures and investments continued to decrease by more than 4 % compared to the previous year.

The change in volume of investments is expected to remain clearly in the negative territory in 2014, at some -3 %. Both private and public consumption are estimated to remain almost unchanged. Private consumption demand is constrained by increasing unemployment, zero-level wage increases and tightening taxation, whereas the public consumption's growth is limited by the government's tight financial framework.

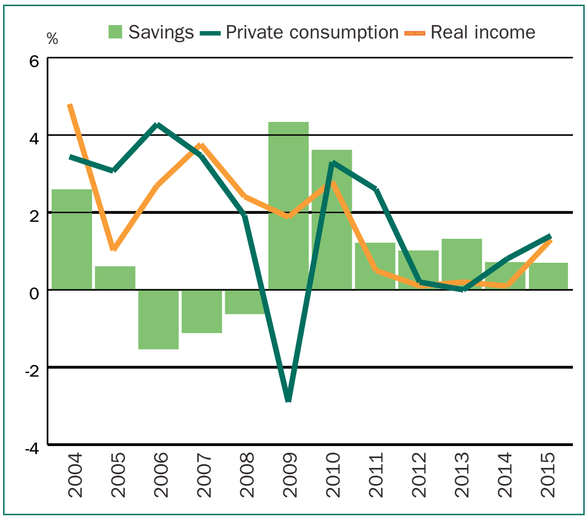
However, the Finnish exports are expected to increase moderately, by some 3.6 %, in 2014 supported by the gradual recovery of world trade and improving outlook for Finland's major export markets. The decreasing demand for

GDP growth in Finland and in the Euro area



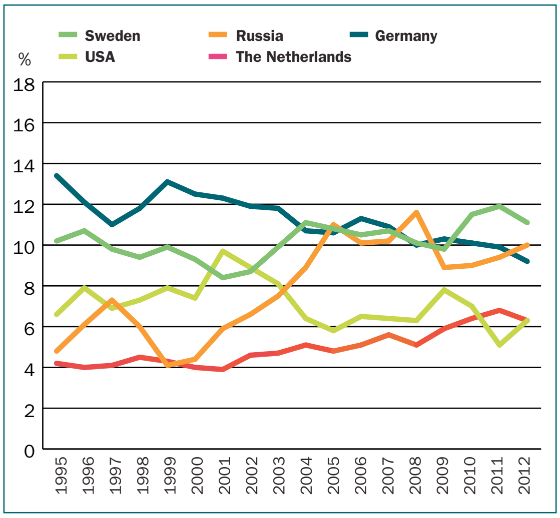
Source: OECD (Finland: Statistics Finland & Ministry of Finance)

Private consumption, real income and savings



Source: Statistics Finland, Ministry of Finance

Finnish exports by target country, %



Source: Finnish Customs

imported goods will also, for its part, support the balance of the Finnish economy. As a result, the change in the Finnish GDP is expected just to return to positive territory, to about 1 % in 2014.

Despite the challenging conditions, the Finnish labour market has held up relatively well. In the beginning of 2013, the unemployment stood at 7.7 %. The persistent weakness of the economy worsened the situation throughout the year, and the trend accelerated after the summer, as major corporations needed to adjust their resources to weakening demand conditions. At the end of the year, unemployment stood at some 8.2 %. Employment will continue to decline in 2014, and the unemployment rate is expected to edge up to 8.4 % by the end of the year.

> "Unemployment is expected to rise to 8.4 % in 2014"

Due to the accelerating retirement of the baby-boomer generations, the Finnish workforce has started to shrink, which is creating a shortage of a skilled workforce in some sectors. Also, in some low-income service sectors, the available workforce is not able to meet increasing demand. Therefore, increased migration is needed in order to sustain, for instance, the provision of labour-intensive welfare services.

Despite the relatively low unemployment figures, under-exploitation of resources is regarded as one of the key issues in preventing opportunities for economic growth. Unemployment statistics are considered to be partly misleading, as, due to the weak economic situation, an increasing number of unemployed people have given up actively seeking jobs. These people are considered to be less likely to return to the workforce even when the economic conditions improve. Unemployment is also considered to be a significant social problem, as it increases social expenses and is a driver of social segregation. Specific actions are being considered to control the unemployment of young people in particular.

Key Figures – Finnish Economy

	2006	2007	2008	2009	2010	2011	2012	2013	2014**	2015**
GDP (change in vol)	4,4	5,3	0,3	-8,5	3,4	2,8	-1,0*	-1,2**	0,8	1,8
Change in exports	12,2	8,2	5,8	-21,3	7,9	2,8	-0,2*	-0,8**	3,6	4,1
Inflation	1,6	2,5	4,1	0,0	1,2	3,4	2,8	1,5	1,5	1,6
Unemployment rate	7,7	6,9	6,4	8,2	8,4	7,8	7,7	8,2	8,4	8,2
Private consumption growth	4,3	3,5	1,9	-2,9	3,3	2,5	0,3*	-0,6**	0,2	1,0

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

* preliminary
** forecast

1.4 Finland's international competitiveness

In *The World Economic Forum's Global Competitiveness Report*, published in September 2013, Finland retained its third position after Switzerland and Singapore.

In The World Economic Forum's ranking, Finland is topping several indicators included in the category of functioning and transparency of public institutions. Private institutions are also seen to be among the best run and most ethical in the world. Finland also occupies the top position both in the health and primary education pillar and the higher education and training pillar.

On the other hand, the report identifies room for improvement in the capacity to adopt the latest technologies, which would be required to enhance Finland's position in the competitiveness rankings. With regard to the macroeconomic environment, the report still considers Finland to fare comparatively well in comparison with other euro-zone economies, despite the worsening conditions during the past couple of years.

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 2013 ranked Finland in the third place, together with Sweden, after 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.

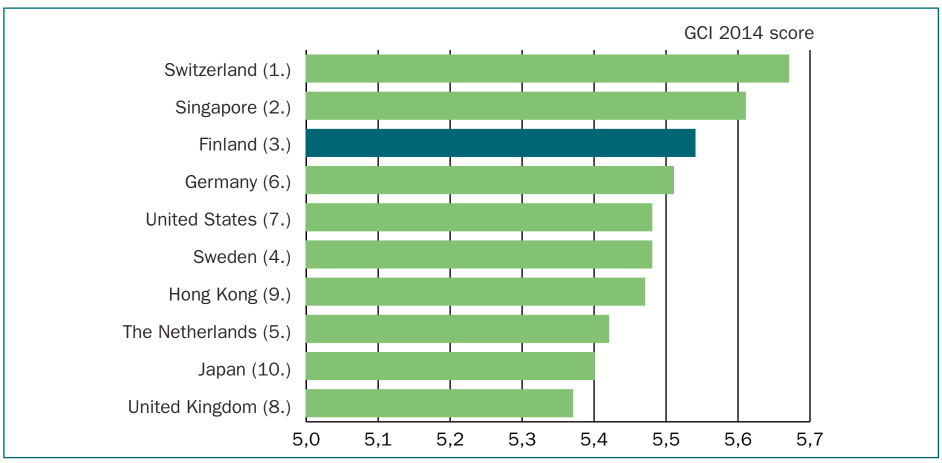
> "Finland is one of the least corrupt countries in the world"

In the OECD Better Life Index, Finland performs better than the OECD average in all dimensions. Income inequality is among the lowest in the OECD, and this contributes to Finland's high level of subjective well-being, personal security, civic engagement and social connections. Education is excellent, and environmental quality is regarded as very high. Jobs and earnings are close to the OECD average, and the work-life balance is good.

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

The most competitive national economies in 2014 (ranking in 2013)



Source: World Economic Forum

of market information, corporate governance issues as well as typical business and market practices.

In the recent Pricewaterhouse Cooper's and Urban Land Institute's report *Emerging Trends in Real Estate Europe*, Helsinki improved its ranking, and reached 15th place among European capitals after having been ranked 19th in 2013. Helsinki represents a good middle-class in this comparison, and shows "good" prospects for existing investments, and "fair" for new investments and development. The report emphasises the population growth in the Helsinki metropolitan area, which strengthens the position of residential property investments. The outlook for offices is regarded as stable, whereas the retail markets are expected to suffer from weak consumer spending.

Photo: NCC / Mikael Linden

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 companies are called mutual real estate companies ("MREC"s; *keskinäinen kiinteistöyhtiö*). This form of ownership is commonly used in both residential and commercial properties.

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

In mutual real estate companies, rental agreements are made between the shareholder and tenant, and the rental cash flow goes directly to the shareholder. Shareholders can use their shares in the company as collateral for their loans.

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.

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.

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. Rental agreements are made between the tenant and the company, and the company is responsible for maintenance and operating costs, which it covers with the rental income. 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 of ownership, unless otherwise agreed in the company by-laws. Sometimes, for instance, the by-laws assign different rights and responsibilities for the owners of residential vs commercial premises.

Due to its flexibility and transparency, mutual real estate company is a 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 company's registers.

"The Finnish regulatory framework is regarded as transparent and well-functioning"

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 compared with most other countries.

Photo: SRV

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, newly developed assets and 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.

Recent developments in the market have 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.

Rental practices

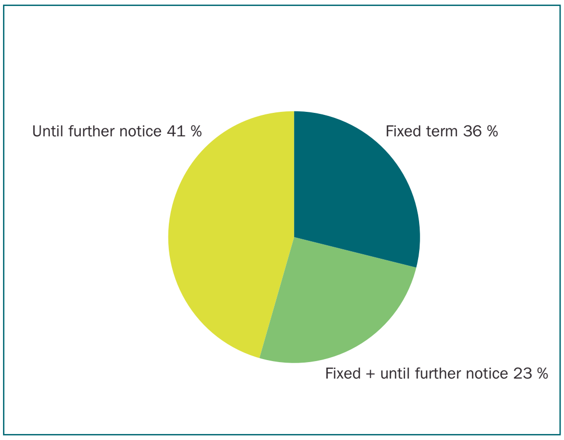
Rental practices vary in the Finnish commercial property market. The liberal legislation regulating leases gives parties freedom to agree on terms and conditions.

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 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 60 % of all office agreements are indefinite. Measured by total space area, their share is 41 %.

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 readily. 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.

Distribution of office lease agreements, sqm



Source: KTI Rental database

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. In recent years, several Finnish corporations have executed sale-and-leaseback transactions in order to free capital for their core businesses' use.

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.

> "'Until further notice' lease terms are commonly applied in Finland"

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. Measured by number of agreements, some 80 % of office agreements in the KTI rental database are for gross rent. 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.

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 to the tenant. This kind of agreement is typically called a "shared rent". These kinds 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 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. In recent years, as operating costs have increased more rapidly than the overall inflation, some landlords tend to index their rents to operating cost indexes.

Turnover-based rents are commonly used 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.

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.

Photo: Skanska / Minna Rannikko

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	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)

"In current market conditions, various means are applied in order to attract tenants"

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, when increase in supply has coincided with weakening demand. Rather than decreasing the rent levels, landlords tend to offer rent-free periods, stepped rent increases and tenant improvements, among other things. 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.

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 coordinating 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 the building right or change the use of the property can also be granted, although these are typically 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.

Some recent discussion around planning and building permit practices criticises the current regulatory framework for its lack of holistic approach to sustainability and urban structure issues, among other things. Municipalities compete with each other by using planning and land use issues to attract taxpayers – both companies and residents – and employers, which can sometimes impact planning decisions. Land use and planning issues are one of the most critical topics discussed with regard to the planned reform in the municipal structure.

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. In practice, there have been regional differences in implementing the regulation, which has caused challenges for both municipalities and developers.

"The functioning of the Land Use and Planning Act is being evaluated"

In February 2014, the Ministry of the Environment published an evaluation on the functioning of the Land Use and Planning Act. The assessed areas include, for instance, functioning of the planning processes and quality of construction, as well as responsibilities of different parties regarding quality issues. The report emphasises the need for stricter steering of land use in city regions, as well as clearer relationships between different levels of plans. Municipalities are challended for more active land use policies in order to support growth and to enhance competition in the construction and retail trade sectors.

The conclusions of the evaluation report are currently being discussed between the authorities and the market players. The primary concerns of property professionals include, for instance, possible changes that would make planning processes more complicated and time-consuming, as well as changes in construction's supervisory responsibilities, which are likely to increase property developers' costs.

Photo: SRV

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 2012, income taxes accounted for almost 36 % of the total tax revenue. The share of taxes based on consumption amounted to 33 %.

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 2014 vary between 16.5 % and 22.5 %.

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 a national health insurance scheme, national and occupational pension schemes, as well as an 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 Finnish ratio of total taxes to GDP in 2011 was 43.4 %. In the EU, this figure is only exceeded by Sweden, Denmark, Belgium and France.

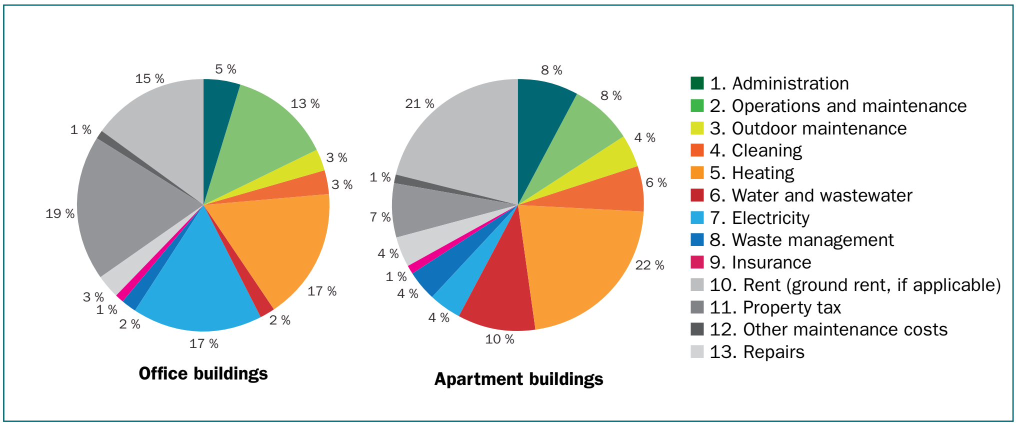
During the last two electoral periods, the government has taken serious actions to reduce the total taxation burden in Finland. However, the economic downturn and the resulting public deficit have demolished opportunities for further tax cuts. Therefore, the structure of taxation is one of the most vividly 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).

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 commonly vary between 0.6 % and 1.35 % of the taxable value per annum. Tax rates for permanent residences are lower and vary between 0.3 % and 0.75 %. For unbuilt construction sites, a specific tax rate of 1.5-3.0 % is typically applied.

Distribution of operating costs, 2012



Source: KTI

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.

Taxes typically represent some 17 % of the total operational costs of office properties, and some 5 % of those of residential properties. In recent years, the pressures for increasing property taxes have emerged due to the tightening economic conditions of the municipalities.

Capital gains taxes

Tax on investment income (interests, net rental income and capital gains) currently stands at 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. Rental income is typically taxed at 30 % also for non-residents. Of dividends, interests or royalties received 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.

Taxation of dividend income was changed in the beginning of 2014. Dividend income is partially double-taxed in Finland. The tax consequences depend on the type of company that pays the dividend – whether it is publicly listed or not - and also, for non-listed companies, on the net assets of the company.

Transfer taxes

Tax on the transfer of real property is 4 % of the transfer price. Transfer tax for transactions made by buying shares in a housing or real estate company is 2 % of the transfer price.[3] The tax base currently covers 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 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 a 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 was decreased from 24.5 % to 20 % in the beginning of 2014. At the same time, some changes were made in the deductibility of certain expenses, for instance, representational expenses cannot be deducted at all, and limits were placed on deductibility of interest expenses.

According to the new legislation for the taxation of dividends, shareholders of a limited liability company will be taxed as provided by specific rules, depending on, for instance, the tax status of the shareholder-beneficiary and whether the company is publicly listed or not. In a non-listed company, the taxation of dividends is also dependent on the mathematical value of the company. Of the dividend income from listed company, 15 % is tax-free, and 85 % is taxed as capital income at a 30 % / 32 % tax rate. Of the dividends from a non-listed company, 25 % are taxed as capital income. 75 % of the dividends are tax-free, provided that the amount of dividend does not exceed the level of 8 % return calculated on the mathematical value of the shares. If the dividends exceed this 8 % threshold, 75 % of the exceeding amount is taxed according to the progressive income tax rate. For dividends exceeding 150,000 euros, 85 % are taxed as capital income even though the 8 % limit is not exceeded.

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 residing 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. Expenses incurred in acquiring or maintaining a business are, with certain limitations, mostly 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

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.

applies to the depreciation of buildings and other structures. Depreciation for each building is calculated separately, with a maximum rate varying from 4 % up to 25 %, depending on the type of building or structure.

"Corporate tax rate was decreased to 20 % in 2014"

Taxation of partnership structures

Taxation issues are of great importance in structuring real estate fund structures. In real estate funds targeted for domestic investors, limited 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.

"Real estate funds are typically structured as limited partnerships"

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 currently stands at 24 %. 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.

Photo: NCC / Sini Pennanen

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 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.

"Value added tax issues are of great importance in leasing premises"

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. Examples of non-VAT-liable organisations include associations, charities and companies in the banking and finance sector.

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	**20 %**	Tax rate decreased in 2014.
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	**0.5–1.35 %**	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.
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

Interest deduction restrictions will be applied from the beginning of 2014

In the beginning of 2013, a new act limiting the deductibility of interest expenses, the so called "thin-cap rules", 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. Also limited partnerships which are not taxed as a source of business income will not be affected. 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.

2.5 Legislation for indirect property investment

Property funds

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.

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 the 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. The long-term gearing level of these funds is restricted to 50 % of the value of the fund. These funds are not taxable entities and are considered as fully transparent for Finnish tax purposes. Although the legislation for these funds has existed for several years, the first fund under this framework, eQ Care, was only launched in late 2012 by Finnreit Fund Management Company ltd. During 2013, four more funds with varying strategies were launched. All these funds are also offered to private investors.

"There are currently five semi open-ended property funds offered to various investor groups"

"The implementation of the AIFM Directive still pending"

Alternative Investment Fund Managers Directive

The AIFMD (Alternative Investment Fund Managers Directive) came officially into force in July 2013. However, the local implementation of the directive is still pending in Finland. The Government Bill proposing the implementation of the AIFM Directive was submitted to Parliament in September 2013, and the new legislation is intended to come into force as soon as possible, most likely on 1 March 2014.

The Directive increases 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 scope of the application of the regulation has been widely discussed in Finland, including the Directive's key concepts of "alternative investment fund" and "several investors". The Bill leaves some room for interpretation, and the applicability will be assessed on a case by case basis. The transitional period will last until 22 July 2014, by which the fund managers have to apply for authorization or registration from Financial Supervisory Authority.

Photo: NCC / Sini Pennanen

Property companies

In the Finnish context, the majority of property companies operate in the form of limited liability companies. They are regulated by the Limited Liability Companies Act, and are taxed as normal companies. There are currently three significant property companies listed in the Nasdaq OMX Helsinki exchange: Sponda plc, Citycon plc and Technopolis plc. Limited liability structure is also widely used in non-listed companies investing in real estate.

> "The first tax-exempt property company investing in residential properties was listed in 2013"

The possibility for tax-exempt listed property companies, the structure resembling internationally know REIT-structures, has currently been given only for companies investing in residential properties. The provisions for tax transparency for this kind of companies 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 operating under this regulatory framework. This fund, Orava Residential Real Estate Investment Trust plc, was successfully listed in the Nasdaq OMX Helsinki in October 2013. Due to the limiting provisions set by the legislation, the volume of this kind of vehicle is not expected to become significant.

Photo: Skanska / Minna Rannikko

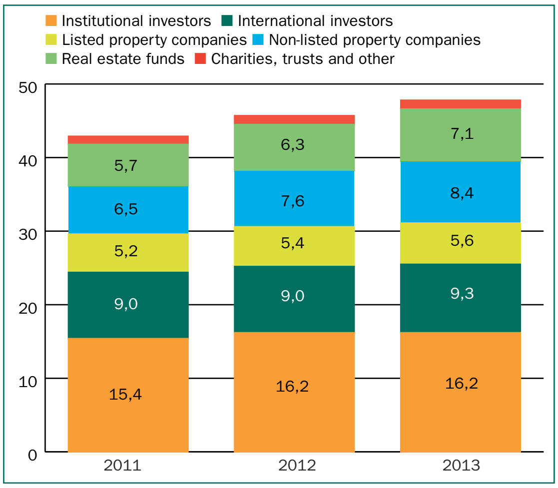
3 Structure and players in the Finnish property market

3.1 Ownership structure

The size of the Finnish professional property investment market is around €48 billion. This represents some 10 % of the total building stock. The majority of the Finnish total building stock of €480 billion (including sites) consists of residential buildings, of which some two thirds are owner-occupied.

In the property investment market, institutional investors – domestic pension funds, in particular – remain the most significant players, who through their direct holdings represent some 34 % of the total investment universe. During 2013, the total size of the invested market increased by some €2 billion as a result of both expansion of existing portfolios and emergence of new players. The increase in value resulted from new development, changes in value as well as expansion to new investment sectors and assets.

The structure of Finnish property investment market, EUR bn



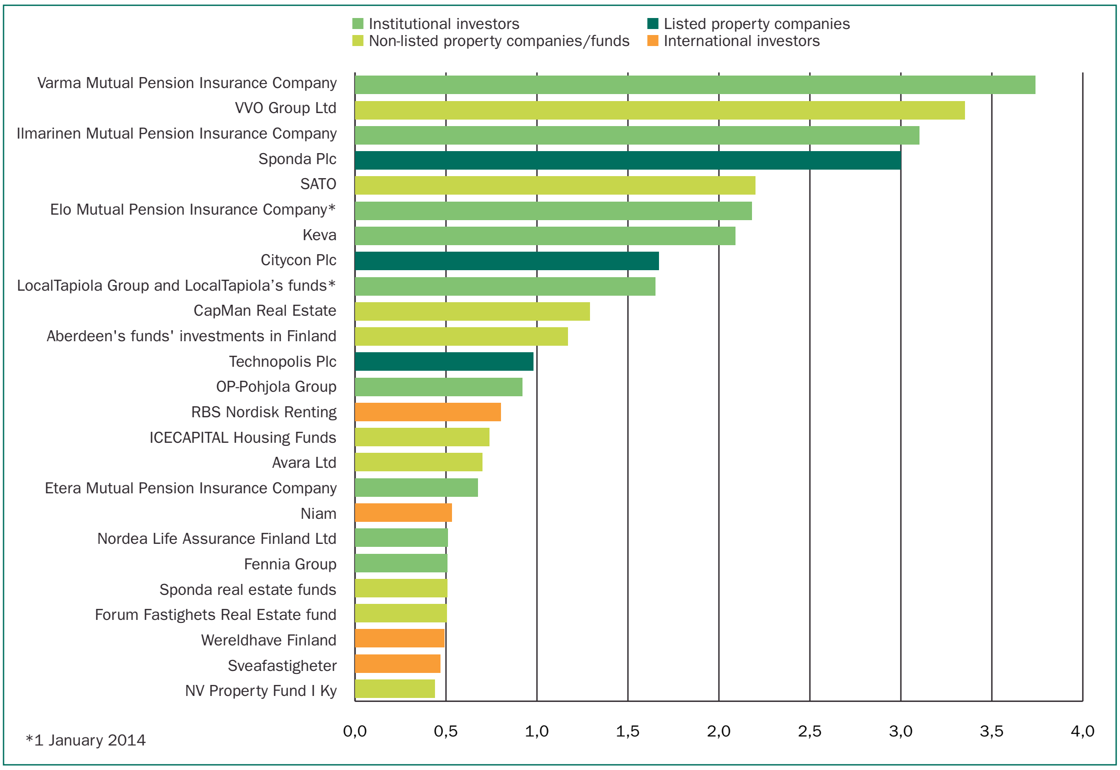
Source: KTI

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 €158 billion at the end of the third quarter of 2013, according

Direct property holdings of 25 biggest property investors in Finland (fair values of the properties at the end of 2013, EUR billion)



Source: KTI (query for investors, annual reports) to the Finnish Pension Alliance TELA. This represents a growth of some €8.8 billion compared to the end of 2012. The majority of the growth is a result of healthy returns on existing investments. Some 10 % of the growth is originated from new pension contributions.

"Annual pension payments exceeded pension contributions in 2013"

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

Part of the annual pension contributions is used to pay the pensions of the insured and another portion is transferred to reserves for future pensions. These reserves form the basis of the Finnish institutional investment assets. Due to the retirement of large numbers of people from the 1940s generations, the amount of pensions being paid out has now exceeded the amount transferred to reserves, and pension payments thus have to be partly covered by returns on investments. Calculations on the long-term pension money flows are based on the assumption of a 3.5 % annual real return on investments. According to TELA, the real return on private sector pension institutions' investments has amounted to 3.9% per annum on average in the past 17 years. During the same period, public sector pension institutions, which do not have a similar solvency framework as private sector institutions, have returned 4.2 %.

"Returns on pension funds's investments at a healthy level"

Pension insurance companies are the biggest players in the private pension sector. Their number was reduced from seven to six in the beginning of 2014, when a new mutual pension insurance company Elo was established through the merger of LocalTapiola Pension and Pension Fennia. In addition, there are two specific pension institutions for public sector workers (Keva and State Pension Fund), and a number of company or industry specific pension funds.

"Pension funds are the biggest investors in the Finnish property market"

Photo: NCC / Mikael Linden

At the end of the third quarter of 2013, 45 % of the pension institutions' assets were invested in listed shares or other equity investments. The share of equity investments increased during 2013 due to both new investments and increase in value of existing investments. Some 44 % of the assets were invested in bonds and money market instruments.

The share of property investments in the Finnish pension institutions' portfolios was 10.5 %, amounting to €16.7 billion (€15.6 billion at the end of third quarter of 2012). Their share decreased slightly during 2013, having stood at 10.8 % at the end of 2012.

The vast majority of all pension institutions' property investments are in Finland. At the end of September 2013, the amount of foreign property investments amounted to €2.4 billion (€2.3 billion at the end of 2012). The majority of foreign investments are invested within the euro area. Almost all foreign investments are done through non-listed property funds.

The six pension insurance companies are the biggest private-sector participants in the Finnish pension system. Their property investments amounted to €12.2 billion at the end of the third quarter of 2013, representing a 12.7 % share of their total investments. Real estate investments' proportion of the total investment varies markedly between funds.

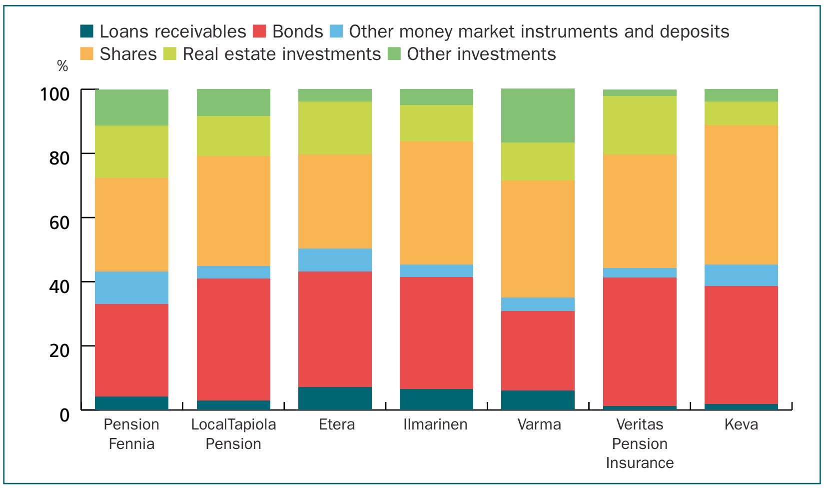
Varma and Ilmarinen are the two biggest pension insurance companies in Finland, with total investment portfolios of €37.7 and €32.3 billion, respectively. They are also major property investors: Varma is the biggest property investor in Finland with a direct domestic portfolio of some €3.7 billion. In 2013, Varma continued transferring its investments into indirect structures through selling assets to, for instance, SATO and Trevian's new fund. Ilmarinen's direct domestic property portfolio amounted to €3.1 billion at the end of 2013. In 2013, Ilmarinen published its new investment strategy, according to which they plan to increase their allocation into real assets. The strategy also enables direct property investments abroad. Ilmarinen made its first investment of this kind in late 2013, when it entered into a joint venture investment in a major business park in Oslo together with Technopolis. The newcomer in the pension insurance company field, Elo, has a total investment portfolio of some €18 billion. Its direct property holdings amount to some €2.2 billion.

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 2013, Keva's investment portfolio amounted to €37.8 billion, of which some 7.3 % 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, whose property funds investments amounted to some €480 million at the end of 2013. In the biggest funds' property portfolios, the share of indirect investment is typically 12-25 %. 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 biggest residential property investment companies, VVO, SATO and Avara.

Portfolio allocations of major pension insurance companies, 30 September 2013



Source: The Finnish Pension Alliance TELA

> "Some 10.5 % of pension institutions' total assets are invested in property"

Finnish legislation requires that investment decisions be made by institutions themselves, and thus portfolio management functions are kept in-house. In the organisation of property and asset management functions, some differing strategies are pursued. Some institutions 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 good returns on their investment portfolios for 2013, with results varying between 0.3 % (Etera) and 9.8 % (Ilmarinen). The level of returns was mainly dependent on the funds' allocation to listed equities, which performed well in 2013. In the challenging markets, most institutions reported rather poor returns on their bond and money market investments. Returns on property investments varied markedly between funds, from 3.1 to 16.3 %.

Photo: NCC / Mikael Linden

Listed property sector

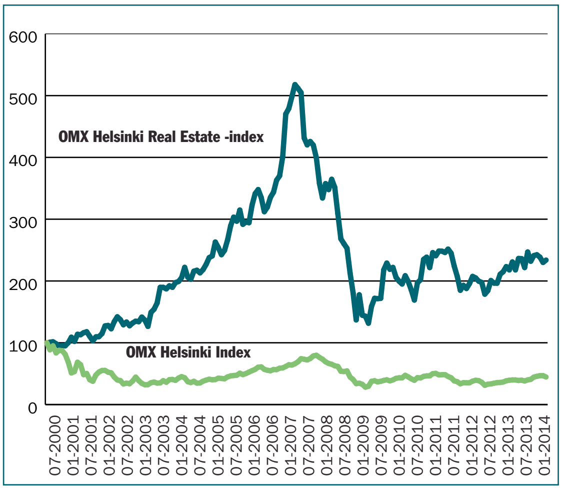
There are only three recognised property companies listed on the main list of the OMX Nordic Exchange in Helsinki: Citycon, Sponda and Technopolis. At the end of 2013, the combined market value of these three companies stood at around €2.6 billion, showing an increase of some 19 % compared to the previous year. Market capitalisation of Citycon and Techopolis increased markedly, whereas that of Sponda decreased slightly during 2013. Market value of the new Orava Residential Real Estate Investment Trust, which was listed in October 2013, stood at some €30 million.

The Finnish listed equities market performed strongly in 2013, with the OMX Helsinki 25 Index increasing by 23 % during the year. During the same period, the real estate sector index only increased by about 9 %. Of the main companies, Technopolis's shares showed the strongest performance in 2013.

At year-end 2013, Sponda's property portfolio amounted to €3.4 billion (€3.26 billion at the end of 2012). Sponda's portfolio currently consists of office, retail and logistics properties in the main cities in Finland as well as in Moscow and St. Petersburg in Russia. Sponda also has a separate fund management business unit, which is currently a co-investor and/or manager in five funds. In September 2013, Sponda announced a major change in strategy, whereby it plans to divest its property fund and Russian businesses during the next 3-5 years. Furthermore, it will also sell off its logistics property portfolio, as well as assets in Turku. In the future, the company will concentrate on office and retail properties in the Helsinki metropolitan area and the Tampere region.

Share performance of the Finnish listed property companies

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



Source: Nasdaq OMX

"Sponda is undergoing major changes in its business strategy"

Citycon owns and manages shopping centres and retail properties in Finland, Sweden, Denmark, Estonia and Lithuania. At the end of 2013, it had a portfolio of some €3.0 billion (€2.7 billion at the end of 2012). Of the 35 shopping centres, 22 are located in Finland. It also manages Ilmarinen's Galleria Esplanad centre in Helsinki. During the past couple of years, Citycon has made some significant joint venture deals with several institutions, including Iso Omena in Espoo with GIC, Kista Galleria in Stockholm with CPIB, and IsoKristiina in Lappeenranta with Ilmarinen as co-investor.

Technopolis specialises in leasing space and providing business support services related to facilities management mainly for start-up and growth companies. Technopolis expanded its operations significantly in 2013, and it currently owns 19 campuses in 11 cities in Finland, Estonia, Russia, Lithuania and Norway. The company's property portfolio totaled around €1.4 billion at the end of 2013 (€1.0 billion in 2012). The company's biggest acquisitions in 2013 include Falcon Campus in Espoo, as well as its first investments in Norway and Lithuania. In the Fornebu campus in Norway, Ilmarinen acts as co-investor for Technopolis.

Orava Residential Real Estate Investment Trust is a newcomer in the Helsinki OMX exchange. It is the first fund operating under the Finnish property fund legislation, which provides tax transparency for listed real estate investment companies investing in rental residential properties. At the end of 2013, the fair value of the company's portfolio stood at €79.2 million (€32 million at the end of 2012), and comprised 790 rental apartments.

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. At the end of 2013, the fair value of VVO's property portfolio amounted to €3.35 billion. 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.

"The biggest non-listed property companies invest in residential properties"


Photo: SATO

SATO's current holdings comprise about 23,800 apartments, of which around 450 are located in St Petersburg, with the rest being in major Finnish cities. The market value of the investment portfolio stood at about €2.3 billion at the end of 2013 (€2.1 billion in 2012). Besides the development and management of rental residential buildings, SATO also develops residential properties to be sold for owner-occupiers. The pension insurance company Varma owns about 45 % of SATO's shares. Other major owners include Ilmarinen, the life fund Suomi and the 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 the pension insurance company Elo being the biggest shareholder in the company.

Non-listed property companies investing in commercial property include some major foreign investors that have either 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.

Real estate fund management companies

The supply of non-listed property funds has increased significantly during the past couple of years. The first fund products were mainly targeted at domestic institutional investors. Currently there are also several funds offered to private investors. Finnish non-listed property funds targeted at institutions are typically structured as limited partnerships, which from a taxation point of view is a favourable structure for domestic institutions. During 2012-2013, four special real estate investment funds were launched under the semi-open-ended mutual fund structure. These funds are mainly offered to private investors. There are currently some 20 Finnish real estate fund management companies, managing almost 50 funds.

Finnish property fund management companies have diverse backgrounds, which also affects their strategies significantly. CapMan, which currently manages three Finnish and one Nordic 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 five property funds with differing strategies. In 2013, Pohjola launched a new fund, which is also offered to private investors; in its two first funds, the investors are domestic institutions.

> "There are almost 20 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. Other investment management companies that have expanded to property include, for example, Taaleritehdas and Quorum.

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, VVT 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. NV Property Investment and VVT Property Investment are clubs of some major institutions. Forum Capita manages the Forum shopping centre in Helsinki CBD.

A newcomer in the fund management business is Trevian Asset Management, which launched two funds in 2013. Its first fund, Trevian Care I, acquired a health care property portfolio of some €100 million from pension insurance companies Varma and Etera, who are also the main investors in the fund. The portfolio was sold to the Swedish Hemsö in early 2014. The company's second fund, Trevian Retail I, was established in November 2013, and it acquired a portfolio of 41 retail properties from a Luxemburg-based MK European Capital Partners.

> "Property funds expanded significantly in 2013"

In the emerging mutual property fund sector, the most significant managers include eQ Bank, Ålandsbanken, Pohjola Property Investment, and as the most recent example, the insurance company Fennia. They all expanded their operations significantly in 2013. eQ Health Care,

Finnish property fund managers and funds / vehicles

MANAGERS, FUNDS	LAUNCH YEAR	PORTFOLIO
Aberdeen Asset Management Finland Ltd		
Aberdeen Real Estate Fund Finland	2006	Office, retail, logistics, industrial
Aberdeen Property Fund Finland I Ky	2006	Office, retail, logistics, industrial
Kauppakeskuskiinteistöt FEA Ky	2007	Shopping centres, retail
Asuntoturva Ltd		
Quorum Asuntoturva I Ky	2007	Residential
Quorum Asuntoturva II Ky	2008	Residential
Asuntoturva Ovi Ky	2010	Residential
Auratum Real Estate Ltd		
AKR Tuotto Ky	2007	Office, retail, logistics
AKR Tuotto II Ky	2011	Retail, logistics, healthcare
AKR Verto Ky	2010	Office, retail
AKR Aura Ky	2012	Office
BPT Asset Management Ltd		
EPI Healthcare I Ky	2007	Healthcare
CapMan Real Estate Ltd		
CapMan Real Estate I Ky	2005	Office, retail, logistics
CapMan RE II Ky	2007	Office, retail, logistics
CapMan Hotels RE Ky	2008	Hotels
CapMan Nordic Real Estate Ky	2013	Office, retail, logistics, hotels, residential
Exilion Capital Ltd		
Exilion Real Estate 1 Ky	2007	Office, retail, logistics, hotels
Fennia Asset Management Ltd		
Fennica Commercial Properties I (non-ucit)	2013	Commercial properties
FIM Real Estate Ltd		
FIM Residential Fund I Ky	2013	Residential
eQ Fund Management Ltd (Finnreit Fund Management)		
eQ Care (non-ucit)	2012	Healthcare
AB Forum Capita Ltd		
Forum Fastighets Kb	2008	Retail, office
ICECAPITAL REAM Ltd		
ICECAPITAL Housing Fund I Ky	2006	Residential
ICECAPITAL Housing Fund II Ky	2009	Residential
ICECAPITAL Housing Fund III Ky	2012	Residential
ICECAPITAL Asunto 2012 Ky	2012	Residential
LocalTapiola Real Estate Asset Management Ltd		
Tapiola KR I Ky	2007	Office, retail, logistics
Tapiola KR III Ky	2008	Residential
Tapiola KR IV Ky	2009	Residential
TuuliTapiola Ky	2012	Wind power
LähiTapiola Asunto Prime Ky	2013	Residential
LähiTapiola KR PK 2 Ky	2013	Office
NV Property Investment / VVT Property Investment Ltd		
NV Property Fund I Ky	2006	Commercial properties
VVT Property Fund I	2012	Commercial properties
Orava Funds Plc		
Orava Residential Real Estate Investment Trust Plc	2010	Residential
Pohjola Property Investment Ltd		
Real Estate Fund Finland I Ky	2006	Office, retail, logistics, industrial
Pohjola Residential Fund I Ky	2013	Residential
OP Vuokratuotto (non-ucit)	2013	Office, retail, residential
Quorum Ltd		
Quorum Rakennuttaja I Ky	2012	Residential development
Quorum Rakennuttajarahasto II Ky	2013	Residential development
Quorum Kehitysrahasto I Ky	2013	Office, retail, logistics, industrial
Sponda Plc		
Sponda Fund I	2006	Logistics, industrial
Sponda Fund II	2008	Logistics, industrial
Sponda Fund III	2012	Logistics, industrial
Taaleritehdas Plc		
7 residential funds	2010-	Residential
Trevian Asset Management		
ARIF I Ky		Retail
Trevian Care I Ky	2013	Healthcare
Trevian Retail II Ky	2013	Retail
Ålandsbanken		
Ålandsbanken Residential fund (non-ucit)	2012	Residential

Sources: Survey to the managers, press releases, www-sites established in 2012, had a portfolio of 34 health care properties worth some €70 million at the end of 2013. Ålandsbanken's residential fund attracted investors through the bank's sales channel, and increased its portfolio to 700-800 rental apartments in its first year of operations. OP Vuokratuotto invests in both commercial and residential properties, and has also had a good start for its operations. The latest newcomer in this business is Fennica Properties I, which made its first investments at the year end 2013 by acquiring several properties with a combined worth of some €70 million.

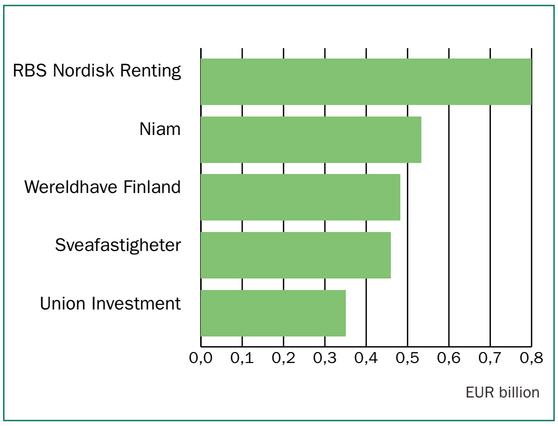
International investors

Foreign investors currently account for some 20 % of the total Finnish property investment market. The holdings of foreign investors amounted to some €9.3 billion at the end of 2013.

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, Genesta, Niam and Cornerstone). Sveafastigheter also had a local office in Finland, but in early 2014, it announced that the Helsinki office will be closed, and the Finnish investments will be managed through a management agreement with the former employees of the company. Some foreign players 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 €800 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.

Biggest foreign investors in Finland



Source: KTI (query for investors)

In 2013, foreign investors' total investment volume amounted to about €700 million, which represents a significant increase compared of the previous year's volume of €480 million. This represents some 20 % of the total transactions volume.

The most significant investment in 2013 was done by Allianz Real Estate, who acquired a 50 % share of shopping centre Kamppi from Cornerstone's Nordic retail Fund in December. This was the largest transaction in Finland of the whole year. Also Union Investment expanded its Finnish portfolio by more than €100 million through acquisitions of the head offices of both Skanska and UPM. Also Sagax continued its growth in Finland through several transactions in 2013 and early 2014.

The newcomers in the Finnish market in 2013 include the Swedish Redito, who acquired a 40,000 sqm retail portfolio from HOK-Elanto, as well as Hemsö, who made its first Finnish investment in the building occupied by the Turku University of Applied Sciences. In early 2014, Hemsö bought a €100 million portfolio of health care properties from Trevian. The Swedish AP3 fund is the main investor in both these companies.

Largest transactions by foreign investors in Finland in 2012-2013

PROPERTY / PORTFOLIO	DATE	PRICE (M€)	PURCHASER	SELLER
Portfolio of 68 grocery store properties	2012Q1	~100	Sveafastigheter Fund III, Capitol Asset Management	Niam III
Bronda portfolio	2012Q3	~170	Niam V	Bankruptcy estate and RBS
Eventes Business Garden	2012Q3	62,3	Union Investment Real Estate	Peab Invest
Aleksanterinkatu 11	2012Q3	60	Cordea Savills	Nordea Life Assurance Finland
UPM headquarters	2013Q4	74	Union Investment Real Estate GmbH	UPM
Kamppi Shopping Centre (50%)	2013Q4	n/a	Allianz Real Estate	Nordic Retail Fund (managed by Cornerstone Real Estate Advisers)
Four retail properties	2013Q4	n/a	Redito	HOK-Elanto
Pöyry Plc's headquarters	2013Q4	n/a	Niam Nordic Core Plus	Pöyry Plc

Source: KTI

Public sector

Public sector entities are very important players in the Finnish property market. The Finnish state has concentrated most of its property holdings on a government-owned enterprise called Senate Properties, whose task is to develop, manage and let the state's property holdings. It also acts as an intermediator in lease agreements between state agencies and private sector property investors. Senate has a specific department for selling and redeveloping the properties no longer needed by state authorities. Senate is by far the largest property owner in Finland, with a balance sheet of some €4.6 billion. Its diversified 6.5 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. In the beginning of 2014, 47 buildings of the National Board of Antiquities were transferred to Senate Properties. Senate operates under the control of the Ministry of Finance and is currently strengthening its strategy as the state's internal working environment expertise unit. Restructuring of the state administration and operations, including a major reform in the Finnish Army, will create increasing challenges for Senate properties in the coming few years. The state is also preparing its new workplace strategy, which is expected to be confirmed in early 2014. The new strategy sets ambitious objectives with regard to space efficiency and cost of premises, and Senate will play a major role in executing and implementing the strategy.

"The Finnish state is aiming at increasing space efficiency"

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 are typically 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 a significant amount of space that they let to private market players.

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 for and management of properties.

Most municipalities also own significant residential property portfolios through separate companies. These companies own mainly state-subsidised stock, the estimated value of which amounts to some €10 billion.

Photo: NCC / Sini Pennanen

Corporations

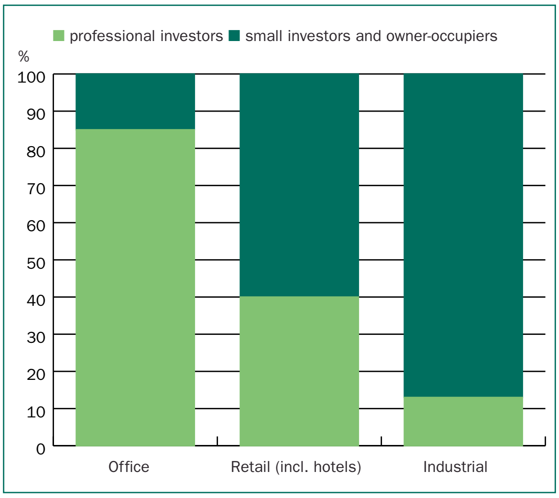
Traditionally, property occupiers have played a significant role in the Finnish property market through their ownership of large property portfolios. The majority of commercial property stock has traditionally been owner-occupied. The proportion of owner-occupancy is currently estimated to be somewhere around 60 %. Owner-occupation is extremely common in industrial sector (approx. 85 %), and fairly common in the retail properties (60 %), whereas the majority of office properties are owned by investors. The value of the property holdings of the Finnish companies is estimated to be between €70 and 80 billion.

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 couple of years, several major Finnish corporations have sold their properties and, in many cases, the companies remained as tenants in these buildings through relatively long leases. In 2013, the most significant sale-and-leaseback transactions were carried out by Skanska, UPM and Pöyry. Also Sanoma Corporation announced that it will sell most of its operational properties, and some transactions were already executed during 2013. The sale of the company's head office in the Helsinki CBD is expected to be completed in early 2014. Other main corporations' office deals in 2013 included, for instance, the completions of the new head offices for Finnair, which is owned by Ilmarinen, as well as for Alma Media, which is owned by Etera. Modern buildings rented for major Finnish corporations with long leases continue attracting both domestic and foreign investors.

> "Investors are interested in sale-and-leaseback deals with major corporations"

Owner-occupation of commercial properties



Source: KTI

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. Of the two corporations, Kesko has pursued a more active strategy with regard to its property finance, and it has, over the years, sold significant amounts of property assets to investors. In late 2013, Kesko announced that it is considering establishing a property fund, where it would transfer some €750-950 million worth of properties in Finland, Russia and Sweden while remaining an investor in the fund.

Industrial companies still typically own their production properties. Companies such as professional services, media and IT/telecommunication companies, which predominantly use office or light production space, are pursuing increasingly sophisticated workplace strategies, and typically rent their premises.

Photo: NCC / Mikael Linden

3.2 Real estate service sector

Asset and property management services

The asset and property management services market is dominated by domestic and Nordic companies. The major Finnish asset and property management service companies include Ovenia, Corbel and Realia Management. The majority ownership of all these companies is currently held by private equity firms.

Ovenia Oy's clients include major Finnish and international investors, as well as corporations. Ovenia has expanded through company acquisitions in recent years by purchasing a shopping centre specialist Realprojekti Oy, residential property management company Arenna Oy and several smaller management firms. Ovenia Group is organised in three divisions: commercial property management, shopping centre development and management and residential property management.

Realia Group is, through its daughter companies, a major player in the residential property brokerage and management markets. Realia Management, another affiliate company of the Group, manages some major investors' residential portfolios, and also offers management services for commercial property management, valuation and advisory services.

Corbel Oy is another domestic asset and property management company. The company has recently expanded through new management deals with some major institutions and property companies.

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 a boutique investment and asset management service provider. The company has recently entered into new deals with some loan servicers dealing with non-performing loan / property portfolios. A new player in the asset management service sector is Trevian Asset Management, which was founded in 2012 and currently also manages some property funds.

"Main domestic management firms are expanding through company acquisitions"

Other domestic players servicing some institutional and foreign property investors in selected segments include Realco Oy, KJ Kiinteistöjohto Oy and Kiinteistömanagement J. Juhola Oy. 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. The largest service companies with backgrounds in traditional service provision (such as cleaning, catering and maintenance) who also currently offer management services include ISS and SOL. Coor Service Management is an example of a company only concentrating on services management.

Caverion Oyj, which was separated from construction company YIT in summer 2013, is a significant player in the property and technical management service market.

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. Realia currently co-operates 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 recently acquired a Finnish transactions advisory firm Finadvice Oy. Colliers International has a small local Finnish office offering transaction and leasing brokerage, as well as project management services. Swedish-originated advisors Leimdörfer and Tenzing also have offices in Finland.

"Most international advisory service firms are represented in Finland"

Cushman and Wakefield is represented in the market through a collaboration agreement with the local transaction and leasing service company Tuloskiinteistöt Oy. There are also a couple of smaller local transactions and valuation service firms servicing mainly domestic players. Of the local valuation firms, Peltola & co serves some major investors.

In addition to the actual transaction services firms, corporate finance services are offered by some domestic companies, including Advium Corporate Finance and Aventum Real Estate. 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.

Property financing

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 most active international player currently active in the Finnish the real estate market is Helaba (Landesbank Hessen-Thüringen).

Due to the recent changes in market circumstances, refinancing of the debt used to finance investments during the peak between 2005 and 2008 has become a widely discussed topic in the Finnish market. Local banks tend to be patient with their debtors as long as they are able to cover the interests, despite potential covenant breaks. Therefore, the terminations of the debt have not caused any major market disruptions. However, due to changed conditions and tighter regulation in the banking sector, the availability of debt is not sufficient to cover all terminating loans.

In the current market conditions, lenders are still mainly concentrating on core assets with stable cash-flow and solvent investors, and are offering lending for quite moderate loan-to-value ratios. The availability of debt has, however, improved slightly during the past year, and the margins have decreased to some extent.

"Finnish institutions are providing debt for property investments"

Finnish institutions are showing increasing interest in providing debt for real estate investments. This is attractive, for instance, for life insurance funds, for whom the Solvency II framework gives debt in better position than direct property investments. Pension and life insurance funds can provide property debt either directly to their clients, or act in co-operation with banks in financing deals.

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.

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 also actively develop 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. HGR Property Partners is another real estate investment company focusing also on real estate development. 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.

4 Property sectors: investment performance, market structure and practices

4.1 Property investment market in 2013

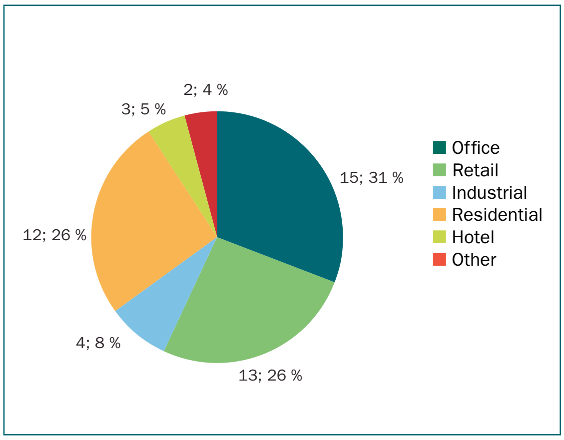
The property transactions volume totalled some €2.4 billion in 2013, which represents a 12 % increase compared to 2012. The last quarter of the year was the most active quarter since the beginning of 2008 with a total volume of €1.1 billion. Foreign investors' share amounted to €700 million, showing a 45 % growth compared to the previous year. The most active foreign investors in 2013 were Allianz Real Estate, who acquired a 50 % share of the Kamppi shopping centre, and Union Investment, who, for instance, invested in UPM's and Skanska's new head offices.

"Transaction volume increased by 12 % in 2013"

Among domestic players, property funds were the most active investor group with a 29 % share. In this sector, the activity was increased by newly launched funds mainly offered to private investors, as well as some restructurings in institutional funds, where formerly direct holdings were converted to fund partnerships.

The first three quarters of the year were very quiet, with a total volume of only €1.3 billion. During the first three quarters, residential and health care properties were the most favoured property sectors, with volumes amounting to 31 % and 24 % of the total transactions volume, respectively. In the last quarter, however, some major office and retail property transactions were carried out, and offices represented the largest share, amounting to 31 %, in the whole year's transactions volume.

The structure of Finnish property investment market by sector EUR bn ; %



Source: KTI

"New funds invested in residential and health care properties"

Investor interest continued to be mainly targeted at low-risk prime assets in good locations and with secured cash-flow, the yields of which continued compressing. The limited supply in this segment, however, effectively prevented transactions from taking place. It is still relatively difficult to find buyers for properties in secondary locations and with potential occupancy problems.

Photo: SRV

Despite the continuing challenges in secondary market liquidity, there have not been any significant problems or market impacts of distressed property sales. In 2013, only few distressed sales were carried out, mainly of smaller properties or portfolios, and they didn't thus have any significant impact on overall pricing.

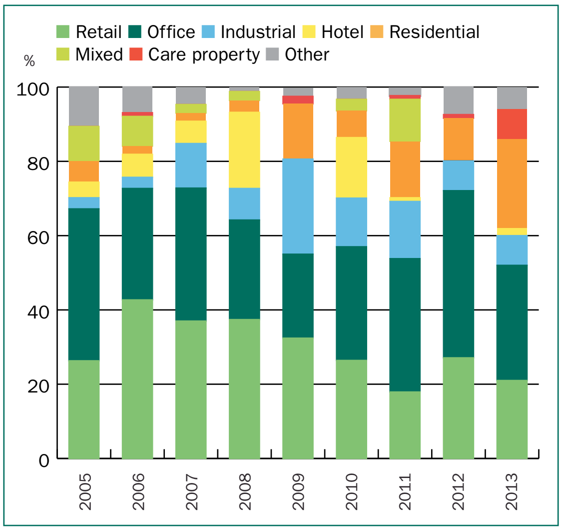
The most aggressive purchase of a distressed property was carried out by Saka Hallikiinteistöt, a fund run by Sampo insurance group, through the acquisition of a relatively modern office building Moveres Business park in Pitäjänmäki from TMW Pramerica. In this transaction, the price was a fraction of the original 2007 purchase price. Other examples of distressed property transactions were the acquisition of two office properties by Niam in January, and the purchase of three retail properties in mid-sized towns by Auratum's fund in the summer.

Allianz's acquisition of the Kamppi shopping centre was the biggest transaction of 2013. The second biggest purchase, amounting to some €100 million, was made when Trevian Asset Management established a new health care fund and acquired health care properties from pension insurance companies Varma and Etera. The fund divested this portfolio in early 2014.

The availability of debt financing improved slightly during 2013. The Nordic banks continued to finance property investments, and some German banks also increased their activity. While pricing of debt eased slightly, banks continued to be cautious with regard to risk, and loan-to-value ratios remained moderate. As a new phenomenon, some pension and life insurance companies started to finance property investments, providing debt either directly to their clients, or co-operating with banks.

Photo: NCC / Sini Pennanen

Distribution of transactions by property type, 2005–2013, % of all transactions

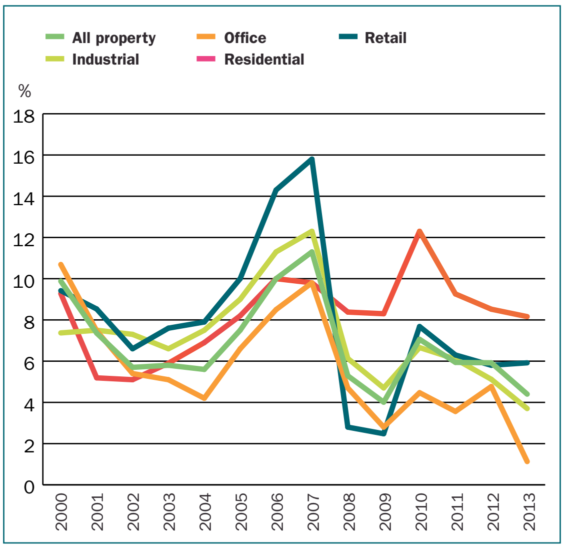


Source: KTI

"Total return on the Finnish property market amounted to 4.4 % in 2013"

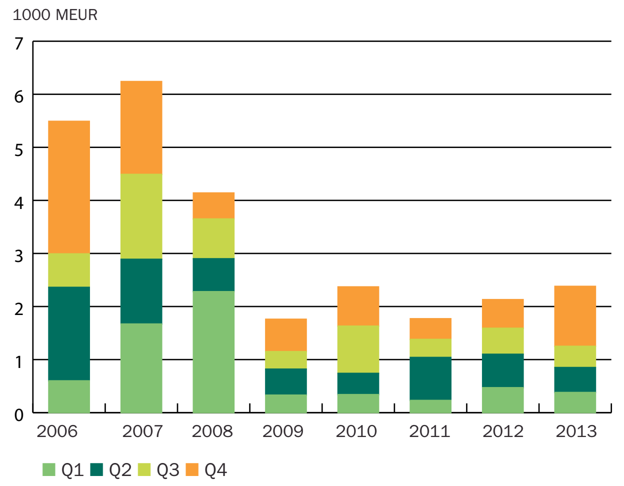
According to the KTI Index, the Finnish property market produced a total return of 4.4 % in 2013, consisting of a capital growth of -1.8 % and a net income of 6.3 %. These figures represent a clear decrease compared to 5.9 % in 2012. Capital growth was negative for all commercial property sectors. Income return continued to be pressured by high vacancies and increasing costs.

Total returns by property sector 2000-2013



Source: KTI Index

Transaction volume in the Finnish property market, quarterly



Source: KTI

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.

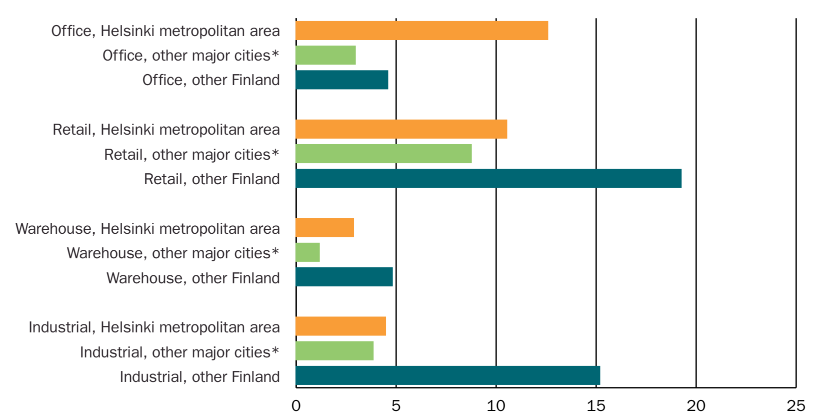
Players

Offices have traditionally played a significant role in Finnish institutional property portfolios. In the KTI Index, for example, offices currently represent some 29 % of the total database. However, due to the poor performance of office property investments, some investors have decreased their allocation to offices in recent years. About 75 % of the offices in the KTI index database are located in the Helsinki metropolitan area, and 17 % in other major cities.

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 as company headquarters. These can be found both in the Helsinki central business district

Photo: SATO

Commercial property stock estimated values by region and by property sector, EUR bn

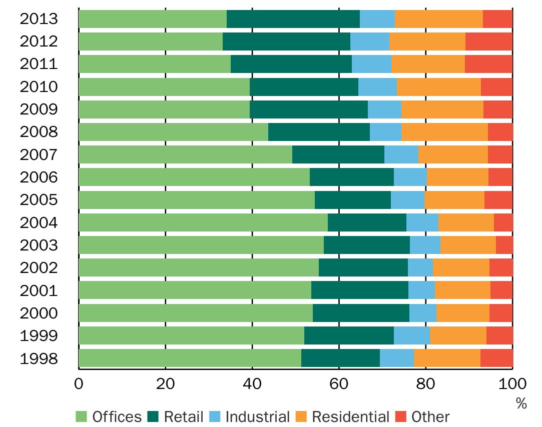


* Turku, Tampere, Oulu, Lahti, Jyväskylä and Kuopio

Source: KTI

(CBD) and in some other areas in the Helsinki metropolitan area. In the past, headquarter properties were typically owner-occupied, but during recent years, several companies have sold their headquarter properties to investors, and, in the case of new development, offices are typically developed together with investors. The third office category is business-park-type properties located near good traffic connections, mainly in the Helsinki metropolitan area. The supply of office premises in business parks, in particular, has been increasing quite rapidly in recent years through new development. Domestic institutions typically hold all three office types in their portfolios, whereas property companies and funds tend to have more focused strategies. Foreign investors have also invested in all office segments, particularly in the Helsinki metropolitan area.

KTI Index database by property sector % of market value



Source: KTI

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 such as CapMan's, Exilion's and Aberdeen's funds. Foreign investors, for instance Niam and Union Investment, also increased their investments in Finnish offices in 2013.

The biggest office transaction in 2013 was carried out by Technopolis, who acquired the Falcon Business Park in Espoo for €77.5 million. Other major office transactions were made by Union Investment, who purchased the head offices of Skanska and UPM in Helsinki, and by Niam who invested in Pöyry's head office in Vantaa. The vast majority of office transactions were carried out in the Helsinki metropolitan area. Elsewhere in Finland, the biggest transactions were made by Technopolis, who acquired the Nokia campus in Oulu in early 2013, and by W.P. Carey, who invested in Cargotec's office and manufacturing property in Tampere.

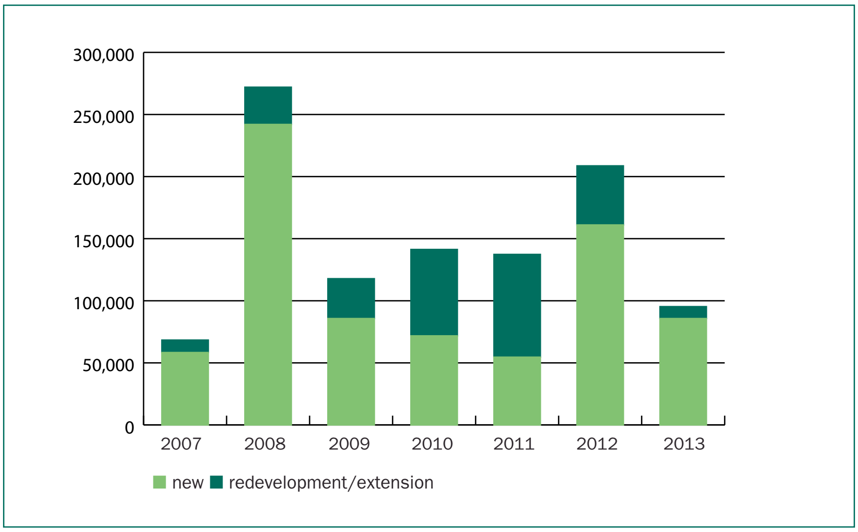
Rental practices

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, the operational cost risk is carried by the investor. By number of rental agreements, some 80 % are for gross rents. 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 €3.50 and €4 per square metre, depending on the

Completed office projects in 2007-2013 in Helsinki metropolitan area



Source: KTI, RPT Docu Oy

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 15-20 % 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. It is also common to agree on a fixed period of three or five years, after which the contract continues for an indefinite term with the agreed notice period.

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, and the tenant is responsible for the maintenance of the building. 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 being applied in order to attract and retain tenants in more demanding premises in particular. Rent-free periods and stepped rents are commonly offered, and tenant improvements are negotiated.

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

Photo: SRV

The office market in 2014

In the rental markets, prime and secondary office areas and buildings continue to show very different performance. In the best areas and buildings it is possible to find tenants for relatively high rents, whereas secondary areas suffer from high vacancies and lowering rents.

The Helsinki CBD office market continues to perform strongly despite the challenging market conditions. However, even in the city centre, the vacancy rate has increased slightly during the past year, although it still remains at a moderate level of approximately 6 % with top rents continuing to increase. In most other office areas, the performance is dependent on the characteristics of the individual asset in question. Even some submarkets that have attracted both investors and tenants in recent years, such as Leppävaara in Espoo, the airport area in Vantaa, and Ruoholahti in Helsinki, currently suffer from increasing vacancy rates.

High vacancy rate remains a major problem for the Helsinki metropolitan area office market. According to Catella Property, the office vacancy rate of HMA stood at 12.4 % at the end of 2013, showing a clear increase from the 11 % at the end of 2012. Oversupply is a consequence of both active new development during the past years, as well as the softening demand caused by uncertainty in the economy. In total, there are some 1,100,000 sqm of empty office space in the Helsinki metropolitan area. The development of vacancy rate demonstrates the polarisation of office markets: the amount of empty space has begun to decrease in the prime office submarkets, while in the secondary areas, the vacancy rates have continued to increase.

"High office vacancy rate remains a major problem in Helsinki metropolitan area"

In KTI's rental database, the occupancy rate of office premises in major investors' portfolios stood at about 85 % at the end of 2013 for all of Finland, showing a decrease from the previous year's level of 88 %. In Espoo the occupancy rate decreased to some 75 % in 2013, with the amount of vacant space increasing, for instance, in the areas of Leppävaara, Keilaniemi and Kilo-Mankkaa. In Helsinki, the vacancy rate remained moderate in the CBD, even though the amount of vacant space also increased slightly in the city centre. In terms of vacancies, the areas of Pitäjänmäki and Pasila-Vallila remained challenging. Also in Ruoholahti, the amount of vacant space remained high. Rents in the best areas have, however, remained mostly stable, as landlords tend to accept temporary vacancies rather than lowering rental levels.

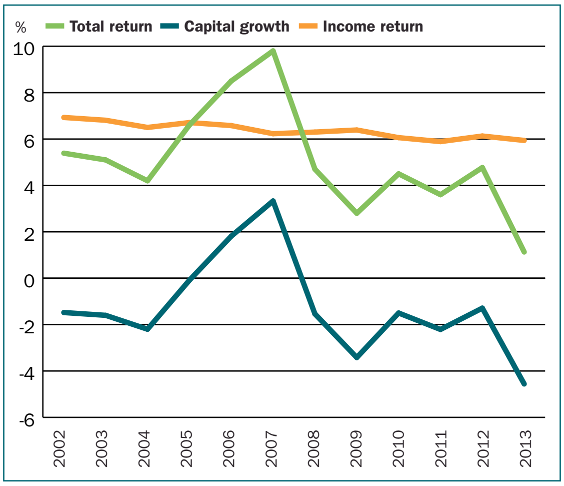
High office vacancies force the investors to execute various means to control this problem. In addition to enhancing their leasing operations, alternative uses are being explored and premises are being redeveloped, for instance, for residential or hotel use. However, since 2007, only some 130,000 sqm of office space have been redeveloped for other use, ie. redevelopment has not proven to be an effective way to solve the vacancy problems.

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. However, vacancy rates increased in all major cities in 2013, with the most significant rise being found in Oulu, which suffers from the structural changes in the Nokia cluster.

Some 85,000 sqm of new office space was completed in the Helsinki metropolitan area in 2013. The most important completed office projects include the first building in the Töölönlahti area in the Helsinki CBD, as well as some business park projects in the airport area in Vantaa and in various locations in Espoo. New construction is, however, slowing down due to the continuing economic uncertainty. At the end of 2013, some 85,000 sqm of new office space was still under construction. Of these, the Töölönlahti projects account for more than half. In the current markets, new projects are not likely to be started without the commitment of tenants.

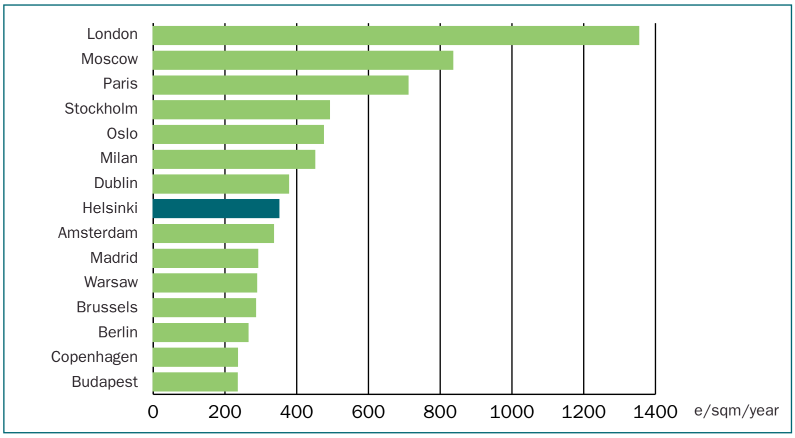
Offices produced a total return of only 1.1 % in 2013 (4.9 % in 2012). Net income decreased to 5.9 % (6.1 % in 2012), and capital growth was -4.6 %. Changes in market values remained in the negative territory for the 6th consecutive year.

Total returns on office investments, 2002-2013



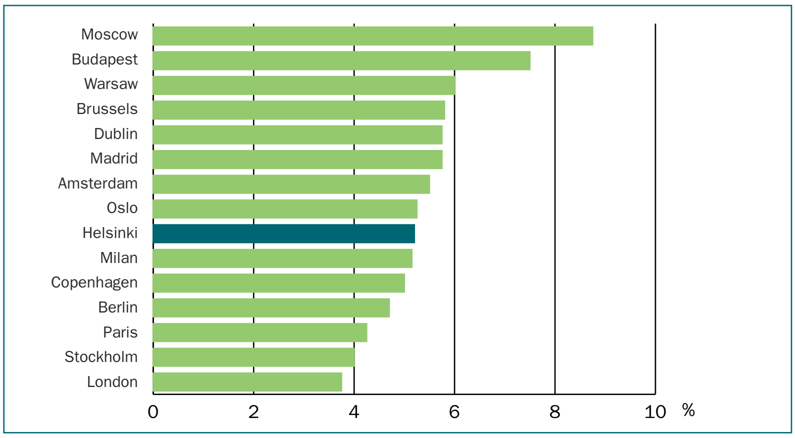
Source: KTI Index

Prime office rents, Q4/2013



Source: Jones Lang LaSalle, KTI (Helsinki)

Prime office yields Q4/2013



Source: Jones Lang LaSalle, KTI (Helsinki)

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.

At the third quarter of 2013, the prime office yield in Helsinki CBD stood at some 5.2 %; which represents a difference of almost one percentage point to Stockholm. Prime market rents stand at a comparable level to, for instance, Dublin and Amsterdam, and remain some 30 % lower than in Stockholm. Prime yields for Helsinki CBD currently stand at the same level as in the previous trough in 2007, whereas in all other regions, yields are now some 0.5 percentage points higher than in 2007.

Photo: NCC / Mikael Linden

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.

According to the Finnish Council for Shopping Centres, there are about 85 shopping centres. Major shopping centres are mainly located in the major city areas.

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. In the transactions market, retail was the most traded property sector between 2006 and 2009. In 2013, the share of retail properties decreased to 21 % of all transactions.

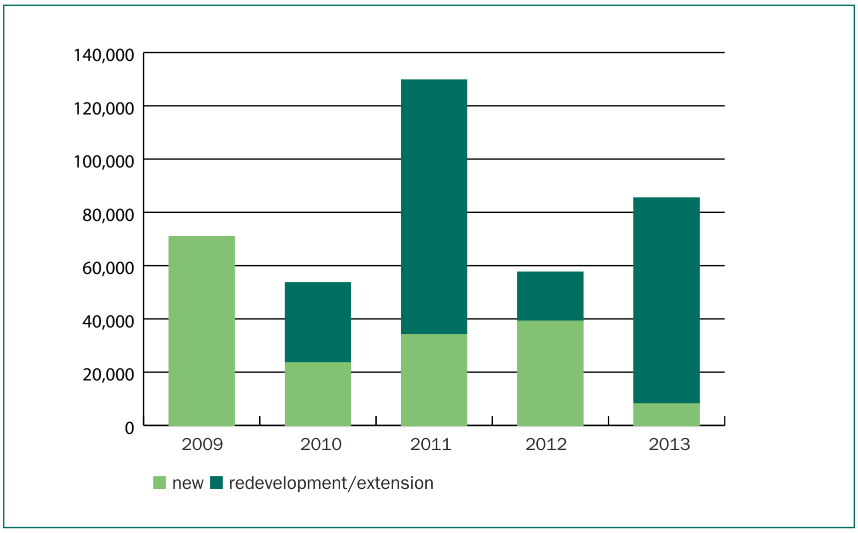
Players

Retail is the second biggest sector in the KTI Index, and in 2013, its proportion amounted to some 26 % of the database. Retail is typically well represented in pension funds' investment portfolios, including both shopping centre and hypermarket properties as well as smaller retail units. 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.

The Finnish shopping centre market is dominated by Citycon, which currently owns, wholly or partially, 21 shopping centres in Finland, and, manages one additional 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 has invested in another new centre in Hämeenlinna. 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, Elo and Etera – while the Jumbo shopping centre in Vantaa is owned by a group consisting of Elo, Unibail-Rodamco and some owner-occupiers. Ilmarinen is a co-investor in Citycon's Iso Kristiina centre in Lappeenranta, as well as in Renor's major redevelopment project Puuvillakeskus in Pori.

The Finnish shopping centre market has also attracted some specialised foreign property companies and funds such as Wereldhave, Unibail-Rodamco, as well as retail funds

Completed retail projects in 2009-2013 in Helsinki metropolitan area



Source: KTI, RPT Docu Oy

Photo: NCC / Timo Pylvänäinen

managed by CBRE Global Investors and Cornerstone Real Estate. Allianz Real Estate and GIC Real Estate have also entered into joint venture investments in Finnish shopping centres. 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 and has, in its new strategy, informed that shopping centres will remain at the core of its business also in the future.

High street shops are typically located in CBD office buildings, and, as a result, major office investors such as Sponda, Keva and Ilmarinen are also significant retail owners in prime retail in Helsinki. 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 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. However, in recent years, they have applied more diversified property finance strategies, and have sold properties to investors. In late 2013, the biggest co-operative within S-Group, HOK-Elanto, sold a significant hypermarket portfolio to Swedish Redito, which is a property management company owned bythe third AP fund. Kesko has announced that it is planning to set up a major property fund and transfer part of the group's retail properties in Finland, Sweden and Russia into the fund.

Top 10 Shopping centres in Finland

CENTER	RETAIL NLA	MAIN OWNERS	LOCATION
ITIS	106 356	Wereldhave Finland Ltd, Kesko Plc	HELSINKI
SELLO	97 900	Keva, Etera, Elo	ESPOO
IDEAPARK	91 712	Private investors	LEMPÄÄLÄ
JUMBO	85 000	Unibail-Rodamco, Elo, HOK-Elanto, Kesko Plc	VANTAA
MATKUS	65 000	Ikano Retail Centres Kuopio Oy	KUOPIO
ISO OMENA	51 800	Citycon Plc, GIC	ESPOO
WILLA	49 009	Varma, CapMan RE II, Finesco Ltd, Ejendomsinvest, HOK-Elanto	HYVINKÄÄ
VETURI	48 500	Kruunuvuoren Satama Ltd	KOUVOLA
KAARI	46 672	HOK-Elanto	HELSINKI
MYLLY	44 221	Kauppakeskus Mylly Ltd	RAISIO

Source: Finnish Council of 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 tenants want to ensure the continuity of their business 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 typically have shorter leases. The use of turnover leases is gradually increasing in shopping centres.

The retail market in 2014

Retail sales performed poorly in 2013, with the volume of total sales remaining almost unchanged compared to the previous year. According to the Federation of Finnish Commerce, the outlook for retail sales remains sluggish, and the volume is expected to continue decreasing by some 0.5 % in 2014. Retail sales volumes are pressured by the slow growth of the economy, as well as by decreasing purchasing power of consumers. This development, together with the increasing volumes of e-commerce, which started to accelerate in 2013, will have an impact on the retail property markets as well.

"Outlook for retail sales remains sluggish"

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

In the Helsinki CBD and in the best shopping centres, prime retail rents have continued increasing, although at a slower pace than in previous years. In autumn 2013, 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, with top rents exceeding €200 per sqm per month. The average monthly rents in Helsinki metropolitan area shopping centres are about €20 lower per sqm than in the CBD.

Due to the healthy rental demand, vacancy rates of retail property markets have remained at an extremely low level during the past years. However, together with the softening consumer demand, vacancies started to increase in all major cities in 2013. According to the KTI rental database, occupancy rate of retail premises stood at some 93 % at the end of 2013, showing a decrease of some 3 percentage points compared to the previous year.

In 2013, retail property development was characterised by major redevelopment and extension projects of existing properties. In the Helsinki metropolitan area, the extension/redevelopment projects of CityCenter, Ruoholahti, Ainoa, Kaari and Kluuvi were completed, while those of Iso Omena, Itis and Forum are still underway. Outside the Helsinki region, the largest ongoing new shopping centre projects include those of Hämeenlinnakeskus as well as the Puuvilla centre in Pori. Citycon's and Ilmarinen's Iso Kristiina centre in Lappeenranta is also undergoing a major redevelopment project.

Photo: NCC / Sini Pennanen

Prime retail rent in the Helsinki CBD

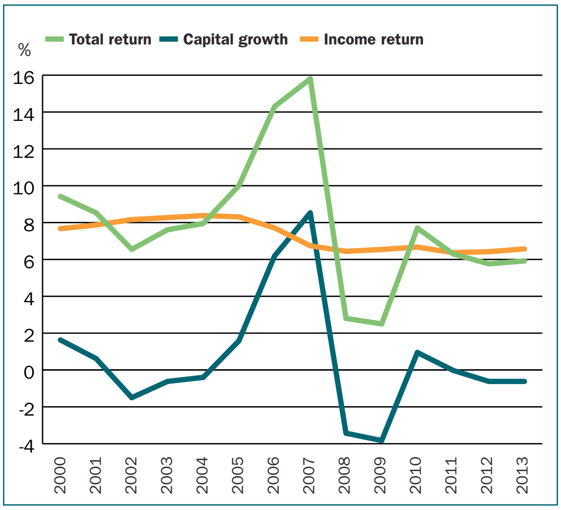
Source: RAKLI-KTI Property Barometer

"Major shopping centres are being redeveloped"

In the transactions market, the biggest transactions were carried out by Allianz Real Estate and Redito. In total, some €500 million of retail properties were transacted in 2013.

Total returns on retail properties have, in recent years, shown greater volatility than those of other main property types. In 2013, total return on the retail sector amounted to 5.9 % (5.8 % in 2012), where the capital growth was -0.6 %. Net income increased to 6.6 % (6.4 % in 2012).

Total return on retail investments, 2000-2013



Source: KTI

4.4 Rental residential sector

Stock

There are some 2.6 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

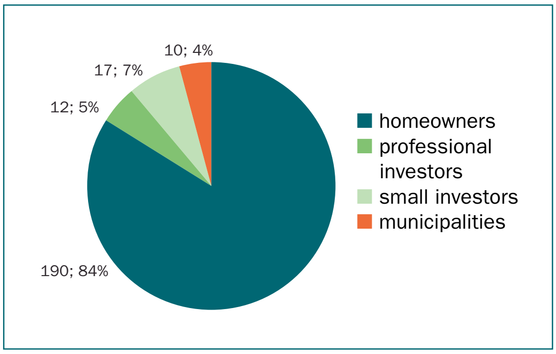
Photo: NCC / Timo Pylvänäinen

higher 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 two thirds 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. In Helsinki, rented housing is more common than in the country on average, and some 47 % of all dwellings are rented.

In total, some 31 % of the Finnish households live in rented dwellings. There are some 810,000 rental apartments. Of these apartments, some 390,000 have been provided with some kind of public subsidy, such as state-guaranteed loans or an interest subsidy for development of rental housing. More than half of subsidised dwellings are owned by municipalities or their daughter companies. Private sector companies with specific public utility status – eg. VVO, SATO and Avara – own about 20 % of the total subsidised housing stock. The rest – about one third -of the subsidised stock is owned by foundations or charities who offer housing for specific groups like students, elderly people or the disabled. The terms and regulation of different types of public subsidy vary significantly between different forms. Some have specific strict rules for tenant selection and, in the majority of the subsidised stock, rents are cost-based. Tenants may also be subsidised through public housing support. Some 190,000 households received housing support in 2013. This support can be provided both for rented and owner-occupied housing.

Ownership of the Finnish housing stock, total estimate 229 EUR bn

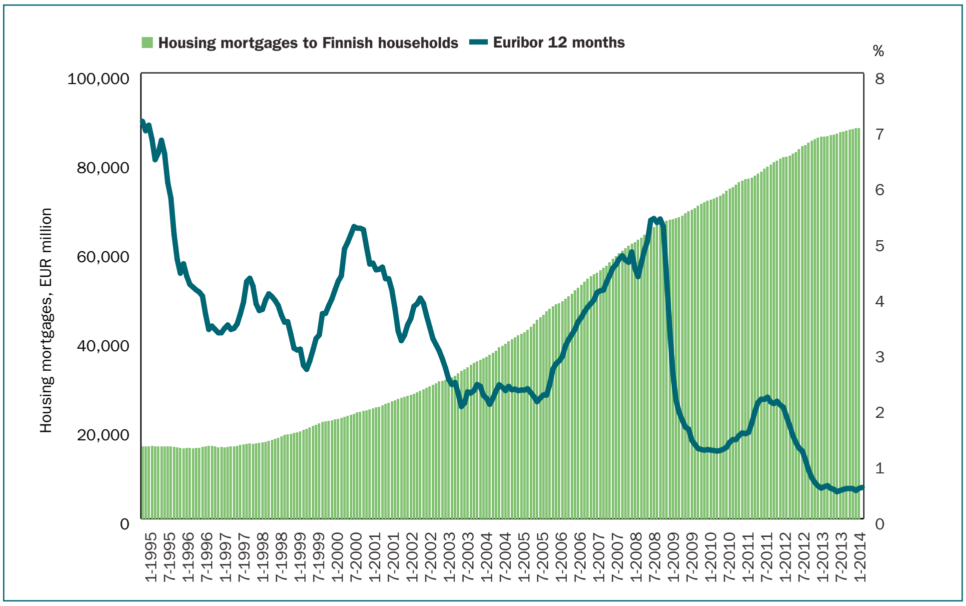


Source: KTI, Kansanvarallisuustutkimus, ROTI

According to Statistics Finland, the average net housing cost of a Finnish household amounts to some 18 % of total income. The share for households living in rented dwellings is significantly greater, at 27 %. 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.

Some 34 % of all dwellings are financed with mortgages. The average size of a housing loan is €92,000 in the whole country, and some €120,000 in the Helsinki metropolitan area. The total amount of outstanding housing loans has increased rapidly in recent years, and it currently stands at some €88 billion. In 2013, the average interest rate for new housing loans stood at 2.30 %.

Housing mortgages and interest rates



Source: Bank of Finland

Players

The majority of the subsidised housing stock is owned by the Finnish municipalities. Heka Oy, a company owned by 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 25 % of the subsidised housing stock is targeted at special groups such as students and senior citizens.

The majority, some 60 %, of the non-subsidised free rental residential market is owned by small investors, mainly individuals. The so-called professional residential investment market currently consists of some 170,000 dwellings. The scattered ownership affects the rental markets and results in great differences in market practices, rental levels and the professionalism of players.

VVO, Sato and Avara are the biggest specialised residential property investment companies. Many pension funds are also significant players in this market. Residential properties are a recognised sector in the institutional investment market, and Varma, Ilmarinen, Keva and LocalTapiola, for instance, all have several thousands of rental dwellings in their portfolios. Large pension funds such as Varma, Ilmarinen and Elo 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 16 % of the total database.

Currently, there are also some non-listed property funds specialised in residential property investment. Funds managed by for instance ICECAPITAL, and LocalTapiola Real Estate are targeted at domestic institutions. In 2013, the first residential funds targeted at private investors were launched, and, of these, the fund managed by Ålandsbanken attracted most investors.

Foreign investor interest in the Finnish residential market has remained low. Foreign players' 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 foreign investors in the Finnish residential market include WH-Asunnot, a subsidiary of Danish property development company KE Project A/S, as well as the German fund Patrizia.

Housing construction

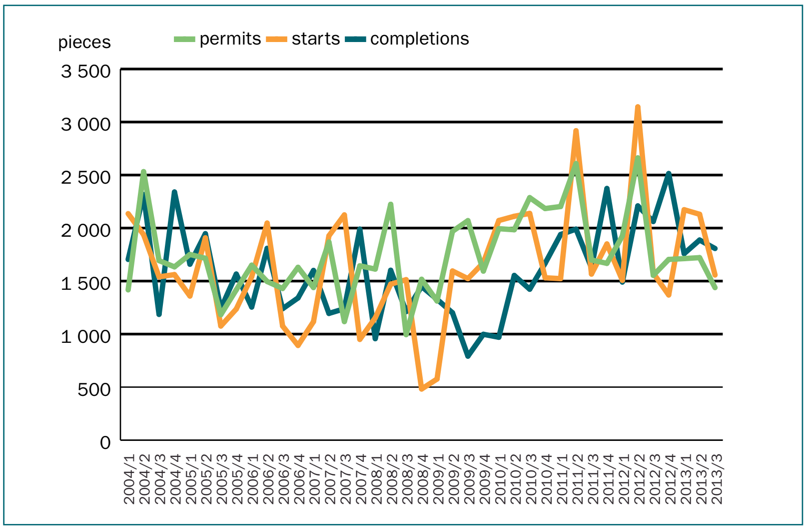
According to VTT, the Technical Research Centre of Finland, the long-term need for new dwellings is estimated to be around 24,000–29,000 dwellings per year, and, in total close to 500,000 dwellings within the next 20 years. More than 30 % of the total new production would be needed in the Helsinki region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

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 on the production of owner-occupied housing. This results as a rising construction cost for residential rental construction.

According to the estimations of RT, the Confederation of the Finnish Construction Industries, the construction of some 27,000 dwellings was started in 2013, which represents a decrease of 1,800 units compared to the previous year. Of all starts in 2013, some 7,000 dwellings were subsidised housing. For 2014, a slight decrease is expected in residential construction.

Subsidised housing, where rents are cost-based, is currently produced mainly by municipalities and organisations providing housing for special groups. Subsidised housing does not interest other players in current conditions, as terms are very restrictive in terms of length of restriction periods, for instance, and the state's interest subsidy is not significant in

Residential construction activity in Helsinki Metropolitan Area, pieces



Source: Statistics Finland

the current financial environment. Market participants are currently discussing with the ministry in order to develop the subsidy system.

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 an indefinite period. It is also possible to agree on a certain fixed period, such as a year, and afterwards the agreement continues until further notice.

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. For the landlord, the notice period is minimum three months, but the period also depends on the length of the rental period.

Rents are typically indexed, with the cost of living index being the most used. In current conditions, it is also common to agree on a higher level of rental increases, for instance a minimum of 3 or 5 per cent. This kind of indexation allows the landlord to adjust rental increases to prevailing market conditions in different areas and buildings.

In the subsidised housing stock – depending on the form of subsidy – there might be restrictions related to both rental levels and tenant selection. In so-called ARA-housing stock, where state housing loans or subsidies are used, rents are cost-based. In some dwellings produced with interest subsidy, there might be 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 these dwellings, the only restrictions are related to the holding period of the buildings.

In cases where the tenant receives a housing subsidy, set criteria related to both the tenant's income and rental prices are applied.

The residential market in 2014

According to the preliminary statistics of Statistics Finland, prices for old residential dwellings increased by 0.7 % in 2013 across the whole country on average. In the Helsinki metropolitan area, the increase was 2.3 %. Within the year, prices increased during the first half of the year, whereas towards the end of the year prices decreased slightly in all areas.

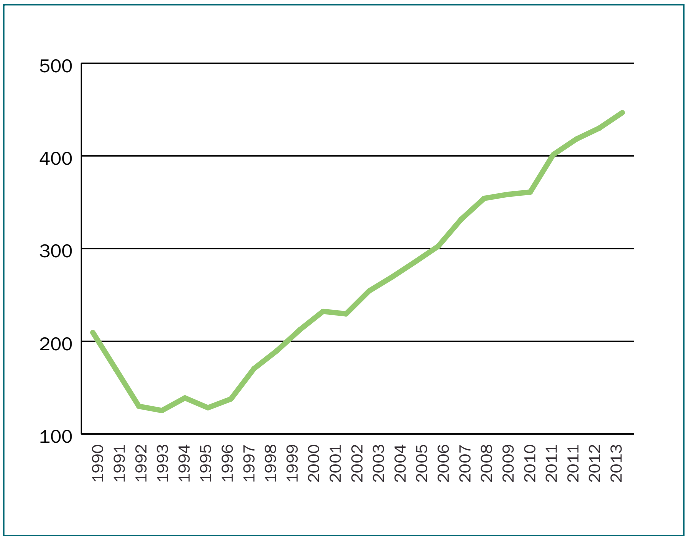
According to the forecasts of Pellervo Economic Research PTT, housing prices will increase by some 2.5 % in 2014 on average. The increase is estimated to be strongest in Helsinki (some 4.0 %) and in other main cities (between 2 and 3 %).

Demand for rental housing remains strong, especially for small apartments in the major cities. During the past decade, nominal rents in Helsinki metropolitan area have increased annually by some 4 % on average. In other major cities, the increase has been somewhat slower, amounting to 2.5-3.5 % per annum on average.

However, during the past year, the increase has slowed down to some extent in Helsinki metropolitan area, the KTI rental index showing an annual increase of 3.3 %. In other major cities, rents have continued rising slightly more, by 3.6 % on average.

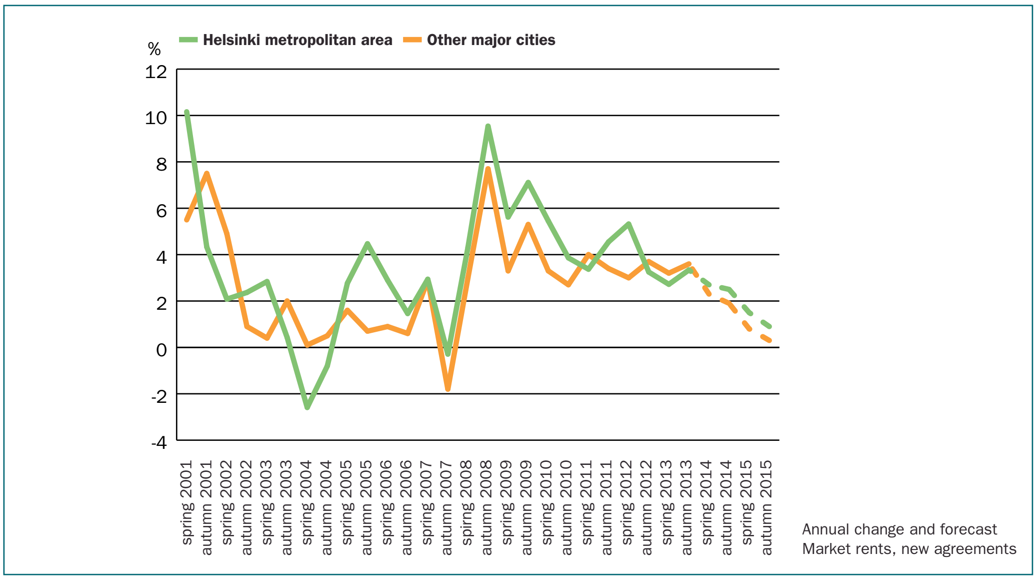
The outlook for rental development looks slightly more uncertain. While the demand for rental apartments remains strong in major cities, the continuing uncertainty in the overall economy, as well as moderate or non-existing increase in earnings, limit the tenants' ability for rental increases in many areas. The KTI forecasting model for residential rents estimates an annual increase of some 2 % for 2014 and 2015. In the model, earned income, inflation and interest rates

Prices of dwellings, Helsinki Metropolitan Area (index 1983=100)



Source: Statistics Finland

KTI Residential rent index, Helsinki metropolitan area and other major cities



Source: KTI

have proven out to be the best explanatory variables for rents. However, there are significant differences between submarkets, with the best areas in Helsinki still showing the strongest development in the rental markets.

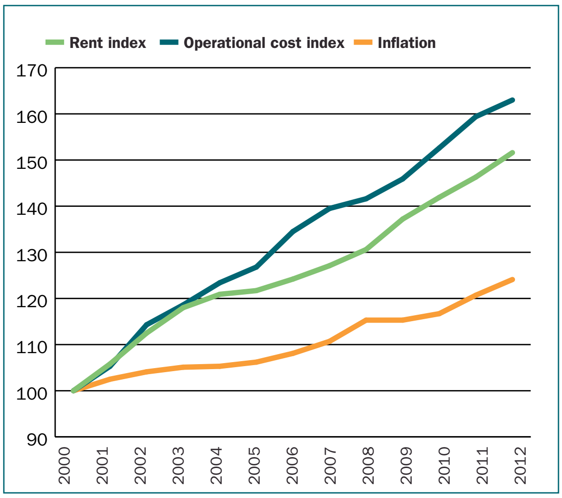
Another phenomenon that has affected the residential rental markets in recent years is the gradual improvement of the quality of rental dwellings. The state's stimulus subsidy attracted some new players to develop new rental apartments in 2009-2011. In 2013, some newly launched funds have invested in newly developed dwellings, even by acquiring individual apartments in buildings where the developer is aiming to sell the remaining – typically larger – apartments for owner-occupiers.

The residential sector has attracted institutional investors in recent years, and many pension funds have increased their residential allocations both directly and by investing in residential funds or companies.

The volume of residential property transactions increased markedly in 2013, amounting to some €570 million, representing 24 % of all transactions (€240 million in 2012). One of the biggest transactions was the Varma's sale of a €41.5 million residential portfolio to SATO in the fourth quarter. Funds managed by Ålandsbanken and ICECAPITAL, for instance, acquired newly developed residential dwellings from developers in several transactions during the year.

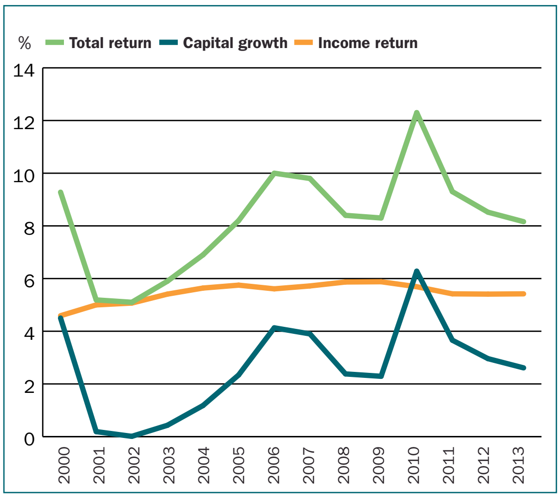
In the KTI Index, residential has been the best performing sector for several years. In 2013, total return on residential properties amounted to 8.2 %, consisting of a capital growth of 2.6 %, and net income of 5.4 %. Residential outperforms all commercial property sectors clearly in both 5 and 10 years' investment periods, with total returns of 9.3 and 9.0 %, respectively. Capital growth of residential properties has been in the positive territory in every year since the introduction of KTI Index in 1998.

Residential rents, operational costs and inflation, Helsinki Metropolitan Area,
index 2000=100



Source: KTI and Statistics Finland

Total return on residential property investments, 2000-2013



Source: KTI

4.5 Healthcare properties

Stock

Healthcare properties are a diversified market segment consisting of assisted living facilities and nursing homes for different target groups (eg. elderly people, dementia patients and mental patients), children's day care facilities as well as medical facilities and even hospital properties. In the Finnish context, most of these facilities have traditionally been owned by municipalities and other public sector organisations, which also provide social services and operate the facilities.

According to Statistics Finland, the total stock of healthcare facilities amounts to some 11.6 million sqm.

Players

The demand for healthcare and other social sector properties is increasing together with the ageing of the population, as well as with the structural change in the service provision in these sectors. In many cases, municipalities' weak finances force them to search for alternative solutions for their traditional strategies. This has opened up new opportunities for both service providers and property investors in this sector.

Pension funds' investments in healthcare sector have typically been targeted mainly at assisted living facilities for elderly people. In addition, there are currently some specialised funds that invest in a wider selection of different kinds of properties. The first fund in this sector, EPI Healthcare I, was founded in 2007, and is targeted at institutional investors. The fund is currently managed by BPT Asset Management. In 2012, Finnreit Fund Management launched its special investment fund currently known as eQ Hoivakiinteistöt and managed by eQ Bank. This fund attracted a lot of private investors' capital during 2013. In 2013, Trevian Asset Management launched Trevian Care I fund, which also increased its portfolio actively during the year. The fund's portfolio was sold to the Swedish Hemsö in February 2014.

> "Healthcare property sector increased its attractiveness in 2013"

Market practices

The majority of health care properties owned by private investors are rented to private operators, who typically provide their services to the municipalities. In most service sectors, the operators have to apply for a licence from authorities, which also means that the operators need to be financially solid companies. Even the facilities need to be approved by the authorities and fulfil strict technical requirements, which vary depending on the specific use of the property. These requirements also set certain demands for the property developers and investors.

In some cases, properties can be directly rented to a municipality, which either provides the services itself or leases the premises further to a private operator.

Leases of health care properties are typically long, for instance 10-15 years. Lease agreements are most commonly net leases, where the tenant is responsible for the maintenance, property tax and insurances, and, in many cases, even for refurbishments. In this sense, investments are strongly driven by net income.

Market in 2014

Due to both the positive outlook for the healthcare property sector, as well as the continuing uncertainty in most other property sectors, healthcare properties increased their attractiveness in the investment market in 2013.

The volume of healthcare property transactions amounted to almost €200 million in 2013. Trevian's fund's transactions accounted for about half of the total volume. The fund acquired a €100 million portfolio from pension funds Varma and Etera, who were also the main investors in the fund. eQ Healthcare property fund made several investments throughout the year, with a total volume amounting to some €60 million. The fund typically invests in rather small assets.

Photo: NCC / Sini Pennanen

4.6 Industrial / logistics market

Stock

Industrial and logistics property stock amounts to some 67 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 changes in space demand and new traffic connections.

In the Finnish context, the major retail chains have traditionally pursued centralised in-house warehousing and logistics systems. These major players have dominated the market, and demand from other players has emerged quite recently, resulting in an emergence of this sector in the investment markets as well. Increasing foreign trade, restructuring of retail sales, as well as reorganisations of supply chains and logistics systems are increasing and reshaping the space demand towards modern efficient logistics space.

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. Big owner-occupiers include, for instance, S Group and Kesko, as well as Itella Real Estate.

Sponda is a significant domestic developer and investor in the logistics market. However, in late 2013, when publishing its new strategy, it announced that it will divest its logistics portfolio. The company currently has a €426 million portfolio of logistics and warehousing properties located mainly in the Helsinki area. The company is a strong player, for instance, in the Vuosaari harbour and airport areas. Sponda's logistics portfolio suffers from high vacancy rate, amounting to some 25 % at the year end of 2013. Sponda also acts in this market through three non-listed funds that have domestic institutions as investors. In the new strategy, the company also announced that it will give up its fund management business, but will continue managing the existing funds until their termination.

Property development and investment company Renor is increasing its operations in the logistics sector. It has significant holdings in Lahti, where it owns, for instance, a major logistics centre for furniture company Indoor Group.

Of the foreign investors, AB Sagax has invested in the logistics / manufacturing properties, and it continued its acquisitions in 2013. The company currently owns some 370,000 sqm in this sector. Funds managed by NREP also invest in different types of logistics and warehousing assets, including a chain of Pelican self-storage facilities. 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.

Photo: NCC / Mikael Linden

Photo: NCC / Mikael Linden

The industrial/logistics market in 2014

Vacancy rates for modern industrial and logistics properties have remained relatively low, although they started to increase during 2013. According to Catella Property, the vacancy rate for manufacturing and warehousing properties stood at 6.1 % in the Helsinki metropolitan area in the end of 2013.

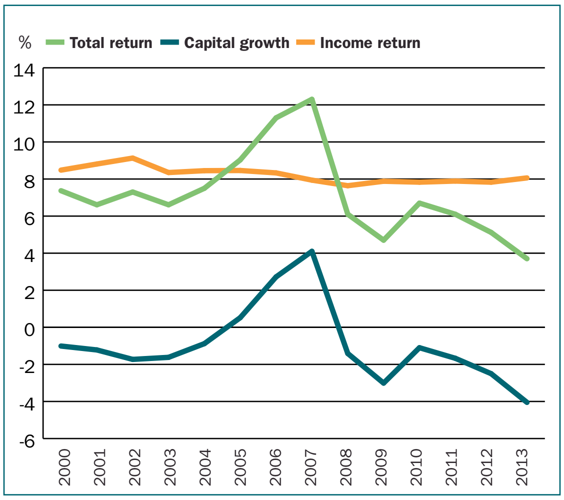
Rents have remained fairly stable or have increased slightly in recent years with modern premises leading the development. In international comparison, rental levels for modern logistics premises are relatively high. In the KTI database, the upper quartile rental levels for the best logistics areas in Helsinki metropolitan area stand at some €12 per sqm. High rents are partly explained by high construction costs.

The share of logistics and industrial properties in total transactions volume remained rather low, at some €190 million in 2013 (€140 million in 2012). Sagax continued to expand its portfolio with several acquisitions in 2013 and early 2014. Other transaction were carried out by Sponda's logistics fund and Renor, for instance.

New development of logistics and warehouse properties continues to be active. In 2013, a 65,000 sqm logistics centre was completed near Lahti by Itella Real Estate. S Group started to construct the first phase of its Freeway logistics project in Bastukärr, Sipoo. The first phase comprises 77,000 sqm, and the whole project will amount to almost 190,000 sqm. In total, the group will have some 260,000 sqm of premises in the area. Another major project in this sector is Yandex's 36,000 sqm data centre in Mäntsälä, due to completion in mid-2014.

In 2013, the industrial / warehouse sector produced a total return of 3.7 % (5.2 % in 2012). Capital growth was -4.1 %, and income return remained stable at 8.1 %.

Total return on industrial property investments, 2000-2013



Source: KTI Index

4.7 Hotels

Stock

According to the Finnish Hospitality Association MaRa, there are 635 hotels in Finland, comprising some 50,000 rooms. In 2012, the occupancy rate of hotel rooms stood at 52.6 %.

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 54 hotels across the country. Restel, who operates hotels under the brands Cumulus, Rantasipi and Holiday Inn, for instance, currently has 49 hotels in its chains. Other major hotel operators include Finlandia Hotels and Scandic Hotels with 27 hotels each, as well as Best Western with 17 hotels.

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 decreased by some 2 % during the first three quarters of 2013. The occupancy rate of hotels remained almost unchanged compared to the previous year. The decrease in the amount of both domestic and foreign guests in general was compensated by an increase in the number of Russian tourists.

According to the KTI Index, hotel properties delivered a total return of 6.1 % in 2013 (5.7 % in 2012).

Photo: SRV

5 Property markets in different regions – outlook for 2014

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 exceeds 60 %. The institutional property investment market is also concentrated in the Helsinki metropolitan area. Of all the properties included in the KTI Index, some 64 % is located in the Helsinki metropolitan area. Its dominance can also be seen in the transactions market: in 2013, some 69 % of all transactions were made in the Helsinki metropolitan area. The Helsinki metropolitan area is well-recognised among foreign investors, many of whom only invest in the capital region.

The second-tier markets – typically the regional growth centres of Tampere, Turku, Oulu and Jyväskylä – are traditionally popular among domestic institutions, but have also attracted some international capital since 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 major domestic players invest in smaller cities, but typically concentrate on certain select sectors such as residential or retail, which are driven by consumer markets.

Photo: SRV

5.1 The Helsinki metropolitan area

In many respects, the Helsinki region has 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, accommodates 1.4 million people (one-quarter of the Finnish population), accounts for some 30 % of all jobs and delivers some 35 % of the Finnish GDP.

The Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen, has a population of 1.1 million people. Most major company headquarters, as well as 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:	613,000
	Espoo:	261,000
	Vantaa:	207,000
	Helsinki region:	1,393,000
Economic base:	Professional and financial services, information 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. Some 43 % of the jobs in the region are in the private service sectors, compared to 33 % across the entire country. Specialist professional services, as well as high-tech industries, wholesale trade and logistics businesses have a stronger role in the Helsinki region. The proportion of industrial occupations is lower (16 %) than in the entire country (23 %).

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 2013, the number of jobs slightly increased, whereas, in the entire country the decrease continued. The growth was based on the increased demand for both business and consumer services. Demand for local services is enhanced by the continuing increase of population. On the other hand, the amount of industrial production as well as retail sales continued to decrease. The number of jobs in Helsinki region has now returned to the same level as 2008, whereas in the whole country, the number is some 2 % lower than before the financial crisis.

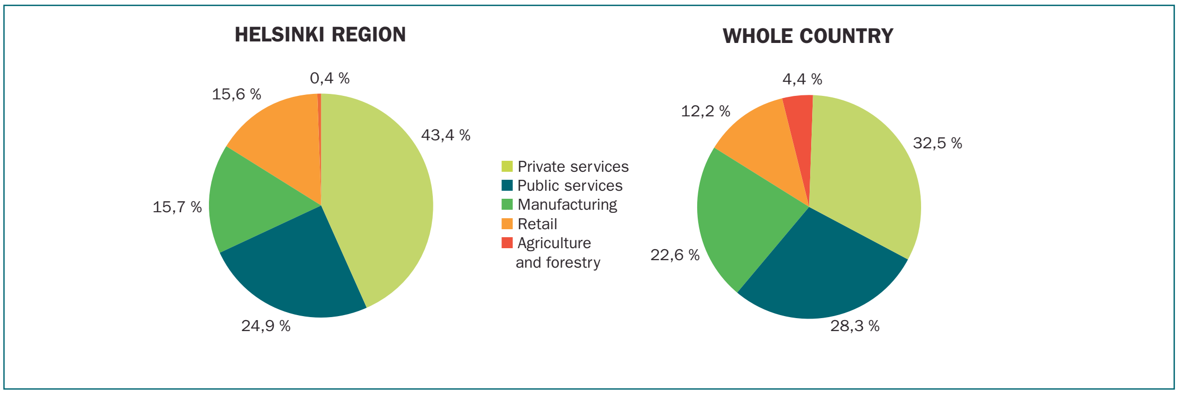
"A committee is investigating possibilities for metropolitan governance in matters concerning land-use, housing and transportation"

As the most dominant city region, the Helsinki metropolitan area holds a unique position in the current government's structural reform policy. In September 2013, a working committee was founded to prepare a proposal for legislation for specific metropolitan governance. The tasks of this governance would include issues concerning land-use, housing, transportation, competitiveness and trade policy, as well as labour force and immigration policies. The main idea behind this legislation is to control sub-optimisation caused by municipal decision-making in matters that eventually concern the whole region. The objective of the legislation is to ensure socially, economically and environmentally sustainable development in the region, as well as to enhance its international competitiveness. The term of the committee ends in September 2014.

Within the Helsinki metropolitan area property markets, the Helsinki central business district (CBD) has an undisputable position both as an office location and as a prime retail market location. 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, as well as in the Helsinki CBD.

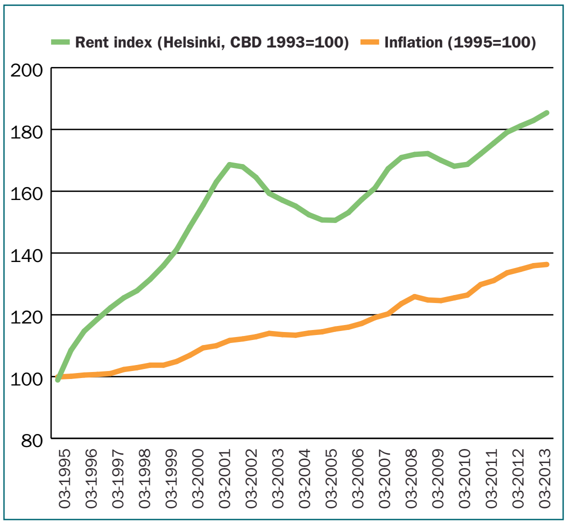
Of around 8.5 million sqm total stock of offices in the Helsinki metropolitan area, more than two-thirds is located in Helsinki. Espoo accommodates about 20 % and Vantaa about 10 % of the area's total stock. Retail space stock amounts to about 3.7 million sqm, representing some 13 % of the total stock in the whole country.

The structure of the economy, percentage of jobs, 2012



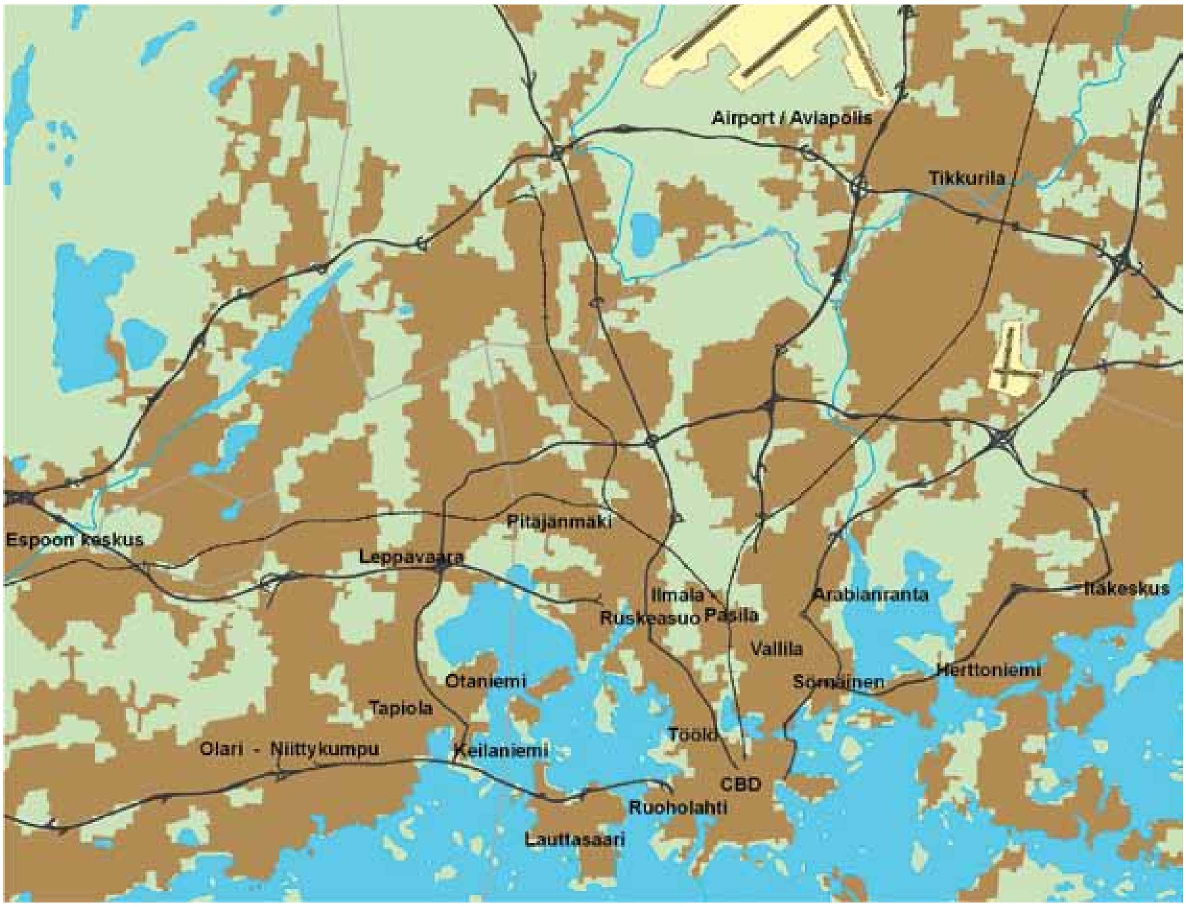
Source: Helsinki Chamber of Commerce

Office rent index and inflation

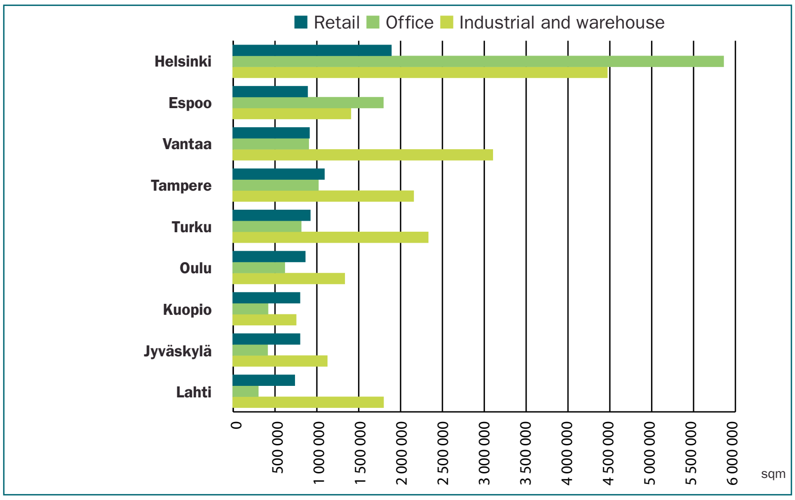


Source: KTI and Statistics Finland

Main office areas in the Helsinki metropolitan area



Commercial property stock, 31.12.2012



Source: Statistics Finland

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 as well as the undisputed centre of retail trade in Finland. It also accommodates the most important public sector administrative functions and several cultural buildings. The city centre is also one of the key development areas identified by the City of Helsinki, which wants to enhance and maintain the competitiveness of the CBD as an attractive environment for business, living and leisure. The city is currently developing actively, for instance, the Torikortteli area between the Senate square and market place. The planning of the new central library is underway in the Töölönlahti area with the aim of starting the construction in 2015. It is also developing, together with the property owners, an extensive pedestrian area around the most important shopping locations in the centre.

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 ministries' offices. The majority of the office stock in the CBD was built in the late 1800s and early 1900s yet is mostly well maintained and refurbished, and responds well to the needs of occupiers.

Despite the increase of supply of modern office stock in other areas in the Helsinki area, the Helsinki CBD has maintained its attractiveness and remains the most preferred office location in the region. Compared to all other office submarkets, the position of the Helsinki CBD has also proven out to be more sustainable and stable in fluctuating market conditions.

"Helsinki CBD continues attracting tenants"

The office supply is currently expanding in the Helsinki CBD, through the development of Töölönlahti area, which will accommodate an office floor area of some 40,000 sqm when completed in the second half of 2014. The head offices of Alma Media, UPM and KPMG have already moved to the area, and EY will follow later this year. The relocation of these companies started a major turnover of tenants in the Helsinki CBD. Their former premises have or will be mostly rented to different kinds of professional service firms. The successful leasing of these offices is another proof of the attractiveness of the city centre. New office premises have or will also be completed through the refurbishments and extensions of Citycenter and Forum shopping centres, as well as the Kampin Huippu project.

Despite the active new development, the vacancy rate of offices in Helsinki centre has remained moderate - at 5.3 % compared to 12.4 % in the whole Helsinki area, according to Catella Property.

"Rental growth slowing down in Helsinki CBD"

KTI's rental index for Helsinki CBD offices showed an increase of 2.4 % in 2013. The increase slowed down slightly from the previous year's level of 3.1 %. Top rents remained well above €30 per sqm per month, and the median market rent has remained stable at some €26 per sqm, according to the KTI rental database. Due to the increased supply and uncertain economic conditions, the outlook for rental development has now turned slightly less positive, and rental levels are expected to remain stable in the near future.

According to the RAKLI-KTI Property Barometer survey, prime office yields for the Helsinki CBD remained stable at 5.4 % in late 2013. However, due to lack of supply, not many transactions have been carried out in recent years. In 2013, the most significant transaction was the acquisition of UPM's recently completed head office in the Töölönlahti area, which was purchased by Union Investment for €74 million. Healthy rental growth and decreasing yields have maintained the increase in market values in Helsinki CBD offices in recent years. In 2013, however, the capital growth of central offices decreased to close to zero.

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. The major redevelopment and extension project of Citycenter was completed in spring 2013 and that of Forum will be completed in 2015. In the CBD's retail property transactions market, the biggest news in 2013 was the acquisition of 50 % of the Kamppi shopping centre by Allianz Real Estate in December.

The amount of vacant retail space remains low, although it increased slightly in 2013. Vacant space can now be found both in shopping centres and in high-street premises. In the KTI rental database, the upper quartile of retail rents stands now at some €110 per sqm per month, and in the very best locations, the rent can be significantly higher. The CBD has also continued attracting international retail brands, with Starbucks and Burger King as examples of the newcomers in 2013.

Ruoholahti – Salmisaari

Ruoholahti is a modern office area near the CBD at the starting point of a major western radial route. Ruoholahti and the 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, with average rents currently standing at some €22-23 per sqm per month. During the past couple of years, the amount of vacant space has increased markedly in the area, due to, for instance, the closing of the major Nokia research centre. Despite the abundant supply, investors in the area have not been willing to decrease the rental levels significantly, preferring to suffer temporary vacancy, which they expect to ease as soon as economic conditions improve. During the past couple of months, the vacancy rate has started to decrease, and stood at 15.6 % at the end of 2013, according to Catella Property.

> "Ruoholahti offices are suffering from cyclical vacancy"

Investors in the area include domestic institutions, property companies as well as some international funds. There is also new development potential in the Salmisaari area, although new projects are not likely to be started before the supply and demand of office space will be in better balance. In 2013, the only significant office transaction was made between two domestic institutions, where Fennia Life acquired an 8600 sqm office property from Etera. The only completed development project in the area in 2013 was Sponda's 7,000 sqm office development project.

Next to Ruoholahti is the growing Jätkäsaari area, which was freed for alternative use after the harbour moved its operations to Vuosaari. Residential development is currently active in the area. The City of Helsinki and Skanska are currently negotiating the development of the 8,200 sqm Telakkaranta land area, where residential, commercial and hotel properties would be developed. The development is dependent on the confirmation of the plans for the area.

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 and occupancy rates between the new and old property stock in these areas.

Pasila is an important railway hub and multifaceted property market area north of the city centre. Pasila consists of several areas, including traditional submarkets of Eastern and Western Pasila, the developing Ilmala, Northern and Upper Pasila areas and the old railroad machinery area south of the station. Pasila currently accommodates a colourful mixture of office users, including government and city agencies, insurance companies and business service and media companies.

> "Major development plans in Pasila"

Pasila has a big role in the future development of the City of Helsinki, and the city plans to increase both the commercial and residential property stock in the area significantly. In the City's long-term plans, the area would accommodate some 60,000 jobs and 23,000 residents, compared to current figures of 23,000 and 10,000, respectively. Renovation of the area will be started in the Central Pasila area, in the surroundings of the current Pasila railway station. In 2013, the City of Helsinki and the state's Senate Properties organised a design competition for the development of the area, and the winning proposal, YIT's Tripla project, consists of a 60,000 sqm shopping centre, high-quality offices, residential development, a public transport terminal as well as a multi-purpose arena and a hotel. The construction is expected to be started in 2015.

There are also major plans to develop, for instance, the Ilmala and Northern Pasila areas north of the railway station. These areas will accommodate both residential and office properties.

The traffic connections to Pasila will be enhanced further through the direct train connection to the airport, when the Ring Rail Road will be completed in 2015. The City is also planning a so called City Rail Loop project (Pisararata), which will be an urban railway line for commuter trains under the Helsinki city centre. The loop-shaped railway would start in Pasila and run in a tunnel via Töölö, Helsinki city centre, Hakaniemi and back to Pasila. Decisions for the construction of this line will be made in late 2014 at the earliest.

New development in the Pasila area has been quiet in recent years. In late 2013, however, Sponda announced that it will start the construction of three office buildings totaling some 15,000 sqm, in Ilmala. The majority of the premises are let for consulting engineering group Sweco. The construction is estimated to be completed in late 2015.

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, banks and telecommunications companies. OP Pohjola Group is currently carrying out a major refurbishment, extension and new development project for its head office in Vallila. 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 3,000 employees. Also Amer Sport's head office is currently under construction in the area.

The supply of vacant office space remains high in the Pasila-Vallila-Sörnäinen area, although the vacancy rate increase seems to have stopped. Rental levels vary significantly depending on the quality and micro location of the space, with average rents for older premises standing at €13-15 per sqm per month, and for modern premises at well above €20.

Next to Pasila is the developing Ruskeasuo office area with mostly modern space supply. The area currently accommodates the first two phases of Skanska's Manskun Rasti project, one of which was sold to Union Investment in 2013.The first phase of NCC Property Development's Aitio Business Park was completed in spring 2013.Both concepts are planned to be extended with new phases as soon as demand picks up.

North of eastern Pasila is the traditional residential area Käpylä. The surroundings of the Käpylä railway station accommodate a relatively modern office stock.

> "Kalasatama is a developing area close to the city centre"

Next to Vallila is Sörnäinen, a traditional industrial and harbour area, which currently also accommodates plenty of refurbished office buildings. Adjacent to Sörnäinen is Kalasatama, 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 extensive new property development. At the moment, construction work in the area is concentrated on residential projects. The number of residents is currently around 2,000; when completed in 2030, the area is planned to accommodate some 20,000 people. Several developers are planning office projects in the area. In the centre of the area, SRV plans a major Redi shopping and leisure centre project, consisting of 58,000 sqm of retail space. The centre will be adjacent to residential towers, and well connected to both the city centre and eastern residential areas through public and private transportation. The centre is estimated to be completed in 2017, but the start is still dependent on financing.

Pitäjänmäki

Pitäjänmäki, situated seven kilometres north of the Helsinki city centre, is an old industrial area that had 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. Despite a significant decrease in the vacancy rate in 2012-13, the amount of vacant space remains high in the area, with the vacancy rate standing at 16.5 %, according to Catella Property. Many institutions have significant holdings in the area, and in major investors' portfolios, occupancy rate stood at only some 75 % in late 2013. New construction in the area has, in recent years, concentrated only in residential development. In 2013, two office transactions were recorded in the area, with TMW Pramerica as seller in both deals. SaKaHallikiinteistöt acquired the 10,000 sqm Moveres Business Park with a price amounting to only €12 million, and Amiedu vocational adult education centre bought another property to be developed for educational use.

Eastern Helsinki

East of the central city area is Arabianranta area, which has also been developing rapidly recently. The area currently accommodates about 10,000 residents, 8,000 jobs and thousands of 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 been active in the area in recent years.

Herttoniemi is an area five kilometres east of the CBD, adjacent to both the eastern radial route and the metro line. Herttoniemi is an old warehousing area that has gradually transformed into a more diversified area with office and retail supply. High office vacancy rates have recently characterised the area, although the absolute amount of vacant space only amounts to some 23,000 sqm. 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.

The shopping centre is undergoing a major refurbishment project, through which some 11,000 sqm of new retail space will developed. The project is estimated to be completed in late 2014.

Vuosaari, the new harbour area, is another area that has been developing rapidly in recent years. The harbour, which was opened in 2008, 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. In 2013, however, only some 27,000 sqm of new office space was completed in Espoo, and only another 14,000 sqm was under construction at the year-end. In the KTI rental database, less than 75 % of the office premises owned by large investors were leased in late 2013. Vacant office premises can be found in various areas in Espoo, including, for instance, Kilo-Mankkaa, Keilaniemi, Leppävaara and Niittykumpu-Olari.

The construction of the new western metro line is boosting the property markets in the vicinity of the new stations. According to current estimations, the metro will start operations in 2016. It is also planned to be extended by another five stations by 2018, but the final decisions for the extension have not been made yet.

Photo: Sato

Keilaniemi – Otaniemi – Tapiola – Niittykumpu - Matinkylä

The five established commercial property submarkets in southern Espoo - Keilaniemi, Otaniemi, Tapiola, Niittykumpu and Matinkylä - will accommodate new metro stations. Some of these areas have, in recent years, suffered from serious oversupply of office premises. Despite this, new development has been active in the areas.

"New metro line is reshaping office markets in southern Espoo"

Keilaniemi is a modern office area accommodating several major head office properties, including Nokia, Kone, Neste Oil and Fortum, as well as some modern business park concepts. Rental levels are typically slightly lower than in Ruoholahti. Similarly to Ruoholahti, the area has also suffered from relatively high vacancies in modern office buildings in recent years. In KTI's rental database, the occupancy rate for Keilaniemi offices stood at only 73 % in late 2013. However, the situation is expected to improve in 2014, and rental levels are expected to remain stable. There are several major office development projects being planned in the area, but these are not expected to be started before the rental market conditions improve significantly.

East of Keilaniemi is the Otaniemi area, where Aalto University is located. The University has decided to centralise its main campus in the area, for which it organised an architectural design competition in 2013. The campus project will include both new construction and redevelopment of existing buildings. The area also accommodates several research institutes as well as business parks targeted at high-tech companies. In late 2013, Technopolis extended its holdings in the area by acquiring the Falcon Business Park from a fund managed by Aberdeen Asset Management for €77.5 million.

"Tapiola centre is undergoing major redevelopment"

Tapiola is a traditional retail, office and residential area, which is currently undergoing major redevelopment. The project includes major investments in both transportation infrastructure as well as in existing and new property stock. In late 2013, the first phase of the shopping centre Ainoa was opened in the area. The project is planned to be extended to include the new premises for Stockmann department store as well as another 40,000 sqm of retail space. The area also accommodates a diversified office stock, which is also undergoing a major redevelopment. Some older buildings have been redeveloped for modern office use, and some will be demolished and redeveloped for some alternative use.

Matinkylä, one of the stations along the metro line, is also one of the significant retail centres in Espoo, as well as a developing office area. IsoOmena shopping centre is located in Matinkylä. The centre is currently being redeveloped and extended and will accommodate the Matinkylä metro station. The redevelopment comprises some 25,000 sqm of new retail space, as well as 15,000 sqm of residential apartments. Next to IsoOmena, the second phase of Business Park Safiiri was completed in 2013, and Eventes Business Garden will be completed in late 2014.

West of Tapiola, a Suurpelto area is currently being developed. In the first phase, construction is concentrating on residential buildings, but within the next 10–15 years plans for the whole area include the construction of residential, offices as well as premises for public services. A 10,000 sqm Suurpelto retail centre is currently being developed in the area.

East of Matinkylä, the traditional retail and light manufacturing area of Suomenoja is located. The area currently accommodates mainly big box retail properties. In 2013, the redevelopments of shopping / retail centres Liila and Merituuli were completed in the area. Julius Tallberg-Kiinteistöt has started to develop an 8,200 sqm retail property, which is mainly rented to XXL sports and outdoor shop. The construction is estimated to be completed in 2015.

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, Hartela's Quartetto and SRV's Derby Business Park. In 2013, the newest phase of Alberga Business Park and the second phase of Derby Business Park were completed. New phases are being planned for several of these concepts, but no projects are currently underway.

> "Leppävaara offices continue attracting investors"

The amount of vacant space has increased in Leppävaara during the past years. However, despite challenging economic conditions, Leppävaara has continued attracting tenants, and rental levels have held well, especially in modern premises. According to Catella Property, the increase in the amount of vacant space stopped in 2013. Modern buildings also attract investors; for instance, in early 2014, Union Investment acquired Alberga Business Park's C-building, having earlier invested in the first two phases of the concept.

In the Perkkaa area adjacent to Leppävaara, Tieto Oyj and game company Rovio Entertainment are planning to develop their new head offices. Rovio is also planning an Angry Birds entertainment centre in the area. The plan is expected to be confirmed in 2014.

Espoo centre

Espoo centre, an area accommodating the administrational buildings of the city as well as 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. There are currently plans to connect these two shopping centres to each other as well as to the new bus terminal. Additionally, new residential and hotel projects are being planned in the area.

In early 2014, the plan for the Lommila area, situated next to Espoo centre at the junction of the Turku motorway and Ring Road III, was approved. The plan comprises a 110,000 sqm shopping centre, as well as additional retail, office and hotel premises of some 30,000 sqm. The shopping centre project is led by HOK Elanto and Kesko, both of whom plan to open grocery shops in the centre despite the fact that the plan limits the possibilities to dedicate space for daily goods to significantly smaller premises than in traditional hypermarkets.

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, is opening up new property development opportunities around the station areas, including abundant residential projects as well as retail and service properties.

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 and its daughter company LAK Lentoasemakiinteistöt, all major property developers and several property companies. There are currently some 17,500 inhabitants in the area, and it accommodates about 1,100 companies and some 35,000 jobs.

> "New Ring Rail Line is boosting property development in Vantaa"

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. Lentoasemakiinteistöt has major plans for developing residential and commercial properties around the new station area.

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 the immediate neighbourhood there is also the Flamingo leisure centre comprising hotel, office and leisure premises. A major extension is being planned for the hotel. In the vicinity of Aviapolis, the Pakkala and Tammisto areas are also important retail areas favoured by retail park and big-box retail units such as outlets for motor vehicles, furniture and gardening.

> "Office vacancy rate increasing in the airport area"

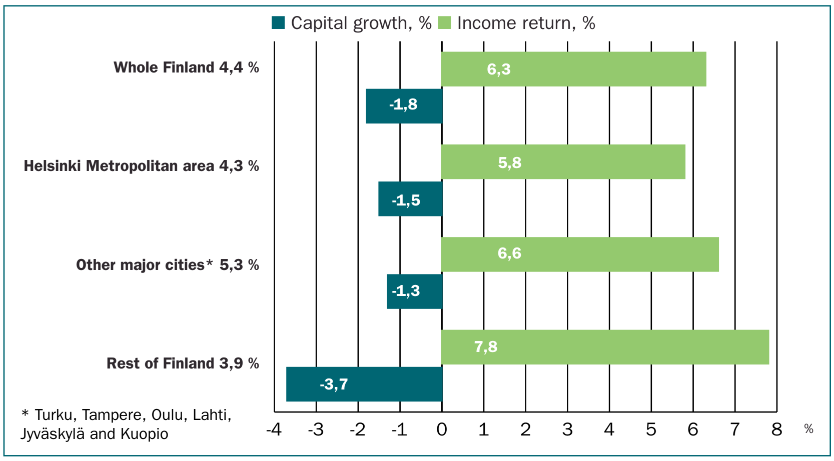
Modern office space supply is abundant in the area, including the World Trade Center in the airport area as well as several business park complexes by Ring Road III. In 2013, four new office buildings were completed in the area, including two phases of NCC's Airport Plaza and the third phase of IVG's Avia Line business parks. Domestic institutions acquired the Airport Plaza projects in the end of 2013. Furthermore, Finnair's new head office was completed by Ilmarinen in spring 2013. The increase in supply has resulted in an increase in the vacancy rate in the area. Some 15,000 sqm of new logistics premises were completed in 2013, and some smaller projects are still underway. New retail projects were limited in the area. The most significant project currently underway is the development of new premises for the Norwegian sports store XXL in Tammisto, scheduled for completion in spring 2014. There are several projects being planned in all commercial property types, but they are not likely to be started in the immediate future.

Office rents in the best premises in the Aviapolis area are slightly lower than in the best areas in Espoo. Overall, rents have remained stable.

Kivistö

Vantaa's biggest development area is in Kivistö, formerly called the 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 plan is estimated to be approved during 2014.

Total returns in different regions, 2013



Source: KTI Index

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. For instance, YIT's DIXI project, comprising some 12,500 sqm of office and retail space, has been sold to Etera. The centre will be completed in late 2014. A major extension is being planned for the hotel next to the station. In the future, the plan includes a new station centre as well as new residential and commercial premises.

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: 220,000
	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. In 2013, the biggest transaction in the area was the acquisition of the Cargotec Campus by W.P. Carey for €38.5 million.

In Tampere, modern office space is found in the city centre, in the areas of Hatanpää and Tulli, in areas close to the centre in Kauppi near the University hospital and in Hervanta alongside the Technical University. In the best office locations in modern buildings, rental levels are above €20 per sqm, whereas in older stock the rents typically vary between 10 and 15 euros. Tampere is also known for its redeveloped industrial properties in the city centre and the immediate vicinity, for both office and residential use.

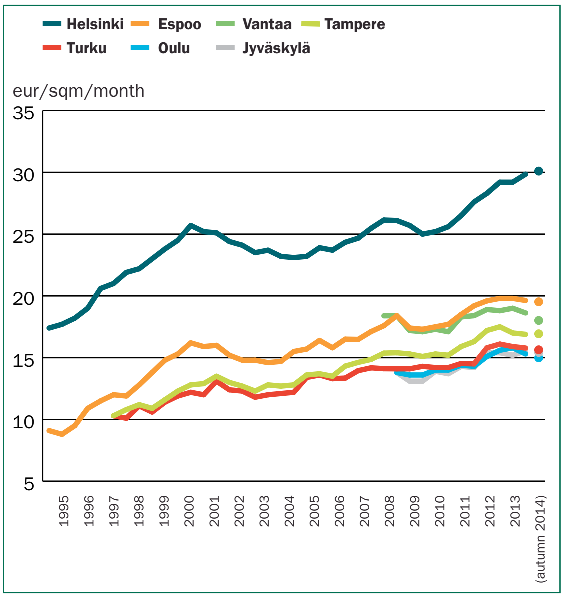
"Vacancy rate increased in Tampere due to increase in office supply"

The amount of vacant office space has recently increased due to both new supply, as well as major reorganisations of Nokia. In 2013, one new office building was completed in Ratina, and another is still underway in the Sarankulma area. University Properties of Finland is developing a new campus for the University of Technology in Hervanta, including office space to be rented for companies.

The most expensive retail space in Tampere is situated along the main street, Hämeenkatu, and in the Koskikeskus shopping centre next to Hämeenkatu. 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. Retail space supply will also increase due to the extension of the Stockmann department store in Hämeenkatu. In Lielahti, the 15,000 sqm Lielahtikeskus is being developed by Keva, as well as an 11,000 sqm Partola Retail Centre for Varma in Pirkkala.

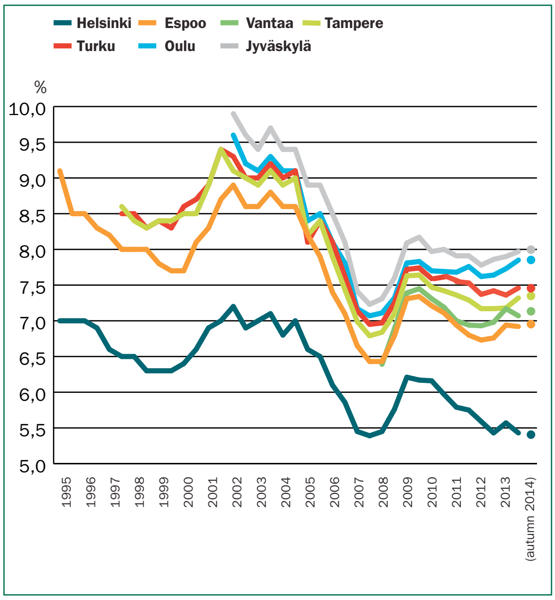
There are plans to build a major multi-use arena in the vicinity of the Tampere railway station. The so called Sori deck project also includes office and residential premises. According to current plans, construction will be started in 2015, depending on the confirmation of the plan and financing of the project. In the vicinity, Elo's Tulli Tower Hotel project is currently under construction, and estimated to be completed in late 2014.

Prime office rents in major Finnish cities



Source: RAKLI-KTI Property Barometer

Prime office yields in major Finnish cities



Source: RAKLI-KTI Property Barometer

Oulu

Location:	600 km north of Helsinki
Population:	Oulu: 194,000
	Oulu region in total: 235,000

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. The number of industrial jobs has decreased in the region in recent years.

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 carried out the only significant property transaction in the region in 2013 by acquiring the Nokia Peltola Campus in a €31 million deal in the first quarter.

In the city centre, there are significant retail development projects triggered by the underground parking facility development. Local co-operative Arina is building a 20,000 sqm shopping centre and Ilmarinen is developing a retail, office and medical centre property in the vicinity.

The most important real estate markets outside the central area are the Linnanmaa area north of the city centre, which accommodates several high-tech companies and Oulu University, and Limingantulli south of the city. The quality of the stock in these areas is dispersed, which affects rental levels.

"Office vacancy rate increasing in Oulu"

The office vacancy rate has remained very low for the last several years, but has recently increased due to the significant restructuring of the IT sector companies in the city. Vacant premises can mainly be found in the outskirts of the city.

Turku

Location:	160 km west of Helsinki;
	in south-western corner of Finland
Population:	Turku: 182,000
	Turku region in total: 325,000

The 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 severe 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 2013 there were three transactions recorded in the area: Turku Technology Properties expanded its portfolio in the Kupittaa area by purchasing the majority of the Electrocity office building, and in the same area, the Swedish Hemsö acquired the property of the building occupied by the Turku University of Applied Sciences. This was Hemsö's first investment in Finland. At the year end, Sponda sold an old office property near the city centre to a local investor. Sponda has announced that it will divest all its holdings in Turku.

Kupittaa, located near the university area and next to the railway station, is the most active office market in the Turku area. 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. Turku Technology Properties is the biggest investor in the area, but domestic institutions and property companies also have significant holdings there. Next to the Kupittaa station, the second phase of Intelligate business park was completed in late 2013.

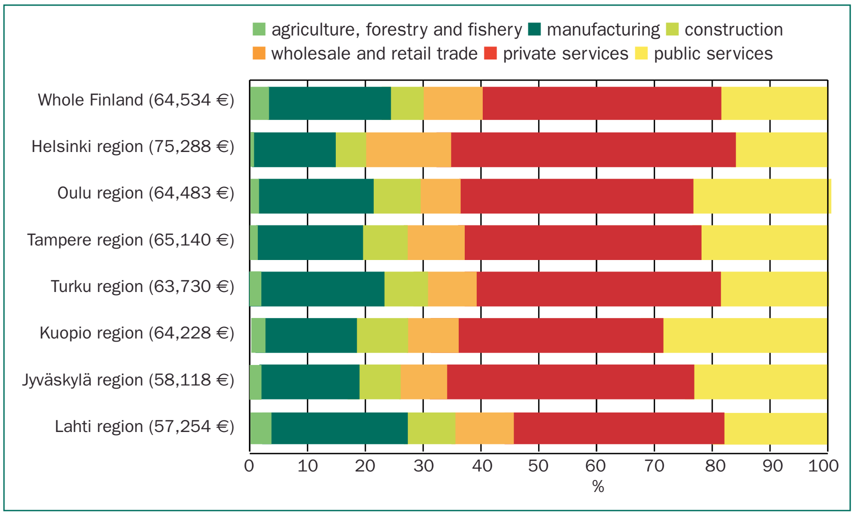
"Several office projects completed in Turku in 2013"

Other recently completed office projects in the area include the new Nereis Business Park west of the city centre, the Logomo office premises near the main railway station and the Auriga Business Center near the harbour.

In the modern office space in the Kupittaa area, rents are clearly higher – at about 15€ per sqm per month on average - than those in the city centre (12-14€ per sqm). The main player in the Kupittaa 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 96,000 sqm of space in the Kupittaa area, and it has major plans for extending its portfolio within the area to create an innovation campus comprising business, housing, educational and leisure properties. There are several office sites in the area enabling its further development in the future. The vacancy rate is currently at a moderate level in the area, although it has recently increased in other areas, mainly in the older stock.

The retail market in Turku is concentrated in the city centre and in some regional centres outside the city such as the Länsikeskus and Skanssi areas in Turku and the surroundings of the Mylly shopping centre in Raisio. Due to recent completions of new big box properties, the amount of vacant retail space has increased in the area. Retail stock has recently increased due to the construction of a 9,000 sqm retail park in Skanssi area. S Group and the local co-operative TOK will start the 24,000 sqm extension of the Mylly shopping centre in 2014. The biggest tenant in the new premises will be the sports store XXL. There are also some redevelopment plans for the existing retail premises in the city centre.

Value added by sector and region 2011, %
Value added by employee (€) in parenthesis



Source: Statistics Finland

Jyväskylä

Location: 270 km north of Helsinki, in the centre of Finland

Population: Jyväskylä: 135,000

Jyväskylä region in total: 177,000

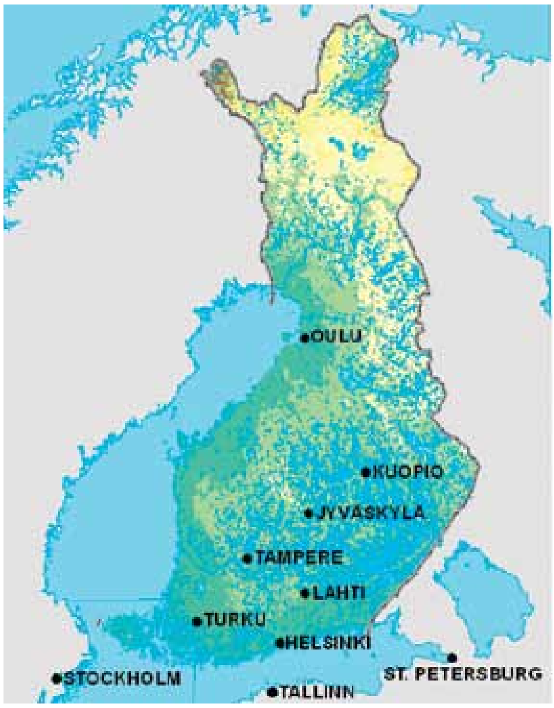
Jyväskylä is a university town that emphasises both traditional industries and new technology. The Jyväskylä region's industry areas cover wood and construction materials and ICT as well as healthcare industries. In its regional strategy, the region also emphasises knowledge-intensive services. Two-thirds 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 recently been developed. Office development has recently been concentrated in the Lutakko area, where Technopolis completed the Innova Business Park 4 in late 2013 and is planning to start the next phase of the project. Other office areas with modern supply include the Mattilanniemi/Ylästönniemi area and Tourula, where old industrial properties have been redeveloped into office use. Space demand has decreased due to challenging economic conditions, and the vacancy rate has increased to around 8 %.

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 increased significantly during the past few years, but development of new space is currently limited. A 4,000 sqm retail centre was completed in 2013 in Muurame, and two or three supermarket projects are being planned.

Investment demand remains low in the area. No major transactions were reported in Jyväskylä in 2013.

The amount of vacant retail space has increased slightly, although the vacancy rate remains 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: 106,000

Kuopio region in total: 132,000

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 Finnish cities at the moment, the service sector is the biggest employer in the area. Of around 41,000 jobs in the region, some 8 % 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 2013.

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 the outlook for demand is not very positive.

The retail space market in Kuopio city centre is suffering from the recent completion of the Ikano Retail Center some 10 km outside the city. The city centre's attractiveness has been supported by the completion of an underground parking facility and the refurbishment of some retail properties in the centre. However, new supply has resulted as an increase in the amount of vacant retail space. In 2013, one state's office building was completed, and redevelopment / extension of the university hospital got underway. There are no other ongoing commercial property development projects.

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 clean tech 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 %. However, Lahti, together with Jyväskylä, are currently suffering from the highest unemployment rates among the big cities, standing at 17.45 % at the end of 2013.

The attractiveness of the city centre has increased as a result of redevelopment efforts that have transferred old industrial buildings into other use. Property development in the city centre is currently concentrated on redevelopment. The office vacancy rate is currently at around 8 %. Some older office properties have been or are planned to be redeveloped for residential use.

Retail supply in the city centre concentrates around the Trio shopping centre and in the main street. The position of the city centre is being enhanced through the ongoing underground parking facility project Toriparkki. In the Karisto area, there is a shopping centre with a leasable area of 34,000 sqm.

The major logistics centre of Itella was completed in Orimattila, near Lahti, in the second half of 2013.

In the old industrial Askonalue area, near the railway station, Renor Oy is a major owner and developer of old industrial properties, where it has redeveloped, for instance, office premises for business service companies. In early 2014, it has expanded its portfolio in the area by, among other things, acquiring logistics premises rented to Indoor Group and TS Log. In the vicinity, the construction of a new Terminal centre will also be started in 2014.

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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 at the crossroads of the 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

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 18,000 employees. In 2013, annual sales totalled €6.68 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 €990 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 sixth 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 180 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 2014 by the Great Place to Work Institute® Finland, Newsec Finland was nominated for the seventh time among the top workplaces in Finland and is the best workplace within the real estate industry.

Newsec – The Full Service Property House in Northern Europe – 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 600 professionals in over 20 offices.

Every year Newsec carries out hundreds of successful assignments and manages over 1,500 properties with over 11 million square metres. 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.com, 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 (including 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 2013 was over €43 million. The company employs more than 550 property professionals in 23 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 Urban Development and Infrastructure. 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 24,000 rentable homes in Finland's largest centres of urban growth and St Petersburg. Its investment assets have a fair value of roughly 2.3 billion euros.

SATO's aim is to offer comprehensive alternatives in rental housing and an excellent customer experience. In our work, we promote sustainable development and encourage initiative. We operate profitably and with a long-term view. We focus our housing on apartment buildings in urban environments close to public transport connections. We increase the value of our housing property through investments, divestments and repair work. We produce owner-occupied housing in order to achieve synergy benefits in property development.

Our competitive edge is based on constant renewal, forecasting the needs of customers and on dedicated personnel.

SATO's biggest shareholders are Finnish pension insurers and other insurance companies. The Group's turnover in 2013 was EUR 311.5 million and profit before taxes was EUR 70.9 million. Operating profit was EUR 108.1 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 2,800 corporations and institutions as customers. The Group has about 16,000 employees.

SEB has been present in Finland since 1984, and today has 350 employees based in central Helsinki.

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

Skanska is one of the world's leading project development and construction groups with expertise in construction, development of commercial and residential projects and public-private partnerships. Based on its global green experience, Skanska aims to be the clients' first choice for Green solutions.

The Group currently has 57,000 employees in selected home markets in Europe, the US and Latin America. Headquartered in Stockholm, Sweden and listed on the Stockholm Stock Exchange, Skanska's sales in 2013 totalled nearly EUR 16 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. The combined sales for Skanska Oy's operations in 2013 were approximately 798 million euros and the company employed about 2,190 people.

Skanska Commercial Development Finland is part of Skanska Commercial Development Nordic, which 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 and Helsinki in Finland. The development of logistics and volume retail properties is conducted in strategic locations in Sweden, Denmark and Finland.
www.skanska.fi, www.facebook.com/skanskafinland

SRV provides the best frameworks for people to live and for businesses to operate. As a developer and builder of residential and business environments we boldly generate new innovations.

We offer refined concepts and create new solutions in response to our customers' needs. Our operating model is based on innovative project development and effective project management. The customer-oriented SRV Approach ensures that all project parties cooperate transparently to achieve the best results.

Founded in 1987, SRV Group Plc is a publicly listed company. We have revenue of approximately EUR 700 million and employ close to a thousand people. In addition to our operations in Finland, SRV is active in St. Petersburg and Moscow, as well as in Estonia. www.srv.fi/en

Trevian Asset Management is an independent real estate private equity and asset management company, delivering structured property investments and management solutions. The company is owned by key members of the personnel.

Trevian specializes in commercial real estate investments and asset management. The company produces optimised investment products for investors, ranging from renting single properties and enhancing their value, to developing and managing entire real estate funds. The company streamlines its services especially for real estate investors, institutional investors, banks and other professional investors.

Trevian presently manages three of their own real estate funds, and together with other asset management mandates has approximately 500 M€ of assets under management. Trevian's team is comprised of over 10 real estate and finance professionals based in Helsinki and Oulu. www.trevian.fi

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
Site	Tontti

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