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KTI Property Index:
Finnish property investments produced a total return of 6.0% in 2011

The total return of the Finnish property investment market was 6.0% in 2011. The total return decreased for all major property types compared to the previous year. The reduction of the total return was caused by the slightly negative capital growth. Income return remained still at a good level, at 6.2%. Residential property produced once again the highest returns with a total return of 9.2%. The total return of the office sector was once again low, 3.5%, due to the decrease of market values.

Market values for property investments decreased slightly
KTI Property Index measures the total return of direct property investments and the total return has two components. The income return measures the proportion of the rental income from the market value and capital growth measures the annual development of the market values. The 2011 income return was slightly lower than the year before and ended up at 6.2%, which is a fairly good level when compared internationally. Contract rents continued to increase, and also occupancy rates came up during the year. The net income was burdened by the continuously increasing operating costs.

The development of the market values differed greatly between property types and locations, and even within drivers affecting individual property market values. Also, different types of development went on during the year, since the springtime's positive market outlook turned pessimistic towards the year-end. Market values for property investments were written off by a subtle 0.2%. There are no clear market-related reasons linking to the rental values and initial yields which could explain development of capital values. Insecurity of the future economy and property market and individual features of the properties are reflected strongly in the values.

Helsinki CBD office market values increased – elsewhere the decrease continues
Office property has traditionally been the dominant sector in the institutional investor's portfolio, and therefore the challenging office market is reflected in the results of KTI Index. Office market values were written off by 2.3%. Regional differences are large, and the position of Helsinki CBD as a secure market is even stronger than before. The positive income growth of 3.6% raised the total return of the CBD offices up to 8.5%. In addition to the decreasing market values, office returns are pushed down by the income return which has been decreasing six years in a row. The high vacancy rate and increasing operating costs lowered the income return down to 5.9% in 2011. Low occupancy rates dropped the returns of metropolitan area offices especially outside the CBD area.

Residential the highest performing sector for the fourth consecutive year
Strong rental demand continued to support the total returns of residential investments. The high occupancy rate and continuing rent increases kept the income return at 5.4%. Market values increased by 3.6%. However, the total return did not reach the level of 2010 for the residential sector either.

Shopping centres supported the good level of returns for the retail sector
Retail was the second best performing property type in 2011 with a total return of 7.1%. Especially the 2.4% positive capital growth within shopping centres increased the total return of the retail

sector. The most positive development of market values was found in Helsinki metropolitan area shopping centres. Other retail on the contrary wrote off the market values by 0.8%. The income return for retail property was 6.4%, though there is variation between the metropolitan area and other Finland where the income return exceeds the level of the metropolitan area.

The income return for the industrial sector is still strong
The total return for the industrial sector dropped to 5.8% in 2011. The income level is kept up by the high, 7.9% income return. The income was supported by rental increase and improved occupancy rates. Warehouse property produced higher returns than other industrial property: the total return for warehouses was 6.1% and for other industrial property the return was 5.0%

The metropolitan area has a strong position in the Finnish property investment market
67% of the properties included in the KTI Index are situated in the metropolitan area. The strong position of the metropolitan area as a pacemaker for the Finnish property market is clear in this insecure market situation. The total return for metropolitan area property increased to 6.2% in 2011 with the help of a slight positive capital growth. Elsewhere in the country market values have changed having a negative sign mark in front of them. Income returns have traditionally been lower in the metropolitan area compared to the rest of Finland; this is because of the higher market values in the area. Larger cities outside the metropolitan area had a total return of 5.8% and the rest of Finland 5.4%.

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KTI Property Index measures ungeared total return on direct property investments in Finland, consisting of two components: income return and capital growth. Contributors to KTI Index include 21 major Finnish property investors, and the database currently comprises some 21.3 billion euros worth of properties, thus covering over half of the total property investment market. KTI Index is compatible with property indices published by IPD for other countries. KTI is an independent property information and research service company.

Attached:
- **Total return on the Finnish property market 2000-2011**
- **Total returns by sector in 2011**
- **Total returns by area in 2011**