2012 KTI Market Review *Spring*

- The outlook for the property market is turning slightly more positive
- Transactions volume remains low
- High vacancy rate of offices remains a problem in the Helsinki Metropolitan Area
- The position of residential property is strong in the investment market

KTI - High quality property information

KTI Market Review – Spring 2012

Subtle optimism in the Finnish property markets

Together with the increased confidence in the overall economic outlook, the sentiment is turning slightly more positive in the Finnish property market. However, the situation is still sensitive to any negative signals from the financial markets.

The volume of property transactions remains low. The total volume in 2011 was clearly below two billion euro, and the first quartile of 2012 has not shown any clear improvement. Investment demand is still mainly targeted at prime assets, which are not offered for sale in the market. The tightened supply of debt financing also prevents transactions from happening. However, due to the continued period of low volumes, there are repressed needs for transactions, which are likely to start materialising as the economic outlook improves. The Finnish market seems to also have an established position in the international investors' agenda. Expectations for increasing transaction volumes have started to strengthen again, after having dropped markedly in late 2011.

Prime property yields continue decreasing slightly. The risk awareness of investors is, however, still at a high level, and yield gaps between prime and secondary properties remain significant.

The rental activity has risen, and prime rents have increased slightly in the commercial property markets. The position of Helsinki Central Business District remains strong. The high vacancy rate of offices is the biggest challenge in the Helsinki Metropolitan Area property markets. The amount of vacant space is expected to increase together with the completion of new development projects.

Residential rents continue increasing in all major cities. The increase has accelerated in some submarkets in HMA during the past year. There is pressure being exerted for rent increases, which is strengthened by the drop in residential construction volumes. The popularity of residential properties remains strong in the investment market. Residential has been the best performing property sector in one, five and ten year's investment periods. Offices, which are the biggest sector in the investment markets, have shown the lowest performance for all the periods.

Overall economic uncertainty reflected in the property markets

GDP growth remains shallow

The Finnish economy is expected to grow by ca. one per cent in 2012. The biggest risks for recession seem to have faded, but, due to the Finnish economy's dependence on international development, the outlook remains opaque. Slight improvement, driven by the increase in exports, is expected to be seen in the latter half of 2012. The economic growth in 2012 is mostly based on the increase in private consumption, which will also slow due to the moderate development of earned income and tightening taxation. The Nordic countries' economic position – including Finland – remains strong, however, in international comparison.

- Availability of debt financing is still tight
- The Finnish economy will start strengthening towards the end of the year
- Moderate growth supported by private consumption

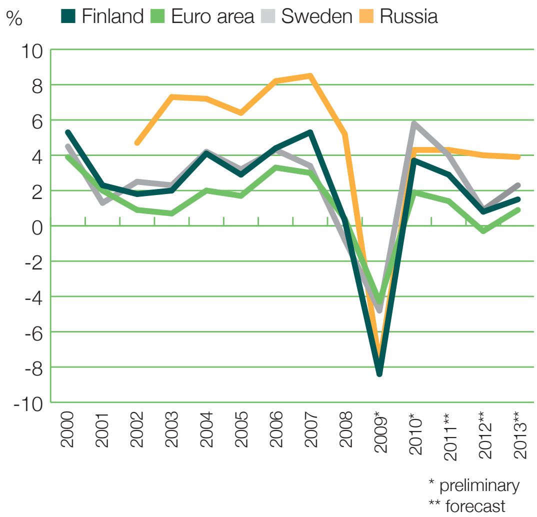
The European debt crisis has not been fully solved yet

Although the imminent problems have been solved in the European financial markets, the sovereign debt crisis is likely to become acute from time to time also in the future. The situation remains sensitive to any new negative signals. This maintains uncertainty and emphasises risk awareness also in the property investment markets.

Inflation rate at two to three per cent

Policymakers aim at finding a balance between stimulating and tightening financial and fiscal policy actions. One of the key issues in this context is the impact on inflation in different countries. In the Finnish context, inflation is increased by the increase in import prices and the relative strength of the economy. Consumer prices are also increased due to the increased tax burden. Therefore, provided that no new economic problems materialise, the inflation rate is expected to remain relatively high.

GDP, change in volume

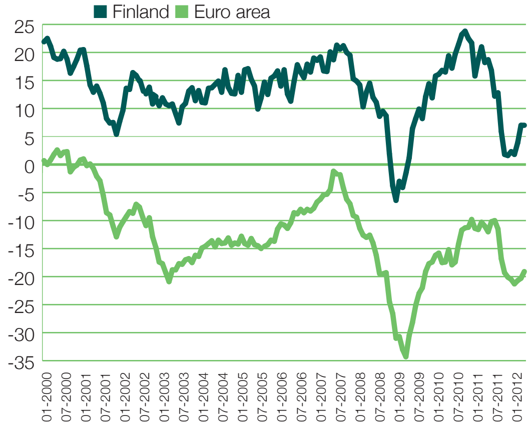


Source: Statistics Finland, Ministry of Finance, OECD, IMF

Low interest rates support the solvency of the debtors

Slow economic growth and the European Central Bank's determined liquidity actions will keep interest rates low in the near future. This strengthens the outlook for the housing market, and also lightens the burden on heavily leveraged property investment portfolios. However, the availability of debt financing is tightened by both increasing regulation and a decreased supply of financing for banks.

Consumer confidence indicator



Source: European Commission

Key economic indicators, %

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

* preliminary
** forecast

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

Property investment market activity still low

Third consecutive slow year in the transactions market

The total transactions volume of the Finnish property market amounted to €1.8 billion in 2011. In the first quartile of 2012, the volume was almost €0.5 billion, which is still low, but, however, significantly more than in the respective period in the two previous years. The results of the RAKLI KTI Property Barometer show, however, a strengthening in the expectations for increasing activity within the next year.

- Transaction volumes are expected to increase
- Residential is the best performing property sector
- Supply of prime properties remains low in the investment market
- Office vacancy rates increasing again
- Operational costs increasing more than inflation

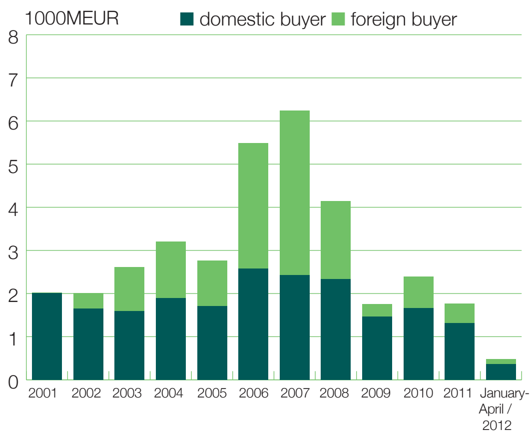
Prime yields continue decreasing

Prime office yield in Helsinki CBD stands at 5.6 per cent, according to the recent RAKLI KTI Property Barometer. This is 0.15 percentage points lower than six months ago. However, as hardly any transactions on prime CBD offices have been made recently, this quote is not based on any hard evidence. Yields for prime offices in other cities remain unchanged or are slightly lower than six months ago.

The Finnish market has an established position in international investors' agenda

Even though there is not much real market evidence, Finland maintains its position in the European property investment universe. In 2011, foreign investors accounted for ca. 25 per cent of all transactions. The Swedish-originated Sveafastigheter was the biggest investor in the quiet market, and it has continued its expansion also in early 2012. Many German funds also increased their investments in Finland during 2011. Many international investors claim being interested in increasing their investments in Finland. Core investors mainly target at low-risk prime properties, whereas more aggressive players look for opportunities for adding value through the active management of more risky assets.

Transactions volume in the Finnish property market

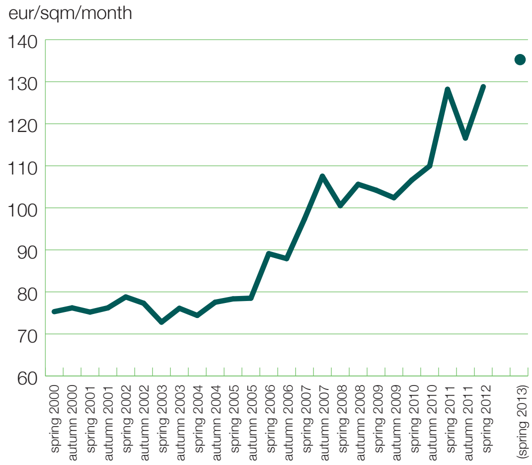


Source: KTI

Helsinki CBD has a strong position in the rental market

The KTI office rental index for Helsinki CBD shows an annual increase of 4.1 per cent. In the RAKLI KTI Property Barometer survey, all-time-high levels were reported for both office and retail rents. Monthly rental rate for prime offices was recorded at €28, and retail rent has increased to ca. €130 per sqm. Rents in the best locations are expected to continue increasing in the near future. Outside CBD, however, rents continue decreasing due to weakening demand. Office rents in other major cities are expected to remain unchanged or decrease slightly.

Prime gross retail rents in Helsinki CBD



Source: RAKLI KTI Property Barometer

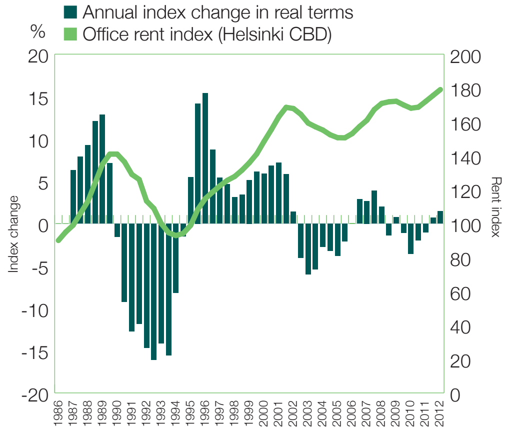
High office vacancy rates remain a challenge

The amount of vacant office space decreased slightly during 2011. Currently, vacancies are increasing again, due to both softening space demand and increased supply through completions. The amount of vacant space has increased in many office submarkets in the Helsinki Metropolitan Area.

Construction volumes remain high in commercial property markets

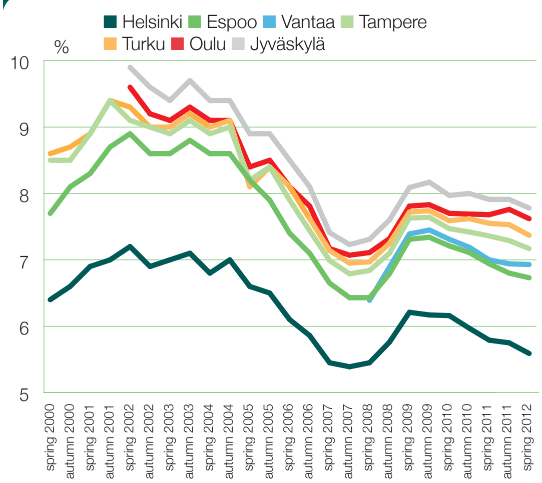
According to the Confederation of Finnish Construction Industries RT, construction of some 28,000 new residential dwellings will be started in 2012. This is ca. 4,000 units less than last year. Residential construction is mainly being slowed by uncertain economic conditions. Volumes of new construction of commercial properties remain high, and there are, for example, more than 200,000 sqm of new office space currently under construction in HMA. However, starts of new projects are now been reconsidered due to economic uncertainty.

KTI office rent index in Helsinki CBD
index 1993=100



Source: KTI

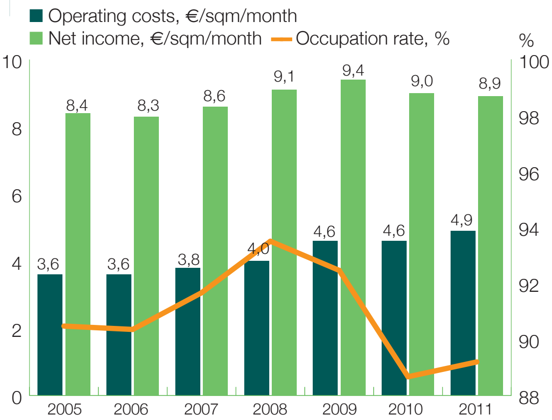
Prime office yields in major Finnish cities



Source: RAKLI KTI Property Barometer

Key indicators of office investments

Occupation rate, operating costs, net income



Source: KTI Index

Office users become more demanding

New construction of office space is, despite the abundant supply of vacant space, justified to some extent by the tenants' increased requirements in terms of location, space efficiency, as well as environmental characteristics of office buildings. Old offices cannot necessarily respond to these requirements. In the Future workplace barometer survey, which is carried out by KTI and Skanska, the number of employees is expected to increase, but, at the same time, the amount of office space decreases. This trend has clearly strengthened during the past few years.

Residential property sector's performance remains strong

Residential property investments have been favoured by Finnish investors in recent years. Their relative attractiveness is strengthened by the weak outlook of the commercial property sectors, the state's stimulus actions targeted at residential construction, as well as the strong demand for rental apartments. Investments have mainly been made through new construction.

- Increase in residential rents continues
- Positive capital growth supports total returns on the residential sector
- Scarcity of sites and high costs pressure new construction

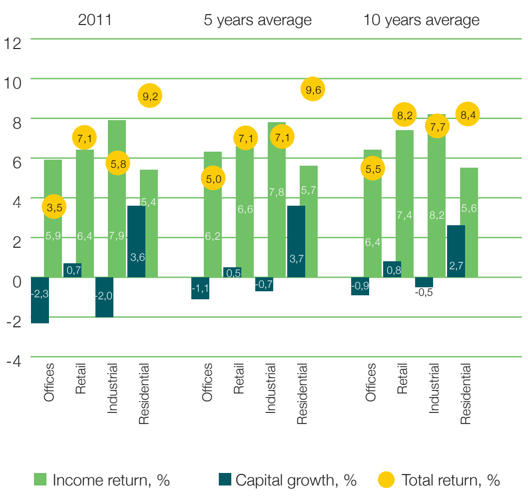
Residential returns highest for all investment periods

Measured by the KTI property index, the residential sector has produced the highest total returns for 1, 5, and 10 year investment periods. In 2011, the total return on the residential sector amounted to 9.2 per cent, consisting of a capital growth of 3.6 per cent and an income return of 5.4 per cent. Capital growth was the strongest in the Helsinki Metropolitan Area. Capital values were supported by both increasing rental values and decreasing yields. In the ten year period, the total return on residential investments amounts to 8.3 per cent. Offices, which are the biggest sector in the KTI Index, have shown the worst performance in all periods.

Residential rents continue increasing

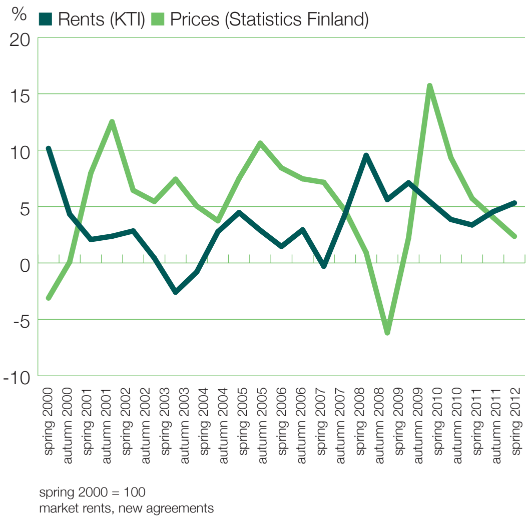
Strong rental demand maintains upward pressures on residential rents. During the past year, the rents of new rental agreements increased by ca. 5 per cent in the Helsinki Metropolitan Area. In the best areas in Helsinki and Espoo, the increase amounted to some 7-8 per cent. In other major cities, the rents of new rental agreements increased by 2-3 per cent. According to the RAKLI Residential property barometer, rents are expected to continue increasing in all major cities, especially in small apartments.

Property returns by sector



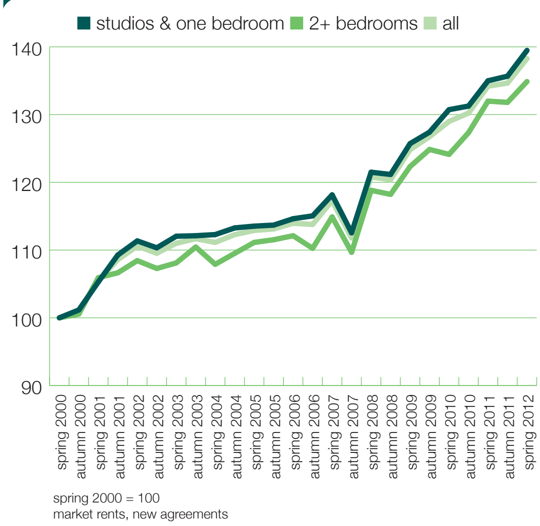
Source: KTI Index

Residential rents and prices in Helsinki metropolitan area
Annual change, old apartments



Source: KTI, Statistics Finland

KTI Residential rent indices
Tampere, Turku, Oulu, Jyväskylä, Lahti



Source: KTI

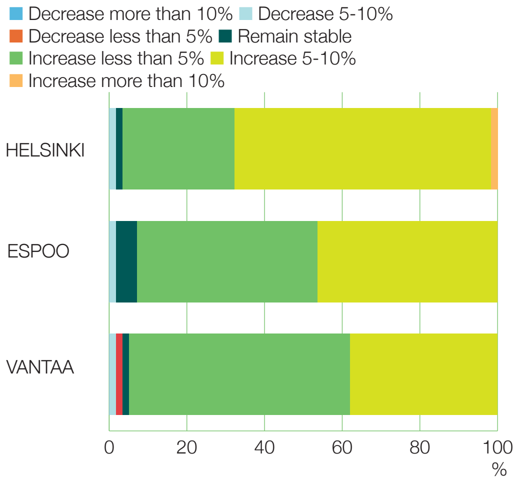
Net income burdened by increasing costs

Operational costs for residential properties increased by ca. 4 per cent in 2011. During the past decade, the annual increase in costs has been ca. 5 per cent on average, whereas the increase in rents only amounts to ca. 3.3 per cent. In the same period, the average annual inflation rate has been 1.6 per cent. The increase in maintenance costs has been driven by both increasing energy prices and labour costs in the property service sector. Ageing housing stock also requires more repair and refurbishment. Annual repair costs have increased by 6 per cent on average between 2002 and 2011.

Outlook for residential prices remains opaque

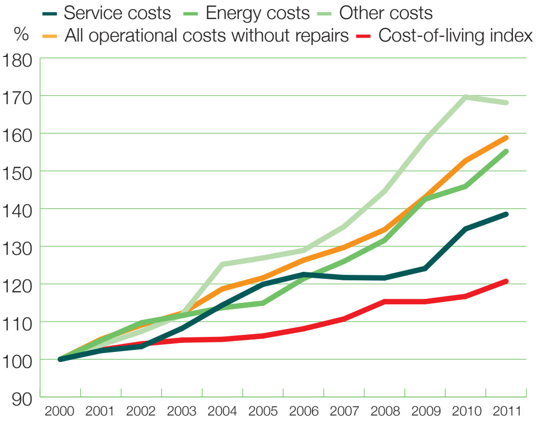
Prices for old residential apartments rose by ca 2 per cent in the Helsinki Metropolitan Area in 2011. Elsewhere in Finland, the prices remained mostly unchanged. Transaction volumes for owner-occupied housing units decreased slightly compared to 2010. Low interest rates support the housing prices, but, on the other hand, the uncertainty of the overall economic development is reflected in the housing markets. Changes in housing prices are expected to remain insignificant in the near future.

Expected development of rents of small apartments in Helsinki metropolitan area



Source: RAKLI Residential property barometer

Development of the operational costs
Apartment houses, Helsinki Metropolitan Area
index 2000=100



Source: KTI

Shortage of building sites and increasing costs slow construction activity

Despite the strong rental demand, the construction of rental residential properties will slow in 2012. According to the RAKLI Residential rental barometer survey, the biggest obstacles for residential construction include the scarcity of building sites, as well as increasing construction costs. The availability of debt financing is reported to having become tighter during the past year.

Regional differences in commercial property markets

The attractiveness of Helsinki CBD remains strong

The positive development of the Helsinki CBD area has continued in both office and retail markets. Office rents are increasing and the amount of new office lease contracts remains at a rather high level. According to the KTI Index, the capital growth of Helsinki CBD offices amounted to 3.6% in 2011, whereas, in most other submarkets, negative value changes were reported. The supply of office space is currently increasing in the area due to the new major development projects in the Töölönlahti area.

The retail rents in the CBD area have also remained high, and the upper quartile of the new lease agreements exceeds 100 euro per sqm. The respondents of the RAKLI KTI Property Barometer expect that both office and retail rents will continue increasing in the area during the next six months.

- Rents and capital values increasing in Helsinki CBD
- New metro line supports development in Espoo
- Commercial property market outlook is positive in Tampere
- New offices being built in Jyväskylä and retail in Kuopio

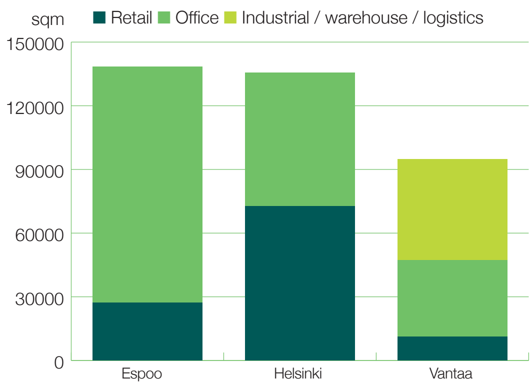
Occupancy rates still low in many office submarkets

Outside the CBD area, there are big differences between the submarkets in the Helsinki Metropolitan Area. The amount of vacant office space remains high in many areas and has even increased during the winter. The situation is not expected to improve due to the abundant new office construction. The occupancy rates are the lowest in the city of Espoo, which is only slightly above 80 per cent, although in some areas in Espoo the amount of empty space has decreased during the winter.

The new metro line, which is expected to be completed in 2015, has boosted the commercial development in southern Espoo. New office buildings are currently under construction, for example in the Keilaniemi, Otaniemi, and Matinkylä areas. The massive redevelopment project of the Tapiola centre area has also started.

The rents of new office lease agreements have developed in different directions. Outside the Helsinki CBD (Pasila, Sörnäinen, Lauttasaari and Vallila areas), the median rent has decreased slightly, but for example in Pitäjänmäki and some areas in Espoo, rents have increased from the previous period. The respondents of the RAKLI KTI Property Barometer expect, however, the office rents to decrease during the next six months, especially in Espoo and Vantaa.

Commercial properties under construction in Helsinki metropolitan area in March 2012, Rentable area, sqm



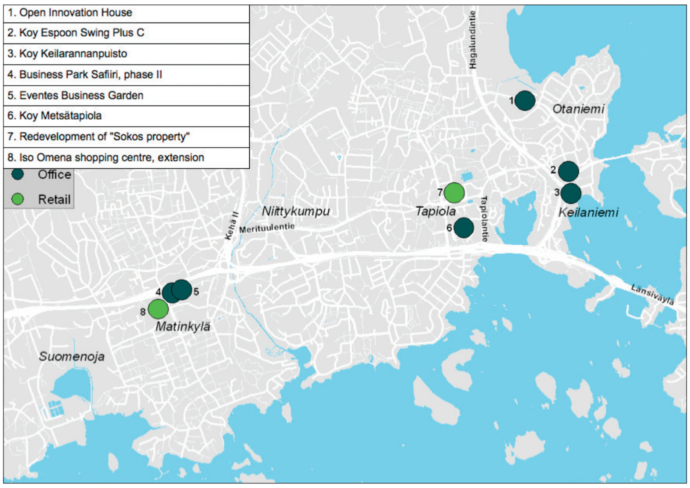
Source: KTI, RPT Docu Oy

Retail vacancy rates remain low

The amount of vacant retail space has decreased by more than 10,000 sqm, and occupancy rates are ca. 97-98 per cent in all cities in HMA. The respondents of the RAKLI KTI Property Barometer expect the demand for retail premises to remain high and the rents to increase further, especially in the best locations in Helsinki CBD. A strong economy and the improving quality of retail stock have also attracted new international retail chains to enter the Finnish market, especially to the modern shopping centres in HMA.

The construction of new retail premises has remained at a low level in HMA in recent years. No major projects are underway currently, but construction activity is mainly concentrated on the redevelopment and extension of existing retail centres. In addition to Tapiola, major redevelopment and extension projects are carried out or planned in e.g. Iso Omena, Itis (formerly Itäkeskus) and Forum shopping centres.

Commercial properties under construction along the new metro line



Source: KTI, RPT Docu Oy

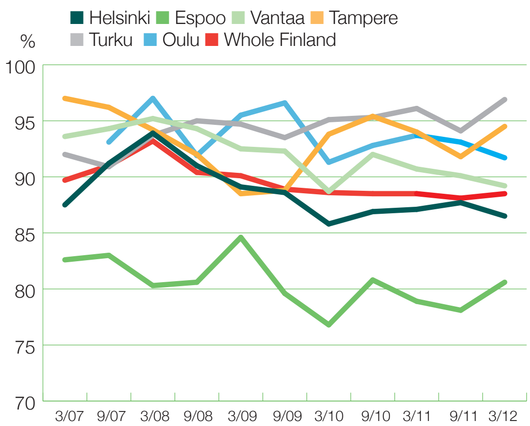
Positive outlook in Tampere

The Tampere property market shows more positive development than other major cities in the RAKLI-KTI Property Barometer survey. Rents for both office and retail premises are expected to increase slightly. The amount of vacant space has decreased in all commercial property sectors. In the first quarter of 2012, three office transactions have been carried out by Pension Tapiola and funds managed by Auratum.

Occupancy rates remain high in Turku

New office rental agreements in Turku have mainly been made in areas outside the city centre. Rents have remained stable. Occupancy rates remain high in all commercial property sectors, partly due to very limited new construction. In the retail markets, rental activity has increased and rents for the best retail premises have increased slightly in the city centre due to completed major redevelopment projects.

Office occupation rates



Source: KTI

Stable development in Oulu

Rents have remained stable in the Oulu office markets. In the retail markets, however, rental activity has been concentrated in the best locations, and rents have increased. Rental markets are expected to continue showing stable development. Construction activity remains low.

New office premises are being built in Jyväskylä

The supply of modern office premises will increase in Jyväskylä through the construction of a new Innova – phase by Technopolis in the Lutakko area. Jyväskylä office market shows relatively good performance in terms of rental development as well as yield levels. The transaction market remains, however, slow.

Increased activity in Kuopio

Retail rents have increased in the Kuopio city centre, supported by the healthy demand. Retail occupancy rates remain high, which might, however, be affected by the completion of new retail premises towards the end of this year. Office rents have remained rather stable.

Amount of vacant space has decreased in Lahti

During 2011, the supply of retail premises increased markedly in Lahti through new completions. New projects are still being planned, even though construction activity is low at the moment. The amount of vacant space has decreased both in the office and retail markets during the winter.

Finland's position remains relatively good in international comparison

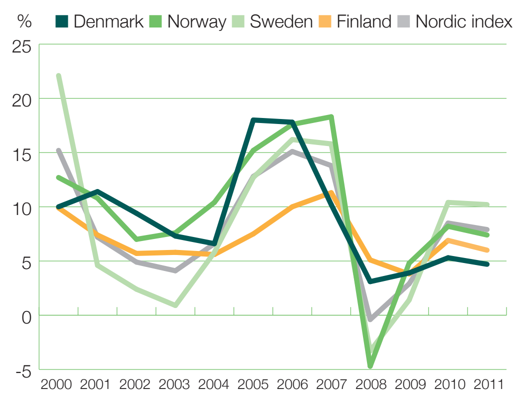
The European debt crisis impacts property markets throughout Europe. In these turbulent times, investors' interest is mainly targeted at the strongest economies. In the European context, Germany and the Nordic countries have often been mentioned as the most attractive target countries for property investment.

- Total returns decreased in almost all European countries
- Swedish property market attracts investors
- Foreign investors are interested in prime properties in Finland

Nordic markets showed competitive performance in 2011

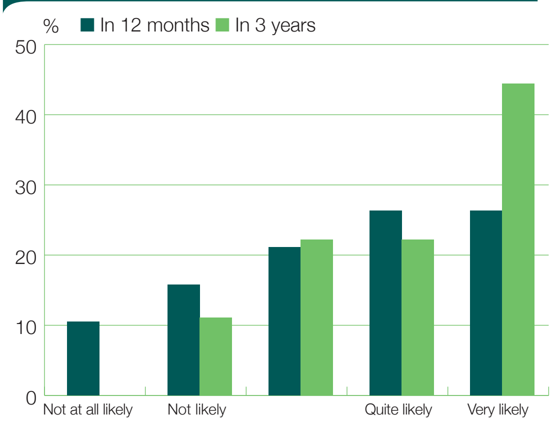
Total returns on property markets decreased for most European countries in 2011. According to the IPD Pan-European Property Index, the total return on European property amounted to 6.6 per cent. The Nordic markets performed better than the average. IPD KTI Nordic Property Index showed a total return of 7.9 per cent, which was ca. 0.5 percentages lower than in 2010. The highest returns were delivered by Swedish property investments, which, by the total return of 10.2 per cent, was in top position among all European countries. It has also attracted both domestic and foreign investors recently, and shows clearly higher levels of liquidity than any other Nordic market. Norwegian and Danish property markets delivered total returns of 7.4, and 4.7 per cent, respectively.

Total returns of property investments in Nordic countries



Source: IPD, KTI

How likely is it that you will invest (or invest more) in Finnish Property in 12 months / 3 years?



Source: Finnish Property Barometer

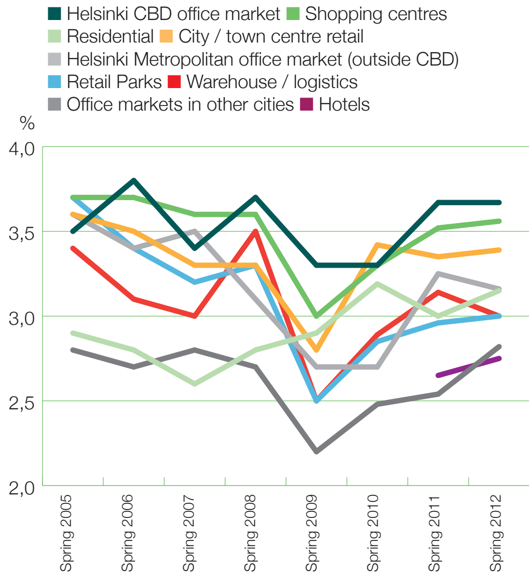
Prime properties attract foreign investors

In the Finnish Property Barometer survey, carried out by KTI in April, the international investors' interest towards the Finnish market has increased slightly during the past year. More than half of the respondents plan to make investments in the Finnish market within the next year. International players mainly target prime properties, and Helsinki CBD offices, prime retail in major cities and shopping centres are the top three market segments in the respondents' agenda.

According to the survey, the most favourable characteristics of the Finnish market include the overall regulatory and legal environment for the property investments. Lack of liquidity and the availability of stock are mentioned as not very attractive features of the market. The relatively strong and stable economy and expected good performance of the property market are highly appreciated by investors.

The required yield difference between Helsinki and London prime offices is quoted at 1.25 percentages in the survey. Even in Stockholm offices, the yield is almost one percentage lower than in Helsinki.

How would you currently rate the potential for investment in Finland of the following types?
in comparison with other European Markets



1 = rates with the least attractive markets
5 = rates with the most attractive markets

Source: Finnish Property Barometer

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. KTI's clients comprise all major property investors, managers, occupiers as well as service providers in the Finnish market. KTI is owned by the Finnish Real Estate Federation and RAKLI, the Finnish Association of Building Owners and Construction clients.

KTI - High quality property information

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