



The Finnish Property Market | 2019

THE FINNISH
PROPERTY
MARKET
2019

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Preface

Positive economic development, a stable and transparent business environment and strong performance of the property market have attracted international and domestic capital to the Finnish property market in recent years. The past three years have witnessed historically high transaction volumes, and some two thirds of all transactions have been carried out by international players. Foreign interest is widespread among all property sectors, and the Helsinki metropolitan area is recognised as one of the most attractive property investment targets in Europe.

The Finnish Property Market 2019 discusses the structure, players, market practices and conditions in the Finnish property investment market. The report aims to satisfy the information needs of international investors and other players interested in the Finnish property market.

This publication is produced in partnership with 11 companies and organisations representing the Finnish property investment, development, management, finance and advisory sectors. KTI wishes to thank our sponsors: The City of Helsinki, KIINKO Real Estate Education, Kojamo, LocalTapiola, Newsec, RAKLI, SATO, SEB Group, Sirius Capital Partners, Skanska and YIT.

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KTI Finland also publishes an electronic newsletter twice a month. *Finnish Property News* covers the latest news from the Finnish property market. To receive this newsletter via e-mail, please subscribe to it at www.kti.fi.

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, development projects, 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	5.53 million Density: 18 inhabitants per square kilometre Helsinki 3,012 per square kilometre Uusimaa region (southern Finland): 170 per square kilometre Lappi region (northern Finland): 2 per square kilometre
Languages	Two official languages: Finnish, spoken by 88.0% Swedish, spoken by 5.2% Foreign languages spoken by 6.8%
Capital city	Helsinki, 645,000 inhabitants Helsinki region, 1.5 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo, 280,000 Tampere, 232,000 Vantaa, 224,000 Oulu, 202,000 Turku, 190,000 Jyväskylä, 140,000 Lahti, 120,000 Kuopio, 118,000
ECONOMY	
GDP per capita	€40,618 (2017)
Most important exporting industries	Forest and paper industry products 20% of total exports in 2017 Chemical industry products 19% Metal and engineering products 14.9% Machinery and equipment 13% Electronics and electrotechnical goods 11.9%
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, re-elected in 2018)
Parliament	One chamber, 200 members, elected for 4 years. Current parliament elected in 2015. Biggest parties: The Center Party (49 seats), The National Coalition Party (38), The Social Democratic Party (35), Blue Reform Parliamentary Group (19), The Finns Party (17). New parliament will be elected in April 2019.

1 The Finnish economy

1.1 The structure of the economy

Finland is a well-functioning and stable economy, which is a good example of the benefits of globalization, openness and a market economy. Strong economic growth, innovation and structural reforms transformed Finland into one of the world's most competitive and prosperous economies during the late 1990's and early 2000's.

Growth of industrial production has had a great impact on the development of the Finnish economy during the past decades. Electrotechnical industries played an important role in the growth of the Finnish economy during the first decade of the 2000's, although its share of the Finnish exports has declined in recent years. Forestry and paper industries are traditionally strong sectors in Finland, as well as metal and machinery industries. The importance of chemical industries has also increased significantly in recent years.

However, during the past years, the share of industrial production has decreased, while that of services has increased. In 2000, industrial production accounted for 30% of the Finnish GDP, and, by 2016, its share had fallen to some 20%.

"Exports account for almost 40 per cent of the Finnish GDP"

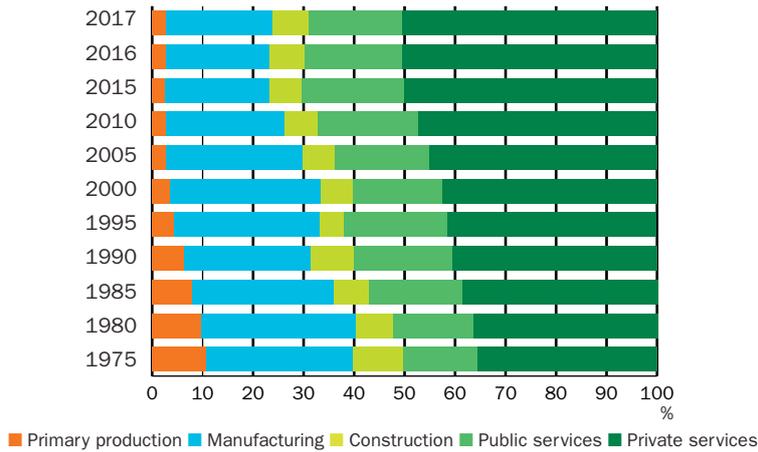
Services are currently the biggest sector of the Finnish economy, and account for some two thirds of the Finnish GDP. Private services make up some 75 per cent of all services, the most important sectors being information and communication, administration and support, trade, transportation, as well as hospitality services.

In 2017, the total industrial production amounted to some €86.5 billion, representing a growth of 11% compared to the previous year. The biggest industrial sector was metal industries, which accounted for some 43% of the total industrial production. The biggest categories within metal industries include mechanical engineering, electronics and electrotechnical industry, metals industry and information technology industries. Chemical and forestry industries both accounted for approximately 20% of total industrial production.

Finland is an export driven economy, and changes in exports have a profound impact on the economic development. At its highest in 2008, exports accounted for some 45% of the Finnish gross domestic product. In 2017, the exports increased by some 7.5%, and its share of GDP amounted to 38.5% of the GDP. In 2018, the exports of goods increased by some 7%, and the total value increased to €63.8 billion, according to the preliminary statistics of the Finnish Customs.

"Exports contributed positively to the growth of the economy in 2017 and 2018"

Finnish economic structure



Source: Statistics Finland

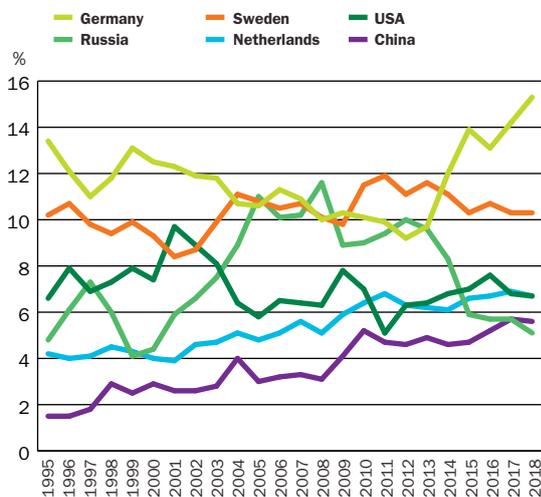
The diversity of Finnish exports has increased in recent years. In 2017, metal, machinery and transport equipment industries accounted for some 37% of the total exports. The share of forest industry amounted to 20 per cent, and that of chemical industry to 19%. Electric and electronics industry products accounted for 12% of total exports. In 2018, the machinery and vehicle industry products were the largest exports sector with a share of some 21%.

The share of services of total exports has increased steadily in recent years. In 2017, services accounted for some 30% of the total exports, and in 2018, the growth in exports of services exceeded that of industrial products. The biggest exporting sector in services is IT services. Other significant exporting service industries include business to business services like research, engineering or marketing services, as well as installation and maintenance services related to Finnish machinery and equipment deliveries.

"Services account for 30% of the total exports"

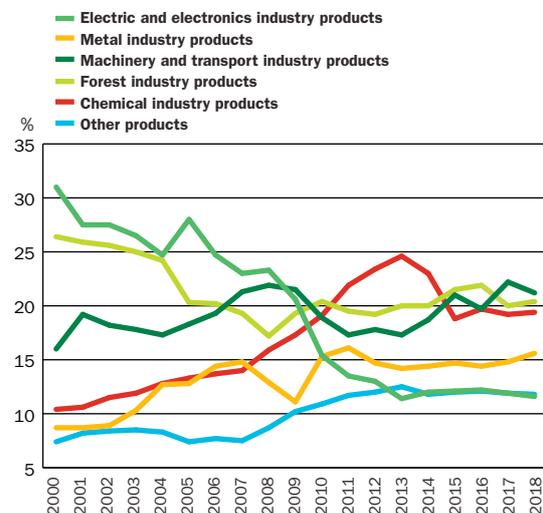
Some 60% of the Finnish exports went to the other EU countries in 2018. The share of Asia amounted to 15% and North America to some 8% of the total exports. The most important target countries of Finnish exports include Germany (15%), Sweden (10%), the USA (7%), and the Netherlands (6%). Exports to Germany have increased significantly in recent years, mainly due to the growth in exports of cars. The exports to Russia accounted for some 5% of the total exports. At its highest in 2013, Russia's share of total goods exports was as high as 18%.

Finnish foreign trade by target area



Source: Finnish Customs

Finnish exports by industry sector



Source: Finnish Customs

1.2 Outlook for the Finnish economy

Finnish GDP growth remained sluggish for almost a whole decade following the global financial crisis. The impacts of global economic downturn were boosted by the coinciding collapse of the competitiveness of electrotechnical industries, challenges in the exports to Russia and the increase in labour costs, which decreased the international competitiveness of Finnish exporting industries. Another challenge slowing down the economic recovery is Finnish exports' emphasis on investment goods, where the growth in demand has accelerated more slowly than in consumer goods.

However, in 2016, the Finnish economy took a direction towards healthy growth, with GDP growth ending up close to 2.5% in 2016 and 2.8% 2017. The absolute volume of production finally reached and exceeded the previous peak level of 2008 in 2018. Finnish exports were supported by strengthening competitiveness of the exporting industries, thanks to more moderate labour cost development than that of the key competitive countries, as well as an increase in productivity. Moderate wage increases in most important exporting industries will continue to support the competitiveness also in 2019.

In 2018, the Finnish economy continued to grow by some 2.5 per cent. Compared to 2017, economic growth was boosted more by domestic sectors, while the growth of exports slowed down compared to the previous year. Private consumption grew by some 1-1.5 per cent in 2018, and investments by some 3 per cent compared to the previous year.

"Finnish economy grew by some 2.5 per cent in 2018"

Going forward, the increase in exports is expected to slow down due to the slowing growth in the global economy as well as the uncertainty caused by the trade disputes. Also, due to the significance of investment goods for the Finnish exports, the increased uncertainty in the financial markets deteriorates the outlook. In 2019, the Finnish exports are forecasted to increase by some 2–3 per cent. Exports will continue to be broadly based with cars, ships, other metal industry products and paper and pulp products being the largest product categories. Also the exports of services are expected to develop positively.

In the coming years, economic growth will be dependent on the development of consumption instead of exports or investments. Private consumption is expected to increase by some 1–2 per cent both in 2019 and 2020. Consumption is supported by improving employment and increasing earnings. A low inflation rate also supports private consumption, as earnings are expected to increase more than consumer prices. Although inflation is expected to increase moderately, it is still forecasted to remain at only around 1.5 per cent in 2019 and 2020. Consumer confidence has remained strong, especially with regard to households' own economic situation. Also low interest rates support the Finnish households' economic conditions.

Active construction has been one of the main drivers of the positive economic development in recent years. In 2018, construction investments grew by some 3 per cent compared to the previous year, while investments in total grew by some 3–4 per cent. In 2019, the growth in construction is expected to come to an end, but no collapse is expected. Construction investments will be more driven by repair construction, as the volumes of new construction are expected to decrease.

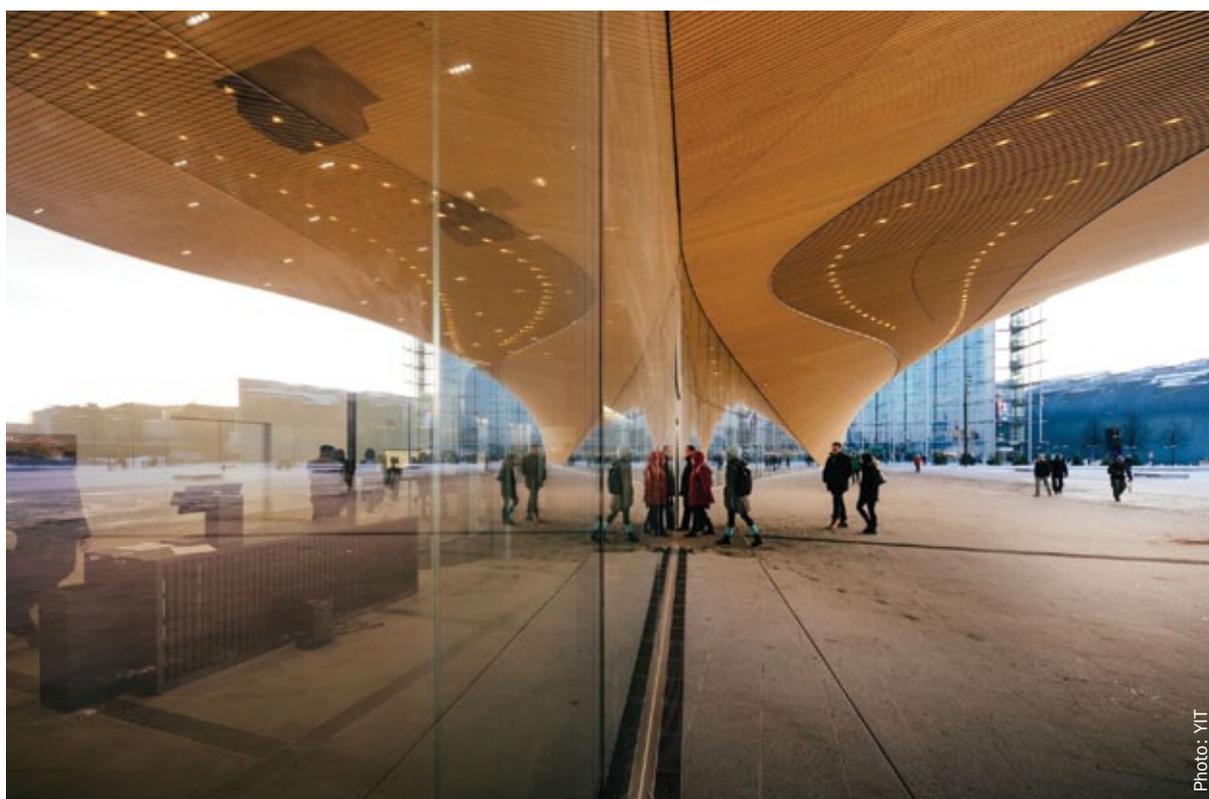
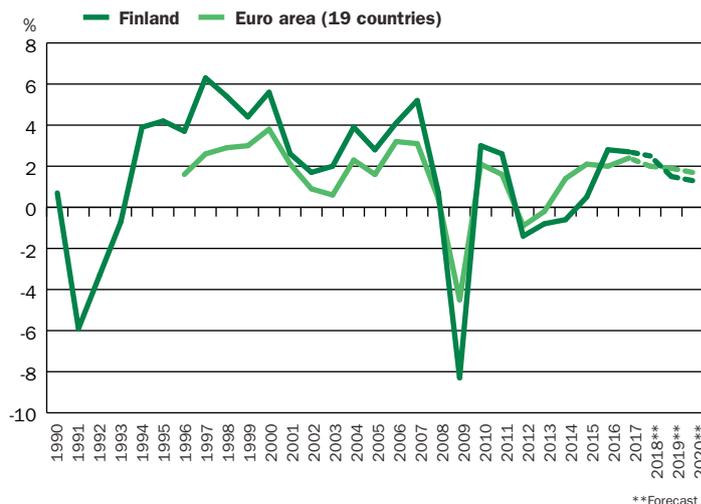


Photo: YIT

GDP growth in Finland and in the Euro area



Source: Eurostat, countryeconomy.com, OECD, IMF, Ministry of Finance

"New construction volumes are expected to decrease"

In other investment sectors, moderate growth is expected to continue in 2019. However, due to increased global uncertainty, forecasts on the development of investments in machinery and equipment, as well as in research and development vary significantly. In most positive forecasts total investments are expected to increase by some 3–4 per cent in 2019, but in others, the growth is expected to be only some 1 per cent.

Going forward, the Finnish economy is expected to grow by a stable but slowing pace. The growth will be based on a continuous but slowing increase in consumption, exports and investments. For 2019 GDP growth forecasts vary between 1.5 and 2 per cent, and for 2020, between 1 and 1.5 per cent.

Thanks to the strengthening economy, unemployment has decreased in recent years. At the end of 2018, the unemployment rate stood at some 7.4%, and it is expected to decrease well below 7% in 2019. However, due to the slowing economic growth, as well as the increasing structural challenges in matching demand and supply for the workforce makes a rapid decrease in unemployment unlikely. In some industries, the lack of a skilled workforce is already causing challenges, which is likely to result as increasing wages, which, in turn, will deteriorate the cost competitiveness of the Finnish industries.

"Employment rate exceeded 72 per cent in 2018"

GDP in 2010 prices and GDP growth



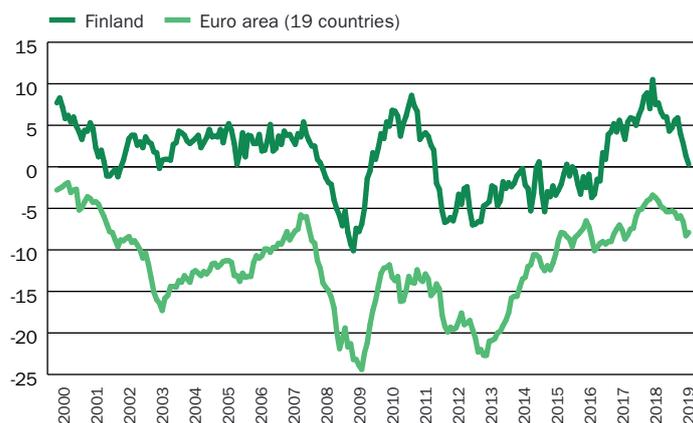
Source: Statistics Finland, Ministry of Finance

The current government's objective to increase employment rate to over 72 per cent was reached in late 2018, and it is expected to continue improving in the coming years. Due to the ageing population, a high employment rate is crucial to the Finnish welfare society, and it is generally agreed that the employment rate should increase further. This is likely to arise discussion about the needed changes in social security benefits in order to boost employment.

1.3 Finnish public finances

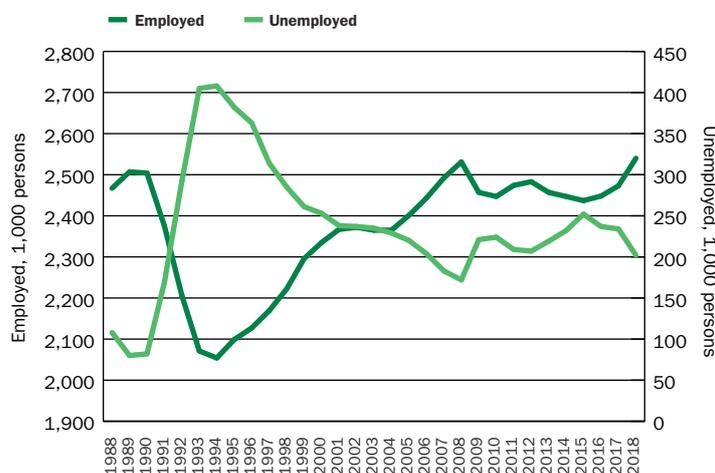
Thanks to the strengthening economy, Finnish public finances also improved in 2018. The general government in Finland consists of the central government, local government, and social security funds. Of these, central and local government finances are cyclical and dependent on the fluctuating tax revenues, whereas social security funds are pension related, and receive more consistent revenue from both pension payments and investment income.

Consumer confidence indicator



Source: European Commission

Employment and unemployment in Finland



Source: Statistics Finland

Key figures – Finnish economy

	2012	2013	2014	2015	2016	2017	2018	2019**	2020**
GDP (change in vol), %	-1.4	-0.8	-0.6	0.5	2.8*	2.7*	2.8**	1.5	1.3
Change in exports, %	1.2	1.1	-2.7	0.8	3.5*	7.7*	3.5**	3.1	2.6
Inflation, %	2.8	1.5	1.0	-0.2	0.4	0.7	1.1	1.4	1.6
Unemployment rate, %	7.7	8.2	8.7	9.4	8.8	8.6	7.4	6.9	6.7
Private consumption, %	0.3	-0.5	0.6	1.7	2.0	1.3	2.1**	1.6	1.4

*Estimate **Forecast

Source: Statistics Finland, Ministry of Finance, Nordea

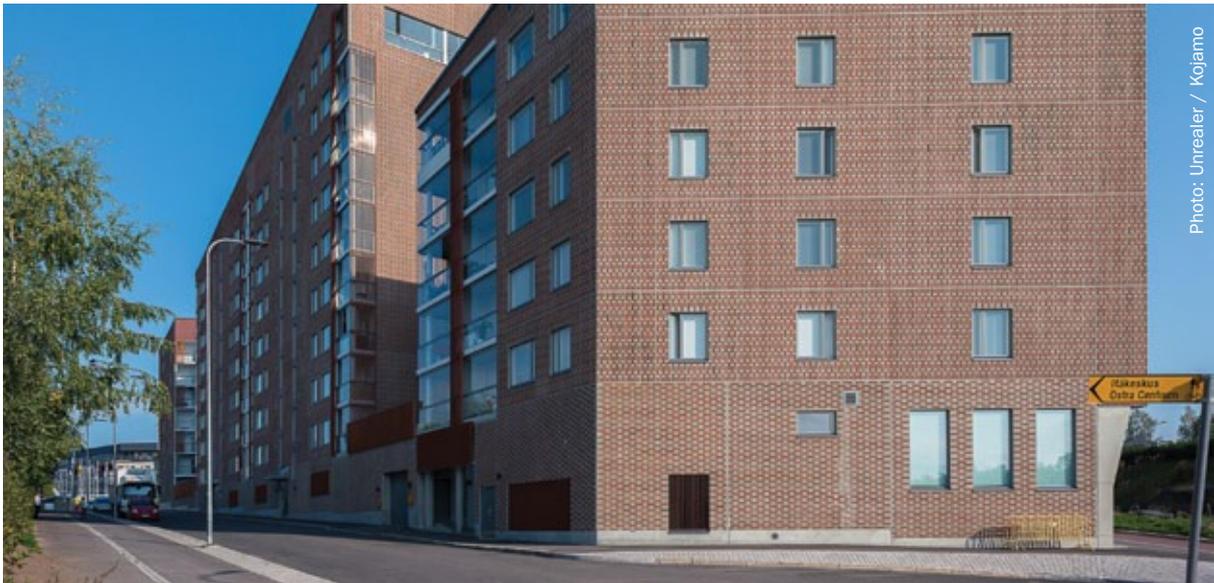


Photo: Unrealer / Kojano

Finland's general government finances have remained on deficit ever since the global financial crisis. In 2018, public finances still remained negative, but the deficit decreased to some 0.8 of the GDP. Although the deficit is expected to continue decreasing in the coming years, general government budgets are likely to remain slightly negative.

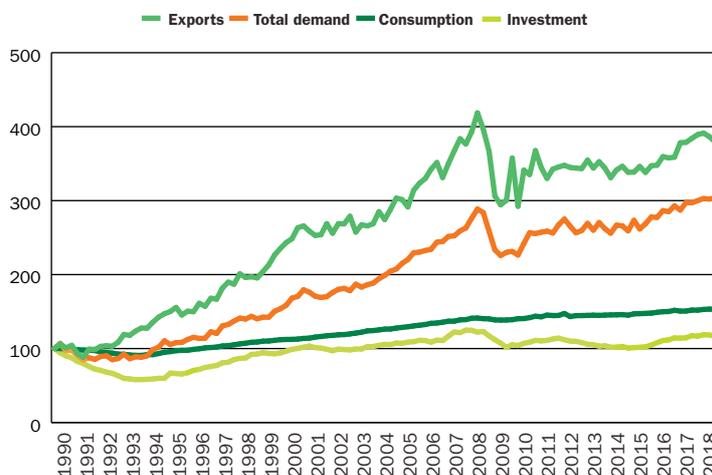
Due to the negative annual budgets, the absolute amount of general government debt has increased in recent years. However, thanks to the economic growth, the relative share of general government debt of the GDP decreased even faster than anticipated, and fell below the 60% threshold in 2018. The debt rate is expected to continue decreasing also in the coming years.

"General government debt decreased in 2018 due to enhancing economic growth"

Finnish public finances continue to face challenges, and strengthening the public economy requires some structural reforms. The Finnish social welfare society is largely based on a comprehensive supply of public services, including, for instance, free education and healthcare, 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 currently accounts for some 53% of total production. Public spending will be increased as the ageing of the population increases pension payments as well as social service and healthcare expenses.

Funding of the welfare society is largely based on a high level of taxation. The current government has been determined to decrease the income tax rate, partly in order to enable moderate wage increases in the labour markets and to support the international competitiveness of the exporting industries. Despite a slight decrease in recent years, the tax

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



Source: Statistics Finland

rate in Finland is among the highest in the OECD countries, and stood at over 42% of GDP in 2018. In 2017, the Finnish tax rate stood at 43.3%, and was only exceeded by France, Denmark, Belgium and Sweden.

Finnish municipalities currently have a significant role in public services. In the Finnish system, the central government sets the framework and basic principles of social welfare and monitors their implementation, whereas most of the actual provision of social welfare is carried out at the local level, in municipalities. Municipalities are responsible for the majority of, for instance, education, healthcare and social services.

There are currently 311 municipalities in Finland. Municipalities differ from each other significantly with regard to their size, economic structure and financial position. The smallest municipalities are typically currently facing the biggest economic challenges due to a negative migration balance and an ageing population, which increases the cost burden in healthcare services. Therefore, structural reforms in the municipalities' responsibilities are essential in ensuring the sustainability of Finnish public finances.

"There are more than 300 municipalities in Finland"

One of the most significant reforms in the current government's agenda is the restructuring of the management and provision of social and healthcare services. The reform also includes profound development of the regional government structure. The organisation of healthcare and social services is planned to be transferred from municipalities to 18 self-governing counties. The reform is one of the biggest ever administrative restructurings in Finnish history. In addition to healthcare and social services, the new counties will be responsible for, for instance, rescue services, environmental issues, regional development duties and tasks related to the promotion of business enterprise as well as planning and steering of the use of regions.

The reform has been delayed several times due to various political and constitutional law challenges in legislative processes. The reform is currently planned to come into force in several phases starting from the beginning of 2021. This schedule is dependent on the Parliament's ability to accept the legislation before the current term ends in mid-March. If the legislation will be accepted, the first regional government election should be organized in late 2019.

"The schedule of the reform in regional government still not confirmed"

The main objective of the healthcare and social services reform is improved control over the increasing costs of services. Productivity of the services is expected to increase through centralised management, increased competition, as well as digitalisation and improved information systems for healthcare service providers.

One of the most discussed topics around the reform is the freedom of choice for citizens between public and private service providers. This has also been one of the main reasons for the delay of the reform. According to the current plan, the clients' freedom of choice will come into force in 2023.

The planned reform has already significantly increased the supply of private sector healthcare services, and many municipalities have privatised the supply of services either partially or fully. The private sector currently accounts for some 17% of healthcare and social services, and its share is expected to increase to some 25% within the next couple of years.

"The reform of social and healthcare services will have a major impact on property investment"

The reform will also impact the ownership and financing of public healthcare properties, and more opportunities for property investors will be opened up. Most of these properties are currently owned by the Finnish municipalities or municipal federations. The attractiveness of private sector care property investment has increased markedly in recent years, and several new investment companies and funds specialised in this sector have been established. These companies and funds most often rent the premises for private sector service providers.

A separate company, Maakuntien Tilakeskus Oy, has been established to own and manage the buildings needed for the services affected by the regional reform. The ownership of the properties currently owned by municipal federations, comprising mainly large central hospitals, has already been transferred to Maakuntien Tilakeskus. The company will also manage all lease agreements of the properties that municipalities have rented from private landlords.

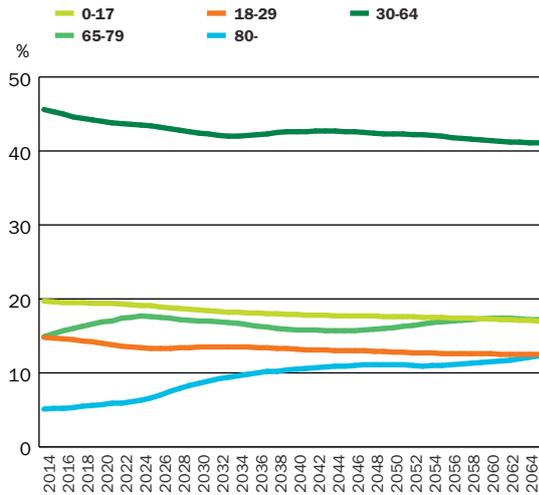
When the regional reform comes into force, counties will rent all the properties currently owned and operated by the municipalities for a transition period of three years. Maakuntien Tilakeskus Oy will also manage all these lease agreements and premises. According to the current estimates, the company will manage some 18,000 rental agreements and 10.5 million sqm of premises with a total worth of some €3.5 billion.

After the transition period, the counties will define the premises needed for their service provision in the longer term. It is expected that some portion of the current properties would be left vacant after the transition period. However, the amount of excess space and its impact on the municipalities' finances has yet to be defined.

1.4 Demographics

Finland is an ethnically homogeneous country, where most of the population is ethnically Finnish. Even though the share of foreigners of the population has increased in recent years, it is still among the lowest within the EU.

The Finnish population by age group 2014-2065



Source: Statistics Finland

The population of Finland is currently around 5.6 million. Within the past decade, the population has increased by some 0.3-0.4 per cent annually. Population growth is a result of immigration, as the number of deaths currently exceeds that of births. Fertility has decreased in recent years, and the average fertility rate currently stands at only 1.4. According to the current forecasts, the Finnish population is expected to increase until 2035, after which the population will decrease, and, by 2050, the total population would decrease under the current number.

Life expectancy is currently 84 years for women and 78 years for men, which is the 31st highest in the world.

Ageing of the population is currently one of the biggest challenges of the Finnish economy. The largest age groups were born after the Second World War, and between 1945–1950 almost or even more than 100,000 babies were born each year. In 2018, there were only 47,300 births. The baby boom generations are now retired, which increases the total dependency ratio, that is, the total number of people under 15 and over 65 in relation to working age population. The total dependency ratio is currently almost 60, and is expected to increase to 62 by 2020 and to 66 by 2030.

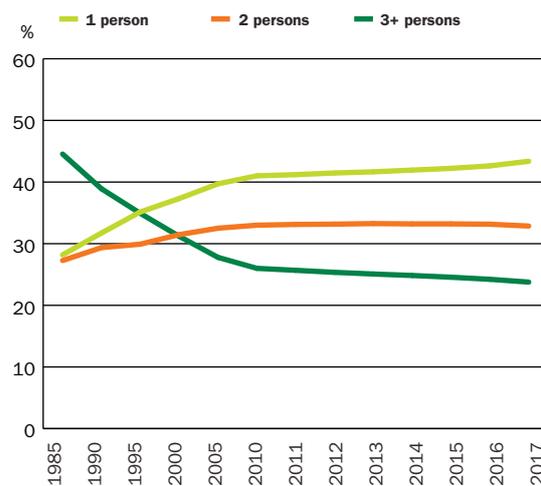
The share of those over 65 years of the total population currently stands at some 22%. By 2030, their share is expected to increase to some 26%.

The average size of a Finnish household has been constantly decreasing. In 2017, some 75% of Finnish households consisted of one or two persons, and the average size of households is 2.01 persons. In the largest cities, households are typically smaller, and in Helsinki, the share of single-person households is currently 48%.

1.5 Finland's international competitiveness

Finland retains its good position in many international rankings that look at various indicators regarding the competitiveness of the economy as well as the overall welfare of citizens.

The Finnish households by size



Source: Statistics Finland

The long-term credit ratings for Finland remain strong. Standard & Poor's, Moody's and also Fitch have all rated Finland in the second best category, at AA+ / AA1. Standard & Poor's and Moody's consider the outlook as "stable", whereas Fitch improved the outlook as "positive" in late 2018. Finland's strong institutions and highly skilled workforce are appreciated by the rating agencies. On the other hand, the deficit and increasing indebtedness of public finances have caused ratings to deteriorate in recent years, and the agencies recommend structural reforms in order to address the challenges caused by the ageing of the population. In current conditions, the Finnish government continues to be able to acquire funding at a very low cost.

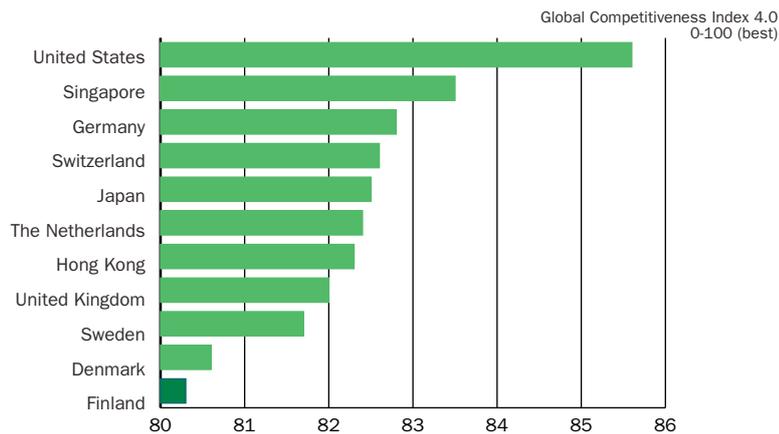
"Finland's credit ratings remain strong"

In the *World Economic Forum's Global Competitiveness Report*, published in October 2018, Finland was ranked in the 11th position, right after Sweden and Denmark, among the 140 evaluated countries.

In the ranking, Finland ranks high with regard to the functioning of its institutional framework, as well as its macroeconomic stability. Within this pillar, the strengths of Finland are mostly related to the legal framework and judicial system. Finland is also highly appreciated for the high quality education and training systems. The development of the financial market, as well as business dynamism and innovation capacity are other strengths of Finland in this assessment. Of the assessed pillars, Finland performs worst with regard to market size and infrastructure. Restrictive labor regulation was also identified as one problematic factor for doing business.

In IMD's *World Competitiveness Ranking* of 2018, Finland was assessed at the 16th position (15th place in 2017). In this ranking, Denmark (7th), Norway (8th) and Sweden (9th), all continued to outperform Finland.

The most competitive national economies in 2018



Source: World Economic Forum

In a recent *Good Country Index*, which measures the contribution of a country to the greater good of humanity, Finland was ranked first among 153 countries. In this comparison, Finland performs best in the areas of prosperity and equality, planet and climate, as well as in world order, where it is assessed to contribute a lot in relation to its size.

"Finland is one of the most competitive economies in the world"

Finland is widely recognised as one of the least corrupt countries in the world. In Transparency International's *Global Corruption Perceptions Index* for 2018, Finland retained third place among 180 countries. In this ranking, Finland was only outperformed by Denmark and New Zealand. The report identified strong access to information systems and transparency of institutions as the factors differentiating the winners from other countries. In The Fund for Peace's *Fragile State Index 2018*, Finland retained its position as the most stable country in the world.

In its *Travel and Tourism Competitiveness Report*, World Economic Forum assesses Finland as the safest country in the world, which also has, according to the Global Competitiveness Report, the least organised crime. Finland's security and safety are also appreciated, for instance, by the *World Justice Project*, *World Internal Security and Police Index*, as well as *Law and Order Index*.

"Finland remains one of the least corrupt and safest countries in the world"

Finland, together with other Nordic countries, typically performs well in international rankings assessing quality of living. Sustainable Development Solutions Network ranked Finland as the happiest country in the world in its *World Happiness Report* in 2018. In this comparison, the key assessed

variables supporting the citizens' well-being include income, healthy life expectancy, social support, freedom, trust and generosity. Finland also ranks well in comparisons assessing gender equality and social coherence.

In OECD's Better Life Index 2018, Finland was ranked ninth. In this comparison, the strengths of Finland include, for example, the quality and accessibility of the education system, environmental quality, safety and the overall life satisfaction of citizens.

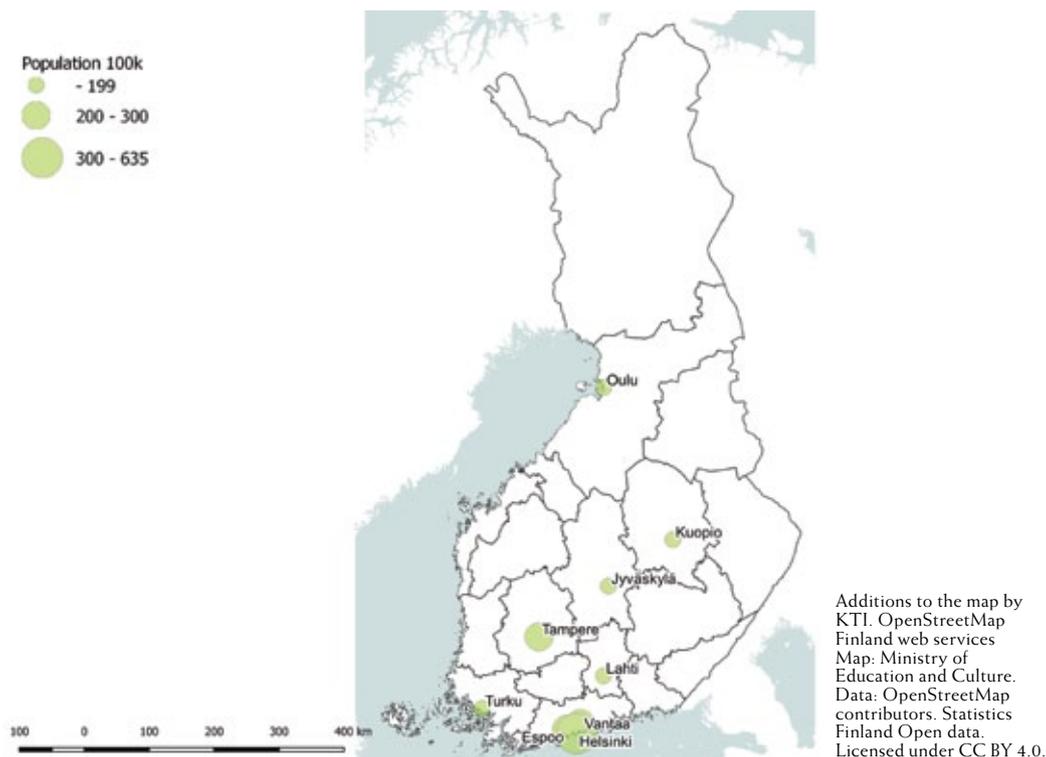
Among global capitals, Helsinki typically performs well with regard to its business environment as well as living conditions. It is considered as one of the safest, most equal, and honest cities, where it is easy to move and which has the most content inhabitants among the European capitals. Helsinki also attracts start-up companies and talent, due to its high level of technology and innovation, and having a good environment for entrepreneurship. For instance, The Financial Times ranks Helsinki 6th in its ranking of "Global cities of the future", where the cities' ability to attract global innovation capital is assessed. In INSEAD's ranking of cities' ability to attract and retain talented workforce (The Global City Talent Competitiveness Index GTCI), Helsinki was ranked 3rd among 46 cities.

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 support 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. High tax rates and restrictive labour regulations are commonly regarded as the main weaknesses of Finland.

"One of the most transparent property markets in the world"

The overall business environment is also reflected in the comparisons conducted in the property markets. The Finnish property market is regarded as one of the most transparent

Main city regions in Finland



in the world. JLL's Global Real Estate Transparency Index of 2018 ranked Finland among the few "highly transparent" European markets.

"Helsinki was ranked 8th among the most attractive property markets in Europe"

In Pricewaterhouse Cooper's and Urban Land Institute's report *Emerging Trends in Real Estate Europe 2019*, Helsinki improved its position, markedly leaping 10 positions to be ranked 8th among European cities. The prospects for both investment (rank 4) and development (rank 13) were assessed as "good". The position of Helsinki is strengthened, among other things, by the strong performance of the economy, as well as by the rapid population growth in the metropolitan area.

1.6 Main city regions in Finland

Urbanisation has proceeded fast in Finland in recent years. In 1990, some 60% of the Finnish population lived in urban areas, and by 2017, the share has increased to some 70%. The 14 biggest city areas currently represent some 74% of the Finnish GDP and 72% of all jobs.

Urbanisation has been and will be a result of both internal migration and immigration. Within Finland, moves are weighted towards the young or working-age population, which increases the challenges for, for instance, maintenance of public service provision in regions suffering from negative migration.

Currently, there are four city regions with more than 250,000 inhabitants: Helsinki, Tampere, Turku and Oulu. These regions generally perform well and show strong economic development and population growth. The second tier of city regions – those with more than 100,000 inhabitants – include 7 regions: Lahti, Jyväskylä, Kuopio, Pori, Seinäjoki, Joensuu, and Vaasa. City regions with a population of 80,000-90,000 include Hämeenlinna, Kouvola, Lappeenranta and Kotka-Hamina. There are significant differences in the economic performance and growth between these city regions.

Population growth has and is expected to be fastest in the Helsinki region, which currently accommodates some 1.5 million inhabitants. The region comprises 14 municipalities, and the main cities in the region include Helsinki, Espoo and Vantaa, which, together with the smaller city of Kauniainen, form the Helsinki metropolitan area. In recent years, the population of the Helsinki region has been increasing by almost 20,000 inhabitants per annum, with net migration from both other parts of Finland and from abroad being the main driver for the growth. By 2050, the population is forecasted to increase to 1.8–1.9 million. The Helsinki region currently represents some 27% of Finland's total population, 37% of the country's total GDP and 32% of all jobs, even as the land area represents only 1.2% of the whole country.

Outside the Helsinki region, growth is expected to be the strongest in the Oulu region, whose population is expected to grow by almost 20% – 40,000 people – between 2017 and 2040. In the same period, the Tampere region is expected to grow by some 15% and the Turku region by some 10%.

The 21 largest cities in Finland have recently formed a co-operation platform, the so called C21 group. The group

Significance of 21 biggest city regions in Finland, % of total

	Helsinki region	The regions of Tampere, Turku and Oulu	21 biggest city regions
Population (2017)	27.9	17.8	77.5
Jobs (2017)	31.2	18.1	78.7
Private-sector jobs (2015)	35.2	18.3	81.9
GDP (2016)	40.0	17.2	82.5
Research and development expenditure (2017)	48.3	28.7	94.9
Completed dwellings (2010-2018)	29.7	21.7	82.5

Source: Statistics Finland

consists of all regional centres across Finland, and all cities with more than 50,000 inhabitants. These cities comprise some 75% of the Finnish population, 78% of jobs and some 88% of value added.

"Helsinki, Tampere and Turku regions make up the 'growth triangle' of Finland"

The so called "growth triangle" – the city regions of Helsinki, Tampere and Turku – is an important and growing area in southern Finland. It currently accommodates 49 per cent of the population and 53 per cent of all private sector jobs, and accounts for 55.5 per cent of the total GDP. It is also an increasingly connected employment area for 1.5 million people, where well-functioning public transport has an important role in connectivity and economic development. Therefore, the development of rail connections between these cities are currently discussed actively, and the planning of the so called "hour's train" connection between Helsinki and Turku has been started by the current government. Also the development of the main rail line northward of Helsinki is on the agenda of both the current government and the largest cities. In late 2018, project companies for boosting these projects were founded by the state, with the aim of committing both the largest cities and private investors in the development of the rail infrastructure. The aim is to include these projects in the next 12 years' investment budget.

Residential demand in main city regions

Increasing urbanisation, demographic development and changes in housing preferences have a profound impact on housing markets in Finland. The demand for small, well-located apartments has increased both in owner-occupied and rental housing markets, whereas the need for single-family houses and large apartments has decreased. In recent years, the vast majority – as much as 90% of new housing construction – has been concentrated in main city regions.

In its study on residential demand by 2040, published in 2015, the VTT Technical Research Centre of Finland based its forecasts on two different scenarios. In both scenarios, the Finnish population is estimated to grow to 5.8 million by 2040. In the "conservative" scenario, population growth estimates are based on current regional structure. In the "urbanisation" scenario, migration to 14 main city regions is estimated to accelerate, resulting in an increase of some 625,000 inhabitants by 2040. In these regions, almost 29,000 new dwellings would be needed annually. In this scenario, the increase in residential demand would be heavily

weighted towards the largest cities. The Helsinki region alone would represent almost half of the increase.

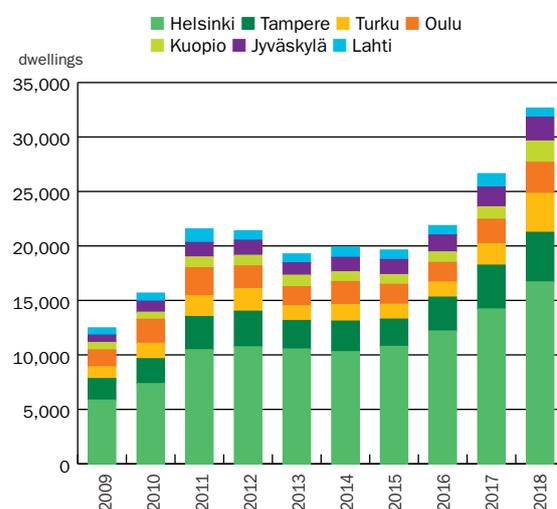
Residential construction has been booming in recent years, especially in the largest cities. In both 2017 and 2018, residential construction starts amounted to some 40,000 dwellings, which represents a significant growth compared to the previous years, and is almost twice as much as in 2014.

"Demand for rented housing increases in main cities"

Some two thirds of new housing construction is concentrated in main city regions. In the Helsinki metropolitan area, some 14,500 new dwellings were started in 2017, and in 2018, the volumes were even higher.

The growth in construction has been strongest in small apartments in apartment buildings. New development is boosted by strong investment demand, which will result as increased supply of private rental housing in the main cities. At the end of 2018, almost 9,000 new dwellings were under construction in buildings targeted 100% for rental use in Helsinki metropolitan area.

Housing construction in main city regions 2009–2018



Source: Statistics Finland

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 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 on 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 regulates 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 as the regulatory framework for the company. The Act regulates, for instance, long-term planning of repairs and the communication of these plans to shareholders, as well 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 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. This fee is most typically based on the floor area designated for each shareholder.

The company itself 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 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.



Photo: Skanska

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% 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.

Due to its flexibility and transparency, the 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.

"A new digital share register
for MREC shares was
established in 2019"

In the beginning of 2019, new legislation concerning digital share register for mutual real estate companies came into force. From now on, all shares of new mutual real estate companies will be only in digital form, and registered in a newly established share register maintained by the National Land Survey. Shares of old mutual real estate companies will be transferred to this digital register starting from May 2019. In the future, both the ownership and all transfers of shares will be registered in this electronic register and physical share certificates will no longer be needed.

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.

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.

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 ways transaction processes are carried out partly depend on the market situation. In recent years, high investment demand has encouraged sellers to carry out extensive auction processes in order to find the best solution. In quieter market conditions, tailored approaches to identify the potential buyer are more common. Off market procedures are also applied when the seller aims at a faster and smoother transaction process.

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

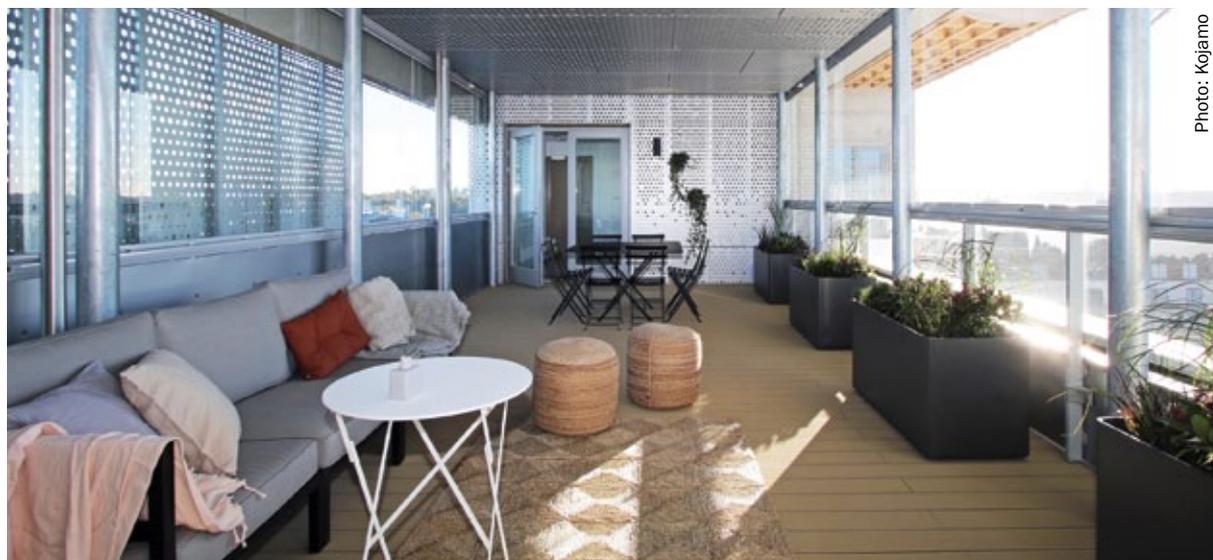
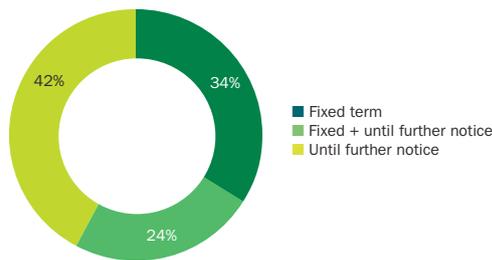


Photo: Kojamo

Distribution of office lease agreements in the Helsinki metropolitan area, sqm



Source: KTI Rental database

diligence procedures. In single asset transactions, newly developed assets and transactions carried out between two domestic parties, the advisors' role is typically more limited.

The current market conditions have also brought about new types of players in the market. In recent years, several new companies have been established, offering hands-on management services as well as sometimes acting as co-investors. These companies mainly serve foreign investors but also work with domestic institutions that are willing to reorganize their property holdings.

Market entry of international investors and domestic funds 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.

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.

"Typical Finnish rental agreements provide flexibility for tenants"

A common term in Finnish lease agreements is "until further notice": an indefinite contract is valid until either the tenant or the 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. 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, some 50% of all office agreements in the Helsinki metropolitan area are indefinite. Another 25% of the agreements first have a fixed term of, for example, 3 or 5 years, after which they continue automatically for an indefinite period – until further notice from either of the parties. Indefinite lease periods are typically applied in smaller premises, and in larger agreements fixed terms are more often used. Despite their flexibility, indefinite leases often last for long periods.

When fixed terms are used, the contract periods are typically quite short compared with many other countries. In multi-tenant office buildings, a typical fixed term is from three to five years.

For larger and purpose-built units, longer fixed-term agreements are commonly applied. For a 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.

Tenants' rights are quite limited in the commercial property market – for example, a tenant has no statutory right to a lease renewal.

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 85% of office agreements in the KTI rental database are for traditional gross rent.

In many cases in the remaining 15%, the landlord recharges the maintenance cost separately to the tenant. This both encourages the tenants to save on costs and hedges the landlord against the increases in operational costs.

"Gross rents are commonly applied"

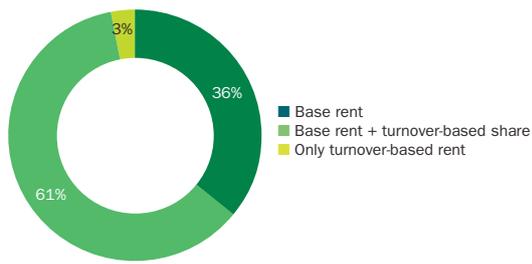
Separate recharging of maintenance costs is also very typical for shopping centres, where also a separate service charge for marketing and other shared expenses is typically recharged to tenants.

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

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.

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.

Types of lease agreements in shopping centres, share of lease agreements



Source: KTI Rental database

In shopping centres, the majority of rental agreements are turnover-based. More than 50% of all shopping centre lease agreements in the KTI database consist of a minimum base rent supplemented by an agreed share of turnover. However, the turnover-based part of the rent is typically quite low, as the landlord wants to secure a stable base for their cash-flow. In some 6% of all agreements the rent is solely based on the tenant's turnover.

"Shopping centre rents are typically turnover-based"

In shopping centres, fixed term contracts are commonly applied, especially in larger premises. Fixed term contracts represent some 75% of the number of agreements and 84% of the total retail space in the KTI database.

In over-supply situations, various means to attract and retain tenants can be applied. For instance, landlords may offer rent-free periods, stepped rent increases and tenant improvements for new tenants, among other things. This was clearly seen, for instance, in the Helsinki metropolitan area office markets during the sluggish economic development. However, the impact of these terms on the overall rental levels and markets is very difficult to capture in statistics.

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. Further provisions and guidelines concerning building are issued in the National Building Code of Finland, which was reformed as of beginning of 2018.

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.

Regional plans and steering of land use is one of the tasks that will also be moved to the new 18 counties in 2021 if the legislation will be passed by the current Parliament. They will take over the tasks of the current ELY centres (Centres for Economic Development), which currently promote and steer planning and land use, as well as Regional Councils, who are currently responsible for regional plans.

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.

The Land Use and Building Act obligates 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

Typical leasing practices in Finland

Sector	Shopping centres	High street shops	Supermarkets	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)

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. Obtaining a permit for a temporary change of use – for instance, for using an office building for temporary housing – is usually easier to get. The maximum period for this kind of temporary use is five years.

The current government is aiming to simplify the regulation concerning land use and planning and thereby speed up the planning and construction permit processes. Examples of actions taken include simplifying the organization for regional plans, speeding up the complaint processes, as well as increasing regional control and coordination over the plans and building permits for large retail units.

The current legislation emphasises the position of the city centre as the location for retail, outside this, large retail units can only be developed in locations with good public traffic connections, which have to be designated in the plan. In the legislation, the concept of “large” refers to units larger than 4,000 sqm with local coverage area. This means that stores below this limit can be built in areas designated for common commercial construction, without any specific reservations in the plan. This will markedly increase the flexibility of the construction of, for example, larger grocery stores. For retail units with regional coverage area, the definition of “large” can be defined in the regional plan, and has been set between 5,000 and 10,000 sqm in different regions. Possible locations for these units need to be included in the regional plan.

“A reform in the Land Use and Building Act is underway”

The Ministry of the Environment is preparing major reforms in the Land Use and Building Act. The aim of the project is to take the major changes in the operating environment – such as climate change, digitalisation, urbanisation and increasing differentiation between regions – into account in regulation. The reform aims at simplifying the planning systems of land use, develop the steering procedures for construction, and

to support the citizens’ possibilities to impact the planning and decision-making regarding their living environments. The objective is to finalise the legislation by the end of 2021.

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.

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 2017, the total tax revenues of the state and municipalities amounted to almost €70 billion. Taxes based on income accounted for some 49% of the total tax revenue, while taxes based on consumption accounted for some 45%. In addition, obligatory pension and social security payments levied on employers and employees amounted to some €27 billion in 2017.

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. Some deductions are allowed in individual taxpayers’ taxation. Part of the deductions are made from earned income (for example, part of housing loan interests and costs of journeys to and from work), whereas some are made directly from taxes (eg. costs of domestic help).

The state tax rate is progressive, and the highest rate currently stands at 31.25% of earned income. The highest rate is applied when the taxpayer’s annual income exceeds €76,100.

Municipalities decide their tax rates independently, and for 2019 the average municipal tax rate stands at 19.88%, with rates varying between 17% and 22.5%. In 2017, some €18.9 billion of municipal taxes were levied, representing some 51% of the municipalities’ total expenses.

In Finland, resident individuals are taxed on their worldwide income.²



Photo: Newsec / Maria Putaansuu

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

Capital income tax is levied on, for example, interests, rental income, dividend, and sales profits. The capital gains tax rate currently stands at 30%. For capital income exceeding 30,000 euros, the tax rate is 34%.

For capital income, there are different deduction rules, and typically expenses related to investments (for example, management fees, interests and refurbishment costs) are fully deductible. Deduction rules also differ between municipal taxation and central government taxation.

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 Finnish tax ratio is among the highest in OECD"

The level of taxation in Finland is clearly above the average for OECD countries. The Finnish ratio of total taxes to GDP in 2017 was 43.3%, showing a slight decrease compared to the previous year, mainly thanks to the increase in GDP. In the OECD, the average stood at 34.2%. For 2018, the tax ratio is estimated to decrease further to 42.2%.

Regional government reform will have a major impact on taxation. Currently, healthcare and social services are the biggest expense category of the municipalities. In the future, these expenses will be transferred to counties, which are planned to get their funding from the central government. Therefore, the municipal tax rates will be decreased, and state tax rates increased accordingly. The reform is planned to be implemented in accordance with the Government's

policy outlines in such a way that taxation on labour will not be increased and the overall tax rate will not rise.

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 somewhat below 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. Maximum tax rates were increased slightly for 2019. The minimum general property tax rate currently stands at 0.93% and maximum at 2.0% of the taxable value per annum, and is set at 1.07% on average. Tax rates for permanent residences can vary between 0.41% and 1.0%. The average rate is currently 0.50%.

A special tax rate may be levied on unbuilt lots. This rate can vary between 2.0% and 6.0%. In the Helsinki metropolitan area, this tax rate is set to be at least 3.0 percentages higher than the general property tax rate.

A reform of property taxation is currently underway, and the new system is planned to come into force in 2022. The reform will impact the definition of the taxable value of both the land and the building, which, in the current system, are regarded not to respond to either the development of market values of the properties or the general development of prices and costs. New pricing zones based on market prices will be developed for the valuation of land, and the valuation system of buildings will be based of construction costs of different kinds of buildings in different parts of the country. The basis for the new valuation systems are planned to be introduced in late 2019, after which the new tax rates will be defined.



Photo: Skanska

"Property tax reform is planned to come into force in 2022"

In the reform, the total amount of property tax income for municipalities is planned not to be increased. However, it is likely that the distribution of the tax burden between different locations and properties will be significantly impacted. According to the preliminary estimates, property taxes for residential properties will be slightly decreased, while those of office properties will be increased markedly. The new system is also likely to increase taxes for new properties in relation to older ones. Also the impact of the location of the property is estimated to be increased significantly.

Property taxes typically represent some 8–10% of the total annual operational costs of residential properties, and some 24–26% of those of office properties. Their share has increased constantly during the past couple of years, as pressures for increasing property taxes have continued. Minimum property tax rates have been increased several times within the past decade.

"Taxes represent some 30% of the annual operational expenses"

When value added tax and energy taxes are taken into account, the share of various taxes of the annual operational cost of residential properties increase to some 28% in largest cities. In Helsinki, this represents some 9%, and in Tampere and Turku some 10% of the average rental income. For office properties, annual taxes represent some 30% of the total operational expenses. For commercial properties, VAT included in expenses is deductible from the VAT included in rental income, but the share of property tax is significantly higher than for residential properties.

Capital gains taxes

Tax on investment income (interest, net rental income and capital gains) currently stands at 30%. Capital income exceeding €30,000 is taxed at 34%. 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 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.

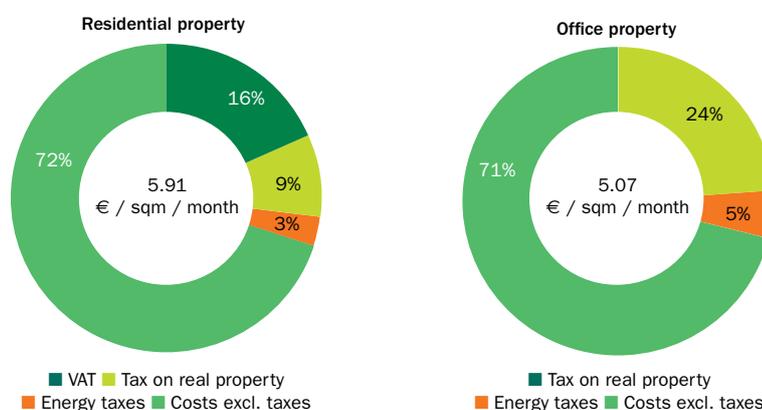
Transfer taxes

Tax on the transfer of real property is 4.0% of the transfer price. Transfer tax for transactions made by buying shares in a housing or real estate company is 2.0% of the transfer price. The tax base covers the total transaction price,³ comprising both the actual sales price and 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.

The share of taxes of the operational costs in Helsinki 2017



Source: KTI

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

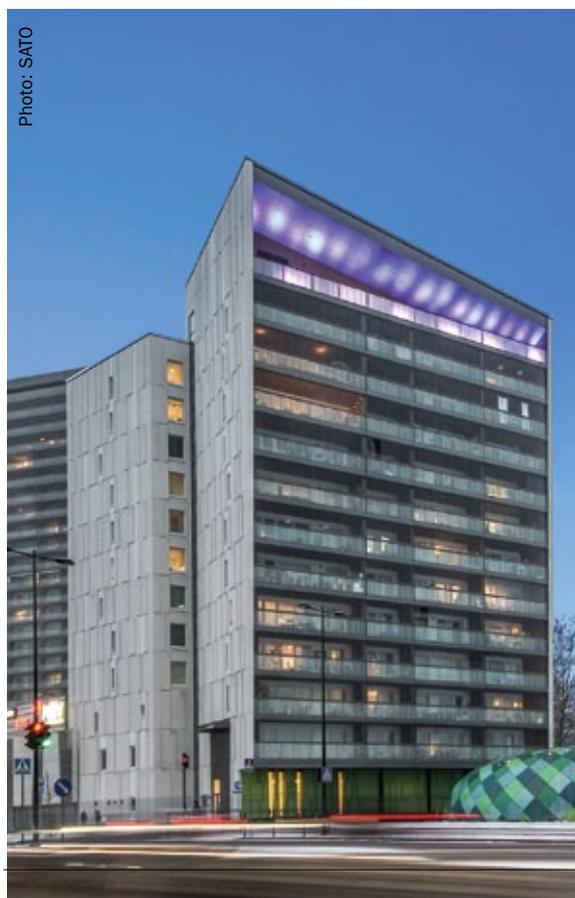
Corporate taxation

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. The corporate income tax rate currently stands at 20%.

According to the current 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 a listed company, 15% is tax-free, and 85% is taxed as capital income at a 30% / 34% tax rate. The total tax rate of dividends paid by listed companies is thus either 25.5% or 28.9%.

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 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.

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.

"Limited partnerships are pass-through entities in taxation"

According to the current legislation, 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 be taxed either according to income taxation rules or as business income. This division of sources of income is currently being reconsidered, and new legislation is planned to come into force in 2020. According to the new legislation, all taxable income of companies and partnership structures will be taxed as business income. This will also simplify the deduction rules of potential losses, which have previously been limited by the source of income regulation.

"The division of different sources of income is planned to be removed in taxation in 2020"

Finnish partnership structures cannot typically be beneficially applied to funds targeted at foreign investors. These kinds of funds, are, therefore, typically domiciled outside Finland.

Special investment fund structures, which are currently commonly used in funds targeted at private investors, are also tax transparent, and, for instance, capital income is taxed at the investor level.

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 typically granted when certain requirements are met concerning the premises and tenants. The tenant must also be VAT liable. In these cases, the VAT included in the rent is deductible from the tenant's final VAT. The property owner can deduct the VAT included in the cost of services of the property.

Under Finnish VAT legislation, a taxable entity is also entitled to deduct VAT included in the costs for the construction of a new building as well as the restoration of an existing building, provided that the relevant property is intended for the use of a VAT taxable business activity. This deduction will then be revised if the use of the property entitled 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.

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 for the impact of "lost" VAT deductions with higher rent. Examples of non-VAT-liable organisations include associations, charities and companies in the banking and finance sector.

As residential rents do not include VAT, the tax included in the service charges of residential buildings is a non-deductible final tax.

In the Finnish system, the seller of goods or services is generally responsible for paying VAT. In the construction sector, however, a reverse charge mechanism is being applied. 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. The mechanism is particularly aimed at reducing the potential tax risk associated with VAT fraud.

Central tax rates in Finland

	TAX RATE	NOTE
Corporate tax rate	20%	
Capital gains tax rate	30% (34% on income exceeding €30,000)	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	0.93-2.0% 0.41-1.0% (residential property)	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%	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

Deduction of interest expenses in taxation

The Ministry of Finance published a proposal for new interest deductibility restrictions in late 2018, and the reform will come into force in 2019. The new regime will apply to all Finnish corporate entities, including real estate companies, and the new restrictions will thus have an impact on property investors' ability to deduct interest expenses from their business income. However, interest deduction limitation regulation will not be applied to financial companies listed in the new regulation. Such companies include investment firms covered by definition of MIFID regulations, alternative investment funds, insurance companies and pension institutions.

In the legislation, there is a €500,000 threshold, under which net interest expenses are always deductible. Furthermore, there is another €3,000,000 threshold for net interest expenses applied on, for instance, bank loans. Otherwise, the ability to deduct interest expenses is dependent on, for instance, the share of the interest expenses of the total profit of the company.

2.5 Legislation for indirect property investment

Property funds

Limited partnerships

From the Finnish institutional investor point of view, the most common structure for indirect property investment is a 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 investor's tax status, provided that certain conditions are met. Correspondingly, investment income from limited companies investing in property is subject to corporate taxation, and thus not favourable from a domestic institution's perspective.

Property funds organised as limited partnerships were the dominating structure in the early days of property funds industry, starting from the mid-2000's. However, in recent years, the diversity of different structures and legal forms has increased together with the expansion of indirect property investment.

Special investment funds

The Finnish legislation also enables the establishment of special investment funds (erikoissijoitusrahasto) 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. Special investment fund managers are stipulated by the Alternative Investment Fund Managers Directive. The regulation for these funds differs from normal mutual investment funds, for instance with regard to diversification of risks, the pricing of fund units and requirements for fund valuation and reporting.

Special investment funds are open-ended structures managed by a separate fund management company. The degree of the openness of the fund – provisions for investments in and redemptions from the funds – may be limited in the fund rules in order to take into account the illiquidity of the underlying property assets. According to the legislation, the fund must take new investments and accept redemptions at least twice a year. In practice, for instance, a fund may be open for subscriptions quarterly and for redemptions only twice a year. The maximum time limit for executing

redemptions is also rather long – six months – and under special circumstances there might be limiting rules for redemptions and their pricing. For instance, if redeeming the units requires liquidating the fund's assets, the value of the units may be defined only after liquidation.

Special investment funds are required to define and publish the value of the fund quarterly. A fund must use fair values of their properties in defining the value of fund units. Property valuations must be carried out by independent and qualified valuers.

The long-term gearing level of these funds is restricted to 50% of the total value of the fund. For specific reasons, this limit can be exceeded up to 5/6 of the total value of the fund.

Special investment funds are not taxable entities and are considered as fully transparent for Finnish tax purposes. For Finnish taxpayers, the annual yield and sales profits are regarded as taxable income. For individual taxpayers, this income is taxed as capital income, and for business entities, the taxation depends on the unit-holder's tax position. For non-Finnish investors, the consultation of tax authorities or tax advisors is recommended.

The first fund under this framework was launched in late 2012. Since then, several more funds with varying strategies have been launched by various banks and investment management companies. These funds are, to a large extent, targeted at private investors, and therefore, many funds apply very low minimum investment rules. Also, some institutions, smaller ones in particular, are showing increasing interest in them. Special investment funds have grown substantially in recent years as low interest rates and the strong performance of property investments have attracted capital to these funds.



Photo: Unrealer / Kojamo

"Finnish special investment funds have grown significantly in recent years"

Examples of special investment funds investing in property include those managed by:

- Aktia Varainhoito: Aktia Toimitilakiinteistöt (commercial properties)
- CapMan Real Estate: CapMan Nordic Property Income Fund (mainly office and retail properties in largest Nordic cities)
- EAB Fund Management: Elite Alfred Berg Vuokratuotto (residential properties)
- eQ Fund Management Company: eQ Hoivakiinteistöt (care properties) and eQ Liikekiinteistöt (commercial properties)
- Evli Fund Management Company: Evli Vuokratuotto (commercial properties)
- Fennia Asset Management: Fennica I (commercial properties)
- FIM Asset Management: FIM Asuntotuotto (residential properties)
- LocalTapiola Property Asset Management: LähiTapiola Sijoituskiinteistöt (commercial and residential properties)
- OP Property Management: OP-Vuokratuotto (both residential and commercial properties) and OP-Palvelukiinteistöt (public sector properties)
- Titanium Rahastoyhtiö: Titanium Hoivakiinteistö (care properties) and Titanium Asunto (residential properties)
- Trevian Funds AIFM: Trevian Finland Properties I (commercial properties)
- UB Fund Management Company: UB Nordic Property Fund (commercial properties in the Nordic countries); UB Suomi Kiinteistöt (properties in Finland)
- Ålandsbanken Rahastoyhtiö: Asuntorahasto A and Asuntorahasto C (residential properties)

Some of these fund management companies also manage special investment funds investing in other types of real assets, such as forestry or building lots. There are also some funds of funds, which operate under the special investment fund regime.

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. Property companies currently listed in the main list of the Nasdaq Helsinki exchange include Citycon, Investors House, Kojamo, Ovaro Kiinteistösijoitus, Technopolis and Suomen Hoivatilat. One of the largest listed companies, Technopolis, will soon be delisted due to an acquisition of the shares of the company by Kildare Nordic Acquisitions S.à.r.l.. On the other hand, the listed sector grew significantly on summer 2018 thanks to the successful initial public offering of Finland's largest property investor Kojamo.

"Kojamo was listed on the Nasdaq Helsinki main list in 2018"

A limited liability structure is also widely used in non-listed companies investing in real estate. In recent years, the limited liability company structure has also become more common in joint venture structures established by institutional investors, together with their investment partners and managers.

The possibility for tax-exempt listed property companies, a structure resembling internationally known REIT-structures, has currently been given only for companies investing in rental residential properties. The provisions for tax transparency for these kinds of companies require the companies to:

- invest only in rental residential properties
- limit its debt capital to a maximum of 80% of the balance sheet
- pay out 90% of the profit as dividends
- comply with strict accounting rules.

The company needs to be listed within three years of its foundation. Due to the limiting provisions set by the legislation, the framework has not become very popular.

Orava Residential REIT, is, so far, the only company having operated under this specific regulatory framework. However, in 2018, another property investment company, Investors House, published that it had acquired some 25% of Orava Residential REIT's shares. After this, the company's name was changed to Ovaro Kiinteistösijoitus, and the company transformed into a normal investment company in order to expand its options with regard to investment strategy.

3 The Finnish property investment market: volumes, structure and players

3.1 Investment market in 2018

Property transactions volume amounted to €9.3 billion in 2018. Despite a 9 per cent decrease compared to the previous year's record volume, this is the second highest annual volume in Finland ever.

"Transaction volume amounted to €9.3 billion in 2018"

The transactions volume was boosted by several exceptionally large transactions carried out of property companies, portfolios and individual assets. The acquisition of the Technopolis portfolio by Kildare Partners resulted as a €950 million contribution to the total volume in Finland, which is among the top 5 transactions in Finland ever. Other large transactions in 2018 included the acquisition of the retail property portfolios of two Sirius funds by the newly established Cibus Nordic Real Estate, as well as the acquisition of the Itis shopping centre by a fund managed by Morgan Stanley Real Estate Investing.

Office properties remained as the most popular property sector with a share of 39 per cent of the total volume. In addition to the Technopolis portfolio, several exceptionally large single asset office transactions were carried out in 2018, the largest being the Töölönlahti 3 office property sold by Ilmarinen and acquired by Deka Immobilien for €189 million.

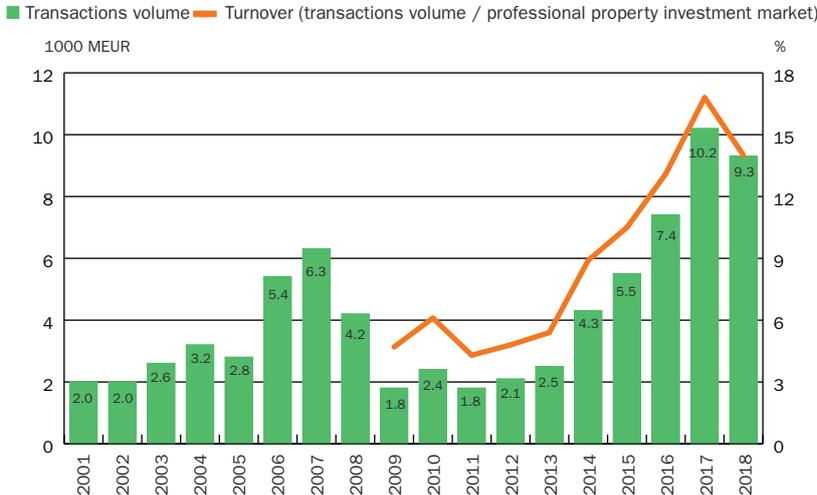
"Investor interest was widely spread in different property sectors"

Retail properties accounted for some 24% of the total volume, which, in addition to the large acquisitions of Cibus and Morgan Stanley, consisted mainly of smaller portfolios and individual assets.

Transaction volume of residential properties amounted to €1.8 billion, representing 19% of the total volume. This is the second highest volume in this sector ever. In the care property sector, the highest annual volume ever was recorded, amounting to €600 million.

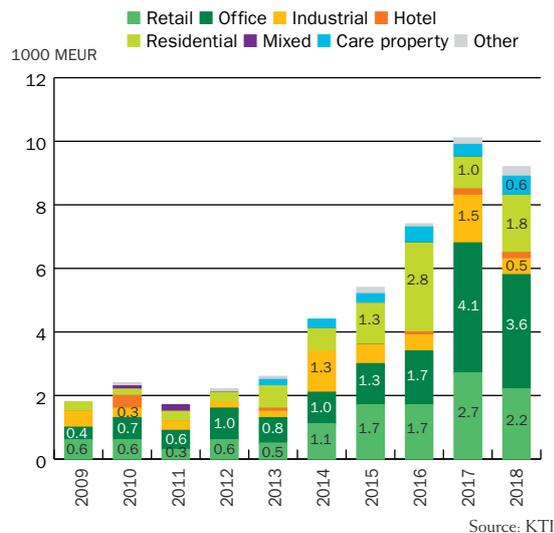
The share of foreign investors amounted to 66% of all transactions, having stood at 70% in the previous year. Foreign interest was widely spread among all property sectors and regions. In residential markets in particular, the investments made by foreign investors increased significantly in 2018. Newcomers in this sector include, for instance, Morgan Stanley, Round Hill Capital and Aberdeen Standard's residential fund. Also AXA, NREP and BVK increased their investments in the Finnish rental residential properties.

Transactions volume and turnover in the Finnish property market



Source: KTI

Transactions volume by property sector 2009-2018



"Finnish residential property investments attract foreign investors"

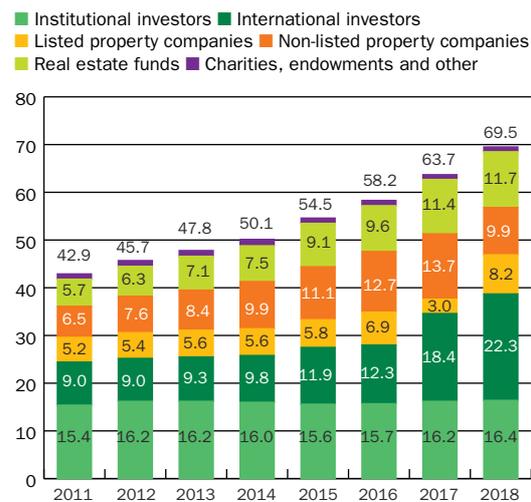
The transaction volume was boosted by both the increasing number and average size of transactions. According to the KTI Transactions follow-up, there were 320 transactions with a worth of over €1 million, and the average size of these transactions amounted to €29 million. The average figures between 2009 and 2018 are 214 transactions per annum, with an average size of €20 million.

3.2 Ownership structure

At the end of 2018, the total size of the Finnish professional property investment market amounted to some €69.5 billion.

The structure of Finnish property investment market by investor group

Direct property investments in Finland 2011-2018, EUR billion



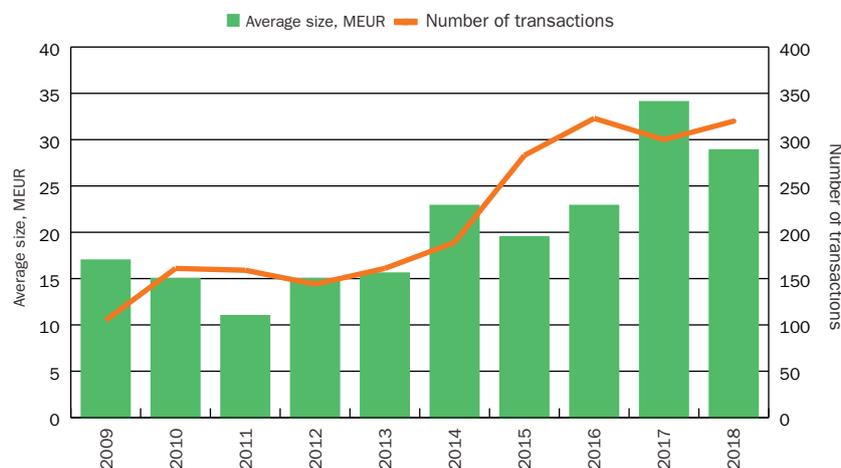
Compared to the previous year, the market increased by €5.8 billion or 9.1%.

"The Finnish property investment market grew by 9% in 2018"

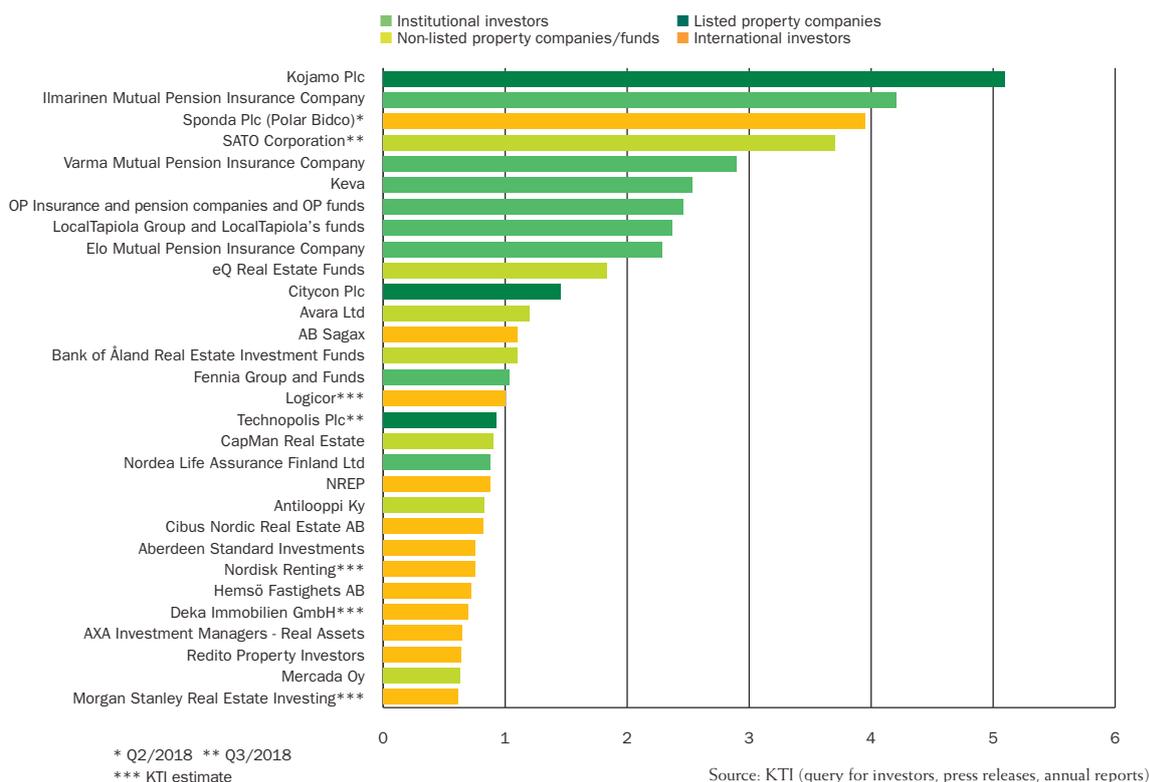
Foreign investors are currently the largest investor group in the Finnish property market. Their share increased from 29% (€18.4 billion) at the end of 2017 to 32% (€22.3 billion) in 2018. In 2018, foreign investors net investments in the Finnish transactions market amounted to €3.7 billion.

Finnish institutional investors have traditionally had a dominating role in the property investment market. In recent years, however, they have been active in restructuring their domestic portfolios and increasing their international

Number and average size of property transactions 2009-2018



Direct property holdings of 30 biggest property investors in Finland Property assets under management at the end of 2018, EUR billion



property investments. In 2018, their absolute investments in Finland grew slightly, but their share of the total investment market continued to decrease and ended at some 24%. In the transactions market, institutional investors continued to be net sellers also in 2018. However, they continued investing in property development, and also capital growth contributed positively to their property portfolios.

"The listed property sector is undergoing a change"

The role and importance of listed property companies is undergoing a change. Following the delisting of Sponda in 2017, the initial public offering of Kojamo in the summer of 2018 increased the listed companies' property investments back to their previous level. However, in 2018, Kildare Nordic Acquisitions S.à.r.l. acquired the majority of the shares of the listed company Technopolis, and will, after the redemption of minority shares, delist the company's shares from the stock exchange. At the end of 2018, the value of listed companies' Finnish property companies amounted to €8.2 billion, representing a share of 12% of the total market. After the delisting of Technopolis, the amount will decrease by more than €900 million, and the share of foreign investors will increase respectively.

The list of the biggest property investors has changed markedly in the past years. The average size of investment portfolios has increased, and in 2018, the portfolio on the 30th place amounted to over €600 million, having stood at €480 million in 2017.

Large residential companies Kojamo and SATO have both established their positions in the top positions on the list in recent years. The largest domestic property funds have continued increasing their portfolios, which contributes to the rising positions of, for instance, OP Group, LocalTapiola, eQ, Ålandsbanken and Fennia. At the same time, pension insurance companies have restructured their portfolios. In 2018, due to the recent merger with Etera, Ilmarinen rose to the second position on the list of largest investors. However, in recent years, many institutions have divested their direct domestic holdings, and have thus fallen from their earlier top positions in the ranking.

"Foreign investors increase their portfolios actively"

Until the recent years, only few foreign investors were found on the top 30 list. However, in recent years, many investors have increased their portfolios markedly. Also, some large company or portfolio transactions have transferred previously domestic portfolios to foreign ownership. At the end of 2018, 12 positions on the top 30 list were held by non-Finnish players.

Institutional investors

Pension insurance companies and other pension schemes form the majority of the Finnish institutional investment universe. Other participants in the institutional markets include life funds and other insurance companies.

According to the Finnish Pension Alliance TELA, the total value of the investments of pension insurance companies

and funds administering the statutory occupational pension schemes amounted to some €204.7 billion at the end of the third quarter of 2018 (€199.9 billion at the end of 2017). The nominal return on pension institutions' investments amounted to 2.5 per cent during the first three quarters of 2018.

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.

The reserves collected in the past 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 is now larger than the amount of annual contributions. In 2017, the net sum taken out of funds in order to cover pension payments was €1.8 billion. The increase in pension funds' investment assets is thus currently based on returns on existing investments.

Calculations on the long-term pension money flows are based on the assumption of a 3 per cent annual real return on investments until 2025, after which the return expectation will be increased back to its original level of 3.5%. According to TELA, the real return on private sector pension institutions' investments has amounted to 4.3% per annum on average in the past 20 years. During the past ten years, the return has been clearly higher, some 5.8% per annum, thanks to the healthy returns on equity investments.

In the private pension sector, pension insurance companies are the biggest players. There are currently four major companies: Varma, Ilmarinen, Elo and Veritas. In the public sector, there are two major pension institutions: Keva administers the pensions of local government, State, Evangelical Lutheran Church and Kela employees, and the State Pension Fund (Valtion Eläkerahasto / VER) is a fund through which the state balances state pension expenditure and prepares to finance future pensions. In addition, there

are several smaller company or industry specific pension funds.

Finnish public sector pension institutions operate under a different solvency framework than private sector institutions, and thus have different investment strategies and allocations. They typically have a larger equity exposure, resulting in slightly higher investment returns. In the private sector pension insurance companies' portfolios, the share of listed equities is some 35%, while that of public sector schemes amounted to 41% at the end of the third quarter of 2018.

On average, at the end of the third quarter of 2018, 37.5% of all pension schemes' assets were invested in listed shares, and some 8.1% in other equity investments. The share of bonds and other loan and money market instruments amounted to 37.7%.

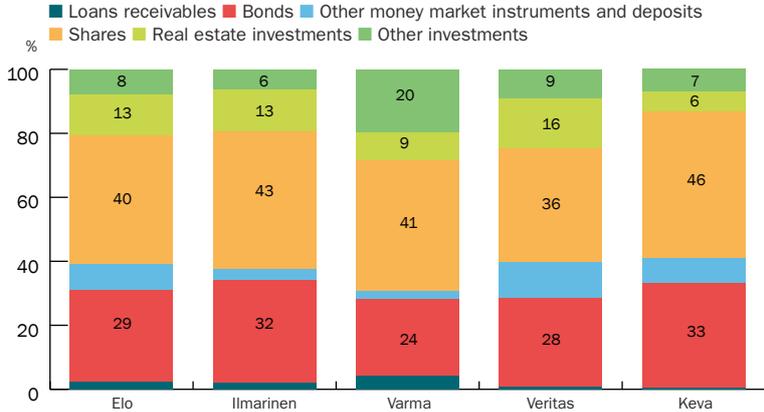
"Properties represent 8.2% of the Finnish pension schemes' investment portfolios"

The share of property investments in the investment portfolios amounted to 8.2% at the end of the third quarter of 2018. For private sector pension insurance companies, the share of property investments amounted to 9.5%, while in the public sector pension schemes their share stood at 5.2%.

At the end of the third quarter of 2018, the total amount of property investments of all pension schemes amounted to €16.8 billion (€16.6 billion at the end of 2017). Of these assets, €12.6 billion are invested in Finland (€13.1 billion at the end of 2017). Property investments thus represent some 24 per cent of all domestic investments.

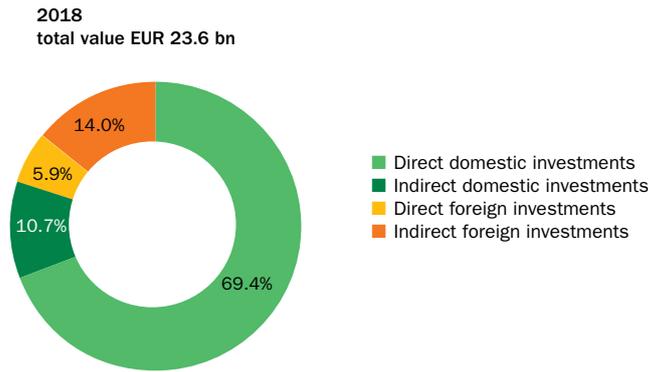
Direct domestic investments dominate the institutions' domestic property portfolios with the share of 69%. The share of indirect investments has increased in recent years. Institutions are major investors in many domestic property funds and companies. In recent years many institutions have also sold their formerly directly held investments to newly established funds or companies, where they often have a foreign, in many cases Swedish investment partner. These

Investment portfolios of pension insurance companies, Q3/2018



Source: The Finnish Pension Alliance TELA

Real estate exposure of the Finnish institutions



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

kinds of structures have been established by, for instance, Ilmarinen (Antilooppi) and Elo (Agore Kiinteistöt).

Institutional investors' foreign property investments amounted to €4.2 billion at the end of the third quarter of 2018 (€3.8 billion in 2017). The majority of foreign investments are invested in indirect vehicles. In recent years the largest institutions, such as Ilmarinen, Varma, Keva and Elo have made some direct investments, typically in large single assets, often in joint venture structures together with their investment partners and managers.

Ilmarinen and Varma are the largest private sector pension insurance companies in Finland. At the end of the third quarter of 2018, the market value of Ilmarinen's investment portfolio totaled €47.0 billion, and that of Varma totaled €46.9 billion. Ilmarinen has invested more in property, and its property portfolio's fair value amounted to €6 billion at the end of the third quarter of 2018, representing 12.8% of the total portfolio. Ilmarinen's property portfolio increased markedly through the merger with Etera in the beginning of 2018. The value of Varma's property portfolio was €3.9 billion, representing 8.2% of the total portfolio.

In 2018, Ilmarinen restructured its direct domestic portfolio by selling two large office properties to foreign investors in the Töölönlahti area in the Helsinki CBD. Both properties were formerly owned by Etera. During the year Ilmarinen also sold one large warehouse property in Vantaa as well as some smaller properties. The company continued to pursue its strategy to diversify the property portfolio internationally, and acquired office properties in the US, the Netherlands and Germany. Ilmarinen also invests in property development projects, and, in addition to active development of rental residential properties in recent years, the company is also an investor in both Redi and Tripla shopping centres. The value of Ilmarinen's direct domestic property investments amounted to some €4.2 billion at the end of 2018, which made it the second largest property investor in Finland. In the beginning of 2019, the pensions of OP Group's Pension Fund were transferred to Ilmarinen.

After several years of active property portfolio restructuring, Varma did not enter in major transactions in Finland in 2018. Varma has been aiming to increase its foreign property investments, and in summer 2018, Varma co-invested in a major office property in Paris. In Finland, Varma is expanding

its property portfolio through property development, and the company has several large development projects underway in the Helsinki metropolitan area. The largest ongoing projects include the K-Kampus office property in Kalasatama, as well as the expansion of the Flamingo hotel in the vicinity of the airport. Varma is also currently converting one old office property to residential and another to educational use.

The third largest private sector pension insurance company is Elo, with a total investment portfolio of €23.7 billion at the end of the third quarter of 2018. The value of Elo's property portfolio amounted to €3 billion, representing 12.7% of the total portfolio. In 2018, Elo sold one major logistics property in the vicinity of the Helsinki-Vantaa airport. In 2017, Elo established a new retail property investment company, Agore Kiinteistöt, together with the Swedish AP1 fund and Trevian Asset Management. In 2018, Agore Kiinteistöt increased its portfolio by buying two shopping centre properties.

The public sector pension institution Keva is the biggest player in the Finnish pension sector; its investment portfolio amounted to €52.6 billion at the end of the third quarter of 2018. Of Keva's investment portfolio, 6.1% is invested in property, and at the end of 2018. In recent years, also Keva has concentrated on increasing its foreign property investments. The largest recent investment in Finland is the Marriott hotel property development in Tampere, which is due for completion in late 2019.

"Pension institutions diversify their property portfolios internationally"

The State Pension Fund VER was managing an investment portfolio of €19.7 billion at the end of the third quarter of 2018. VER focuses solely on indirect property investments. At the end of the third quarter of 2018, the investment category "other investments" represented 9.2% of VER's, total investments. This category comprises real estate, infrastructure and hedge funds. The fund's statutes prevent them from making direct property investments.

In addition to these major players, there are some smaller pension providers specialising in managing the pension matters of one company or one industry sector. Examples of this kind of players include Valio Pension Fund, Pharmacy Pension Fund and the Seafarer's Pension Fund. All these also invest in property.

Finnish legislation requires that investment decisions are made by institutions themselves, and thus portfolio management functions are kept in-house. Many institutions also have in-house asset and property management teams, as they want to retain control of their tenant interface.

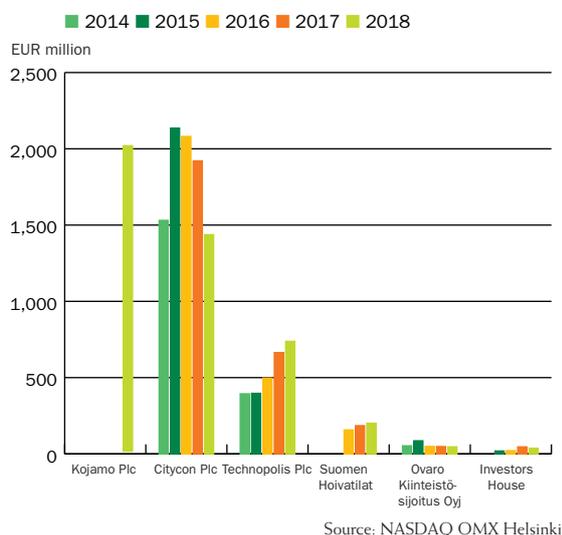
Finnish pension funds are not typically allowed to use leverage in their investments. In 2014, however, a new temporary legislation was introduced, whereby pension insurance companies can leverage their residential property investments up to 50% until 2022. The purpose of this legislation is to enhance the supply of rental residential property in the main cities. Many of the institutions have used this opportunity and have increased their investments in residential development.

Other institutional property investors in Finland include life insurance and insurance companies. Their investment portfolios are, however, markedly smaller than those of pension institutions. At the end of the third quarter of 2018, the total amount of investments of life insurance companies amounted to €21.7 billion and that of insurance companies to €13 billion. Total property investments amounted to some €3.8 billion, according to the statistics of FSA, the Financial Supervisory Authority.

Life insurance companies offer life insurances as well as voluntary pension insurances to both private individuals and corporations. They also offer investment opportunities to their clients through so called capitalisation agreements. The biggest life insurance and insurance companies are managed by the large financial institutions OP Group, Nordea, Sampo Group and LocalTapiola Group. Other insurers investing in property include Fennia Group and Aktia Life insurance.

Market values of the Finnish listed property companies

Market values at the end of year



Some of the main financial institutions, for instance OP, LocalTapiola and Fennia groups, have founded separate management companies to manage their property investment portfolios. These companies have also launched unlisted property funds, targeted to both institutional and private investors.

Listed property sector

At the end of 2018, the Finnish property holdings of the six property companies listed in the Nasdaq Helsinki stock exchange amounted to €8.2 billion. The total market value of these companies stood at €4.7 billion. The total property holdings will be reduced by some €0.9 billion when the shares of Technopolis will be delisted in 2019.

"The Finnish listed property sector increased in 2018 through the initial public offering of Kojamo"

In summer 2018, Finland's largest property company Kojamo Plc was listed in the Nasdaq Helsinki stock exchange. At the end of 2018, the market value of Kojamo's residential property portfolio exceeded €5 billion. The company owns some 34,000 residential dwellings mainly located in the seven largest city regions in Finland. The company increases its property portfolio through both own development and acquisitions. In 2018, Kojamo bought some 980 dwellings from OP Group's funds and the number of apartments completed through their own development was at the same level. The company also continues divesting assets outside its investment focus, and in 2018, Kojamo sold some 1,600 dwellings to a fund managed by Morgan Stanley Real Estate Investing.

Citycon is a property company specialising in shopping centre investment, development and management in the Nordic and Baltic countries. The value of Citycon's property portfolio was close to €4.2 billion at the end of the third quarter of 2018. In total, the company currently owns and manages 50 shopping centres, of which 10 are located in Finland. The shopping centre Iso Omena in Espoo is the largest of the company's shopping centres, with a gross leasable area of 101,000 sqm. Citycon is currently reconstructing and extending the Lippulaiva centre in Espoo to comprise some 42,000 sqm of leasable space, as well as 550 residential apartments.

Technopolis owns, develops and manages a chain of business park campuses in seven countries in the Nordic and Baltic regions. The company currently operates in 6 cities and 12 campuses in Finland. It also operates three UMA co-working spaces, one in Helsinki, one in Stockholm and one in Copenhagen. At the end of the third quarter of 2018, the fair value of Technopolis' property portfolio amounted to €1.6 billion, and of this, more than €900 million are located in Finland. As a result of the acquisition of the shares of the company by Kildare Nordic Acquisitions S.à.r.l. in late 2018, Technopolis' shares will be delisted in the near future. In 2018, the company announced that it will invest some €94 million in the expansion of the Otaniemi campus, and some €39 million in its existing Kuopio and Tampere campuses.

The smaller listed property companies include Suomen Hoivatilat, Ovaro Kiinteistö-sijoitus and Investors House.

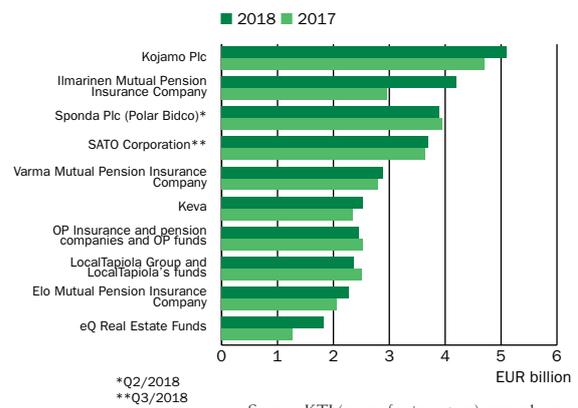


Suomen Hoivatilat invests in care properties and other public sector properties and had a property portfolio of some €350 million at the end of 2018. The company's tenants include both municipalities and private sector service operators. In 2018, the company established a new office in Sweden, having previously operated only in Finland.

Ovaro Kiinteistösi joitus invests in residential properties and had a property portfolio worth €179 million at the end of 2018. The company was previously called Orava Residential Real Estate Investment Trust, and it operated under the Finnish property fund legislation, which provides tax transparency for listed real estate investment companies investing in rental residential properties. However, in 2017, another property investment company, Investors House, acquired some 25 per cent of the company's shares. Following the acquisition, the company's strategy and management team was changed, and

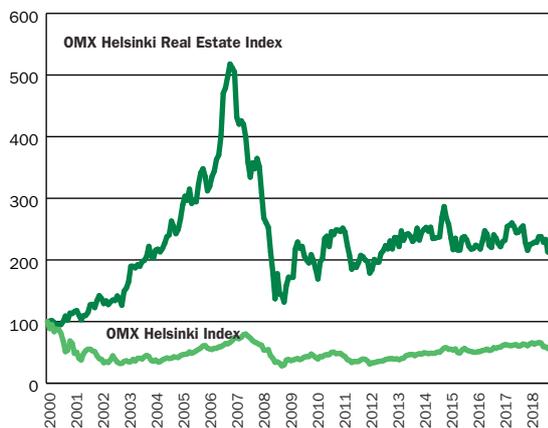
Direct property holdings of 10 biggest property investors in Finland

Property assets under management, EUR billion



Share performance of Finnish listed property companies

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



Source: Nasdaq OMX

the company was delisted as a REIT and relisted as a normal listed company.

Investors House invests in residential and commercial properties mainly outside the Helsinki metropolitan area. The company also provides services related to property investment and management.

The OMX Real Estate Sector price index showed a decrease of some 15% in 2018. Property companies' performance was worse than the stock exchange's overall performance. The OMX Helsinki CAP price index showed a decrease of some 7% in 2018.

Non-listed property companies

The largest Finnish non-listed property companies include SATO and Avara, who both specialize in residential properties. The largest company investing in commercial properties is Antilooppi, which specializes in office properties in the Helsinki metropolitan area.

SATO's residential property portfolio comprises some 26,000 apartments. SATO is one of the largest property investors in Finland with the total property portfolio value of some €3.8 billion at the end of the third quarter of 2018. Some 80% of the portfolio is located in the Helsinki metropolitan area, and 17% in other major cities in Finland. SATO also has some investments in Saint Petersburg, Russia, and they currently represent some 3 per cent of the total portfolio. The company has announced that it will, for the time being, refrain from any new investments in the Russian market. The Swedish Balder owns the majority of the shares of SATO, with the Dutch pension fund APG and the Finnish Elo as other main shareholders. SATO continues to grow its portfolio through own development. The company did not enter in any major transactions in 2018.

The other residential investment company, Avara Oy, currently owns and manages some 8,000 rental apartments with a total worth of some €1.2 billion. Avara's properties are mainly located in the larger cities. Avara's shareholders are major Finnish institutions, with the pension insurance company Elo being the biggest shareholder in the company. According to the company's current strategy, they also pursue growth through private equity funds, co-investments and joint ventures as well as investment management services. Unlike the other large private sector residential companies, Avara also owns and manages state-subsidised residential properties. In 2018, Avara sold a portfolio comprising 465 dwellings to a fund managed by NREP, and invested in some new development projects.

Antilooppi Ky invests in office properties in the Helsinki metropolitan area. The company is owned by the Finnish pension insurer Ilmarinen and the Swedish AMF Pensionförsäkring. Since its foundation in 2015, the company has grown through several acquisitions, and in 2018, it acquired one office property in Vallila, Helsinki. The company also sold one property in Vantaa. The company's portfolio value amounts to over €800 million. Antilooppi is an active redeveloper of its existing properties.

Ilmarinen and AMF are also owners in Mercada Oy, which was also established in 2015, when the Finnish retailer Kesko sold a major retail property portfolio to the company. Kesko owns one third of the company. The property portfolio of the company comprises three shopping centres and 37 retail properties in Finland and Sweden. Kesko is the main tenant in the premises.

Agore Kiinteistö is another joint venture company, owned by pension insurance company Elo, the Swedish pension insurer AP1 and Trevian Asset Management. The company focuses on city centre retail and office properties in major cities primarily outside the Helsinki area. In 2018, the company increased its portfolio by acquiring two shopping centres – one in Rovaniemi and one in Lappeenranta – from a fund managed by Barings Real Estate Advisers.

Avant Capital Partners is an investment and asset management company, the primary focus of which is on acting as a local operator and joint venture partner for mainly international investors. The company was founded in 2016, and since then has been involved in several acquisitions and divestments with its foreign and local investment partners.

Ahlström Capital and Lindström Invest are examples of the investment arms of traditional Finnish corporations. They have a role in redeveloping the holdings of the corporations, but they are also currently expanding their property investment portfolios. Another investment arm of a traditional Finnish corporation, Onvest Oy, was divided into two separate companies in 2018. Onvest Oy and Conficap Oy will both continue investing in property. Conficap expanded its portfolio in several acquisitions in 2018, and Onvest invested in the redevelopment of its existing assets.

Turku Technology Properties is a real estate company that owns and manages business premises in Turku, mainly located in the Kupittaa area. The company owns the majority of office properties in the area. Turku Technology Properties has also invested in some educational and sports properties in Kupittaa, and it is currently developing new premises for the University of Applied Sciences. In 2018, the company sold two office properties in the city centre to the Swedish Kielo AB. The shareholders of the company include the City of Turku together with a group of local investors. In early 2019, the City of Turku sold a healthcare property portfolio worth some €130 million to the Swedish Hemsö Fastighets. As part of this deal, Hemsö will also invest in Turku Technology Properties and become a major shareholder in the company.

Renor and HYY Real Estate are examples of other domestic specialised property investment companies. Renor owns mainly old industrial properties, which it develops into new uses. The company's largest asset is shopping centre Porin Puuvilla, which it owns together with Ilmarinen. HYY Real Estate is an investment company owned by the student union of the University of Helsinki. The company's property portfolio is concentrated in the Helsinki CBD. In 2018, HYY Real Estate acquired a traditional office and hotel property in the vicinity of their current holdings in the Helsinki CBD and will redevelop the property into hotel use. It also won the planning competition organised by the City of Helsinki, and will develop hotel, office and residential properties in the Kallio area in Helsinki. The demolition of the existing properties is planned to commence in 2020.

Real estate fund and investment management companies

The supply of non-listed property funds has increased significantly during the past years. The supply of property funds currently covers a wide spectrum of different kinds of products offered to various investor groups. Together with the development of investor strategies and preferences, the supply of investment management services has also increased in recent years.

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.

In recent years, the number and size of the semi-open-ended mutual funds have increased markedly. Many of these funds are mainly targeted at private investors, and distributed through banks and wealth management companies. Some institutions, the smaller ones in particular, also invest in these funds. Some funds have also attracted foreign capital.

"The supply of semi-open-ended mutual funds has increased markedly"

Finnish property fund management companies have diverse backgrounds, which also significantly affects their strategies.

Measured by Finnish property assets under management, the largest fund management companies are OP Group's OP Property Management, LocalTapiola Property Asset Management, eQ Fund Management Company, Fennia Asset Management, CapMan Real Estate, Ålandsbanken and Aberdeen Standard Investments.

Of the largest fund managers, OP, LocalTapiola and Fennia are traditional Finnish institutions, who manage their groups' direct property investments but also offer fund investment opportunities to other clients. They all manage both limited partnerships and open-end special investment funds investing directly in the Finnish property market. The total value of Finnish property assets under management of OP amounted to €2.5 billion, and that of LocalTapiola to €2.4 billion at the end of 2018, including both the direct portfolios managed for their internal clients and property funds. For both companies, the portfolio values of funds currently exceed that of their group client's direct portfolios. Fennia manages two limited partnerships, as well as two special investment funds: Fennica Toimitilat I invests in commercial properties and Fennica Tontit in building lots.

eQ Fund Management, a subsidiary of eQ Bank, manages two special real estate investment funds. One of the funds is specialised in care properties and the other invests in commercial properties. At the end of 2018, their total property portfolio value amounted to €1.8 billion, showing an increase of €0.5 billion compared to the previous year.

"New fund managers enter the market"

Smaller bank-related real estate fund management companies include Evli, Aktia and FIM. Both Evli and Aktia established their first special investment fund structures in 2018 and made their first investments in these funds. Evli also established a fund structured as limited partnership, Evli Healthcare I, which first acquired a €140 million portfolio from Northern Horizon Capital, and then expanded its portfolio in three smaller transactions. Aktia's fund invests in commercial properties and made its first investments in late 2018 and early 2019. FIM's special investment fund invests in residential properties.

CapMan Real Estate, which manages one Nordic and three Finnish limited partnership structures investing in property, is part of a Finnish private equity company for whom property investment is one of the business areas. CapMan also manages one special investment fund CapMan Nordic Property Income Fund. The total value of CapMan's Finnish holdings amounted to €0.9 billion at the end of 2018, the majority of which is invested in hotel properties. CapMan also manages

the German BVK's Nordic residential property investment mandate, which increased its Finnish portfolio by buying a portfolio of more than 1,700 apartments in late 2018.

Aberdeen Standard Investments is one of the world's largest investment companies, which currently manages one Finnish property fund and also invests in Finland through its European property funds. In 2018, Aberdeen Standard Pan-European Residential Property Fund made its first investment in Finland by acquiring a portfolio of 800 dwellings. In addition, Aberdeen Standard Investments executes alternative investment strategies on behalf of its clients. In total, Aberdeen Standard Investments' Finnish property assets under management amounted to some €750 million at the end of 2018.

Specialised Finnish property management companies include, for instance ICECAPITAL, Trevian Asset Management, and Titanium. ICECAPITAL Real Estate Asset Management manages several residential property funds in different lifecycle phases. In late 2018, the company sold the portfolio of ICECAPITAL Housing Fund III, comprising 37 assets and over 1,700 dwellings to Bayerische Versorgungskammer (BVK), whose mandate CapMan manages in the Nordics.

Trevian Funds AIFM is a fund management company, which currently manages one special mutual fund structure, Trevian Finland Properties I. The fund invests in commercial properties mainly outside the Helsinki metropolitan area. Their sister company, Trevian Asset Management, is a real estate investment and asset management company, which has founded and exited several limited partnership structures in recent years. The company also structures real estate investments for its clients and acts as investment partner or manager in joint venture structures.

Sirius Capital Partners is a fund and investment management company that manages property funds and makes co-investments on a deal-by-deal basis. In early 2018, Sirius sold the portfolios of their two grocery property funds to a newly-established Cibus Nordic Real Estate AB in a €767 million transaction. Cibus is listed on Nasdaq First North in Stockholm.

Titanium is a fund management company managing two special investment funds investing in property, one of the funds investing in residential, and the other in care properties. Titanium is listed in Nasdaq Helsinki's First North list.

Auratum, Taaleri and United Bankers are other examples of Finnish wealth management and investment companies that also offer property funds for their clients as an alternative asset class.

Northern Horizon manages both property funds and separate mandates. The company has offices in Nordic and Baltic countries as well as in Berlin. Their real estate funds invest predominantly in care properties. In early 2018, the company exited its Healthcare II fund by selling it to a fund managed by Evli.

Catella Asset Management, part of Catella Group, is a real estate investment and asset management company that manages some international and domestic investors' portfolios in Finland.

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 and VVT. Exilion is a joint venture of four Finnish institutional investors, and the company owns and manages a portfolio of some €500 million comprising office, retail and hotel properties. VVT is a joint venture of Varma, the State Pension Fund and Tradeka. The fund invests in commercial properties in the largest Finnish cities.

International investors

Foreign investors form a diversified group of players with varying strategies and management practices. Many of them have established their own offices in Finland, while others operate through their Nordic offices and / or local asset managers. In the past couple of years, an increasing amount of foreign investors have entered the Finnish market through co-investment structures with their local operating partners.

International investors' role in the Finnish property market continued to increase markedly in 2018. At the end of the year, the total holdings of foreign investors amounted to some €22.3 billion, representing a growth of more than 20% compared to the previous year.

"Foreign investors represent
32 per cent of the total
property investment market"

The largest foreign property investor in Finland is Polar Bidco, owned by Blackstone and Areim, who, since 2017, owns the formerly listed property company Sponda. At the end of June 2018, Sponda's property portfolio value amounted to almost €4 billion. The company owns office and shopping centre properties in the largest Finnish cities, mainly in the prime areas in the Helsinki metropolitan area and in Tampere. In 2018, Sponda opened the 53,000 sqm shopping centre Ratina in Tampere.

In the list of largest foreign investors in Finland, the second place is currently held by the Swedish Sagax, who has steadily increased its portfolio in Finland in recent years, and whose total investments exceeded €1 billion in 2018. The company invests mainly in industrial and logistics properties and made more than ten new investments in 2018, both in small portfolios and in single assets.

Logicor, which is part of a European logistics and warehouse property platform, is another significant foreign player in Finland. The company owns 86 properties comprising 1.3 million sqm in the Nordics. The majority of these – 77 properties – are located in Finland. The company is currently owned by China Investment Corporation. Aside from Logicor, the amount of Asian capital is currently rather limited in Finland. In 2017 and 2018, the first investors from South Korea and Japan entered the Finnish market.

In addition to Sagax, many other Swedish investors continue to be active in Finland. Cibus Nordic Real Estate AB currently holds a Finnish retail property portfolio worth more than €800 million. Another significant Swedish-originated investor in Finland is Hemsö, who specializes in care properties and other public sector properties. The company continued to grow and entered several significant transactions in 2018, and currently has a Finnish portfolio worth more than €700 million. Another Nordic investor actively increasing its Finnish portfolio is NREP, whose portfolio value has increased to almost €900 million.

Also, the Swedish-originated Redito, who manages two retail property portfolios in Finland, currently has a Finnish portfolio worth more than €600 million. Another Swedish-originated active investor is Niam, who expanded its portfolio in 2018 by acquiring two retail centres with a combined worth of €54 million. Niam also disposed eight office properties in the Helsinki metropolitan area in three separate transactions. Brunswick's Kielo AB, established in 2017, also expanded its portfolio in 2018 by buying three office properties from Niam, two from Turku Technology Properties and one in Lahti from Royal House.



"Swedish investors continue to be active in Finland"

Other Swedish-originated investors in Finland include, for instance, Genesta, AREIM, Alma Properties and Hemfosa. In addition to Cibus, new Swedish investors in Finland in 2018 included the listed property company Castellum, who purchased a large office property in Helsinki, and SBB i Norden AB, who acquired care properties in Tampere and Helsinki.

Swedish capital is also channeled to the Finnish market through significant share ownership in several companies. Balder is a majority shareholder in the residential company SATO, as well as in the retail property company Serena. Several Swedish institutional investors have also entered into joint venture structures with Finnish pension funds: AMF Fastigheter is an investor in Antilooppi and Mercada, whereas Agore Kiinteistöt is a joint venture between Elo, AP1 and Trevian.

In 2018, several new foreign investors entered the Finnish market. The largest of these new players is Morgan Stanley Real Estate Investing, whose funds made their first investment in the Nordics by acquiring an almost €100 million residential portfolio comprising 1,600 dwellings. Late in 2018, another fund advised by Morgan Stanley Real Estate Investing acquired the shopping centre Itis from Wereldhave for €516 million.

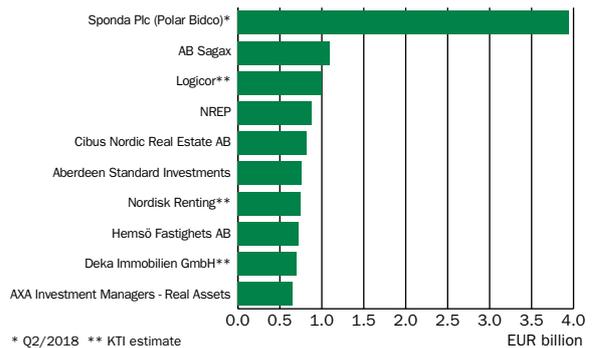
Other significant newcomers in 2018 include, for instance, BlackRock Real Assets, whose funds acquired two office properties in Helsinki, and a third one in early 2019. Also Swiss Life Asset Managers, invested in a newly developed office property in Helsinki. The UK Round Hill Capital entered the Finnish market by buying a portfolio of more than 3,200 residential dwellings.

Finnish residential properties continued to attract foreign investors in 2018. In addition to Morgan Stanley Real Estate Investing and Round Hill Capital, Aberdeen Standard Investments' Pan-European Residential Property Fund made its first investment in Finland. Of the investors already active in Finland, AXA Investment Managers – Real Assets, NREP and Bayerische Versorgungskammer (BVK) continued to invest further in the Finnish rental residential property sector. Altogether, foreign investors already own more than 11,000 residential dwellings in Finland.

"German investors entered several large office transactions in 2018"

Many German investors continue to play an important role in the Finnish market. In 2018, the largest transaction was carried out by Commerz Real, who returned to the Finnish market by acquiring from YIT the two Tripla Workery office properties under construction in Pasila. Union Investment and Deka continued to increase their portfolios through exceptionally large single-asset transactions in 2018. Early

Biggest foreign investors in Finland



Source: KTI (query for investors, press releases, annual reports)

in 2018, Deka bought a €190 million office property in the Helsinki CBD from Ilmarinen, and in the autumn, Union Investment bought the Urban Environment House in Kalasatama – also under construction – from the City of Helsinki for €165 million.

Along with these companies that serve to channel international capital into the Finnish market, companies acting as co-investors with foreign players and companies offering investment management services have also increased in recent years. Avant Capital Partners and Trevian are examples of these kinds of companies.

Public sector

Public sector entities are 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, who provides working environments and promotes new ways of working among the state agencies. Senate Properties develops, manages and lets the state's property holdings, and also acts as an intermediary in lease agreements between state agencies and private sector property investors.

At the end of 2018, Senate Properties had a property portfolio of some €4.3 billion, comprising some 6.1 million sqm. Senate's holdings consist of offices used by state agencies and ministries, prisons and cultural buildings as well as properties used by the Finnish Army. Senate Properties operates under the control of the Ministry of Finance.

The state has started to pursue a new workplace strategy that will aim at an ambitious increase in space efficiency, which would thus free significant amounts of space to be sold by Senate Properties. Senate Properties has a business unit whose sole purpose is to develop and/or dispose of properties that are not needed by state agencies in the long term.

The majority of Finnish university properties are owned by three limited companies, whose sole purpose is to own and manage university buildings. Two of the companies own and manage university buildings in the Helsinki metropolitan area (Helsinki University Properties and Aalto University Properties), and these companies are owned by the universities themselves. Aalto University Properties has recently carried out a major development project in its campus area in Otaniemi, where an increasing amount of premises will also be used by other tenants. The third company, University Properties of Finland Ltd, has

a broader shareholder base, with its ownership spread across 9 universities and 12 cities throughout Finland. The Finnish state is also a minority shareholder in this company. University Properties of Finland also offers premises increasingly to private corporations and other education organisations on its campuses.

Finnish municipalities typically 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. Through their subsidiaries, the municipalities also own a significant amount of residential properties, the majority of which are subsidized by state and therefore mainly targeted at low-income households. In a recent study, the current book value of the property holdings of the Finnish municipalities amounted to some €32 billion, and their current technical value was estimated to be much larger. Of these, some €13 billion are residential properties and the rest are properties used for municipal service provision.

In recent years, municipalities have started to apply more varying strategies in their service provision, which also impacts property ownership. For instance, a big proportion of new properties needed for elderly care have been developed by private investors, and they rent the premises to private sector service providers who sell their services to municipalities. The City of Turku also sold an existing health care and hospital property portfolio worth some €130 million to the Swedish Hemsö.

New concepts like “school as a service” also drive the municipalities towards new practices in space usage and ownership. In some cases, cities also enter long-term rental agreements with private sector investors. The most recent example of this kind of arrangement is the sale of the Urban Environment House to Union Investment by the City of Helsinki.

“Finnish municipalities apply varying strategies in property investment and management”

Municipalities apply different kinds of structures in the organization of property ownership and management services. Properties can be owned by the city directly or organized as a specific public enterprise structure or as a normal limited company structure. Services can be provided by municipal units or city-owned limited companies, or they might be bought from the private sector property companies.

“The reform in healthcare service provision has a major impact on property management”

The planned reform in social and healthcare services will have a significant impact on property ownership issues. Maakuntien Tilakeskus Oy (the Counties’ Service Centre

for Facilities and Real Estate Management) is a company established by the state, to be transferred to the counties in 2021. It is estimated that at that stage, the company will manage some 10.5 million sqm of premises and 18,000 rental agreements, and will have a property portfolio worth €3.4 billion. The company will own the properties currently owned by federations of municipalities, whereas those owned by individual municipalities will be rented by the counties and managed by Maakuntien Tilakeskus.

Most municipalities also own significant residential property portfolios through separate companies. These companies mainly own state-subsidised stock, the estimated value of which amounts to some €13 billion. The City of Helsinki, for instance, is the largest single landlord in Finland through its residential property company Heka, which owns almost 50,000 state-subsidised dwellings.

Corporations

The role of property occupiers in the property markets has changed markedly during the past years. Owner-occupation is becoming less common in office markets in particular. More than 80% of the Finnish office property stock is currently owned by investors. Large retail properties are also very often owned by professional investors. Only in the industrial sector, the vast majority of the total stock, more than 80%, is still owned by Finnish industrial corporations.

“An increasing amount of the Finnish commercial property stock is owned by professional investors”

The broadening and development of the property investment and finance market has enabled the execution of corporations’ evolving property ownership and management strategies. Most of the new properties – office properties in particular – are developed by professional investors or developers. During the past couple of years, several major Finnish corporations have also sold their existing property holdings and, in many of these cases, the companies remained as tenants in these buildings through relatively long leases.

S Group and Kesko, the two major Finnish retail chains, have traditionally been active players in the property market. In recent years, Kesko has decreased its holdings through major sale-and-leaseback deals, but it still remains a major player in the retail property development and investment. Kesko also divested its former headquarters, which will be redeveloped to residential and hotel use, and is going to move to a new office property in Kalasatama, which is currently being developed by Varma.

S Group and its co-operatives are major owners of retail, shopping centre and hotel properties, although they increasingly also apply different strategies. S Group’s nearly 200,000 sqm logistics centre in Sipoo is the group’s most significant development project in recent years. Of the co-operatives within S Group, HOK-Elanto in particular has been active in selling its properties to investors in recent years.



Photo: Stailia / Kojamo

The German retail chain Lidl typically owns its properties in Finland, with the exception of stores located in shopping centres and city centres. Lidl is currently extending its newly-developed logistics centre in Järvenpää.

Industrial companies still typically own their production properties, but currently in most cases even they are renting their headquarters and other office premises. Companies using office space are pursuing increasingly sophisticated workplace strategies, and typically rent their premises. Most companies also emphasise space efficiency, and space usage is typically reduced when companies move to new premises.

3.3 Real estate service sector

Asset and property management services

The asset and property management services market is dominated by domestic and Nordic companies. The largest companies servicing the large institutional and foreign investors are Realia Management, Newsec and Colliers International Finland.

Realia Group is, through its daughter companies, a major player in the residential property brokerage and management markets. The group is currently owned by the Nordic private equity firm Altor. Realia Management, another affiliate company of the Group, manages some major investors' residential portfolios, and also offers management services for commercial property management, valuation as well as advisory services. In recent years, Realia Management has expanded through several acquisitions of smaller domestic management firms.

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.

"Management services offered by both local and international players"

Colliers International Finland offers services for property management and development for commercial, residential and shopping centre properties. The company's commercial property asset and property management clients include major Finnish and international investors as well as corporations. Colliers International Finland's affiliate company Realprojekti Oy is one of the leading shopping centre management service providers in Finland, and is also well known for its retail property development services.

Of the global real estate service firms, CBRE also offers asset and property management services for investors in Finland. CBRE also offers property and facility management services to corporations, as well as shopping centre management services.

Local Tapiola Property Asset Management and OP Property Management are examples of management companies founded by domestic institutional investors. The companies were originally founded to take care of asset and property management of the shareholders' property portfolios, but they currently also manage several property funds.

Juhola Asset Management is an example of a traditional Finnish property management service company mainly working for domestic investors. Niemco Management and Avanto Property Team are examples of smaller, recently established domestic property and asset management companies.

Another domestic management company, mainly specialized in residential property management is Premico. The company has previously been active with mainly domestic property funds, but in 2018, the company established a joint venture with Morgan Stanley Real Estate Investing and the Swedish RIM for the acquisition of a nearly 1,600 rental apartments. Premico is the local manager of the portfolio. The company also offers property development and project management services for both commercial and residential properties.

Caverion Oyj is a significant player in the property and technical management service market. Coor Service Management is another example of a company concentrating solely on property services management.

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, Lassila & Tikanoja and SOL.

Advisory, transaction and valuation services

The advisory service market includes a 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. Catella is another major player in the Finnish property valuation and transaction advisory service markets.

Major international property service firms are currently well represented in Finland. JLL is one of the major players in transactions, valuation, leasing consultancy and brokerage services. Cushman & Wakefield is represented in Finland through a partnership agreement. Also CBRE has increased its operations in Finland rapidly in recent years. The Swedish-originated Nordanö, formerly Leimdörfer, also acts as advisor in many major transactions in Finland.

"Property transaction advisory service sector has expanded in recent years"

There are also a couple of smaller local transactions and valuation service firms servicing mainly domestic players. Of the local traditional valuation firms, Kiinteistötaito Peltola & Co serves some major investors. GEM Property is a newer example of a Finnish property valuation and advisory firm. In the transactions services sector, Finnish Property Partners, mrec Oy and Ecorum are examples of domestic companies working with both Finnish and international investors.

In addition to the actual transaction services firms, corporate finance services are offered by some domestic and Nordic companies, including Advium Corporate Finance, Aventus and Nordanö. SEB Enskilda Corporate Finance also has a real estate unit in Finland. Global business consultancy firms, such as KPMG, EY and PwC, offer real estate specific services in Finland as well.

Property financing

In current market conditions, property finance is typically well available. The major part of real estate financing is provided by the major local and Nordic banks, including SEB, Nordea Bank, Danske Bank and OP Group.

Of the international specialised property finance banks, the German Helaba (Landesbank Hessen-Thüringen) is currently the most active in the Finnish market.

Large international banks, such as Merrill Lynch, Bank of America and Morgan Stanley have financed some major transactions in Finland. They typically come to Finland together with their major international clients.

Institutional investors, for instance life funds, also provide debt financing for property investments. Pension and life insurance funds can either provide property debt directly to their clients or act in co-operation with banks in financing deals. In current market circumstances, however, the volume of debt provided by institutions has remained rather low, as their yield requirements are not competitive compared to banks or other sources of finance.

"Nordic banks are major providers of debt financing"

Another source of debt capital is debt funds, which provide either senior or mezzanine debt for property investments.

This sector's volume is, however, currently insignificant in Finland.

The biggest property investors have access to several sources of finance. In addition to relatively good access to equity, many of the biggest Finnish property companies currently use corporate bonds for financing their balance sheets. Listed companies Citycon and Kojamo use bonds to finance their balance sheets. Residential company SATO also is an active issuer of bonds. Citycon and SATO have also acquired credit ratings in order to improve the availability and terms of bond financing.

Both secured and unsecured bonds have been issued recently.

"Large property investment companies are active users of bond financing"

In addition to the largest players, also some mid-sized property companies have issued bonds in order to balance the use of different financing instruments. Examples of these kind of companies include shopping centre investor Mercada, the development company Regenero and University Properties of Finland. The €100 million bond issued by the University Properties of Finland in late 2018 is the first green bond in the Finnish property sector.

Some property investors also have access to special institutions' financing. For example, both SATO and Kojamo have received financing from the European Investment Bank for the development of new nearly zero energy buildings. EIB has, together with NIB and some commercial banks, also provided financing for the Mall of Tripla project.

Major banks are typically interested in financing rather large, low-risk investments with known clients. Therefore, it is sometimes more difficult to get financing for riskier or more complicated transactions. This has opened up new opportunities for some smaller banks or financing institutions that are willing to accept more risk. One example of this kind of player is Collector Bank. Some private equity investors and institutional investors are also sometimes able to accept higher risk in return for a higher return. These investors would typically be able to take over the management of the properties if the original borrower is not able to fulfill its obligations.

Property development

The Finnish construction companies typically have a separate arm that specialises in commercial property development. These units are the most active players in new development. Redevelopment of existing properties is mostly handled by their owners, or by specialized companies who buy properties in order to redevelop them.

The largest Finnish and Nordic construction companies involved in commercial property development include YIT, Skanska, NCC, SRV, Hartela and Peab. These companies have all been active in this field in recent years and have cooperated with both domestic and international investors.

After its merger with Lemminkäinen in early 2018, YIT currently stands as the largest Finnish and significant North

Bonds issued by the Finnish property investors

ISSUED BY	ISSUE DATE	MATURITY DATE	YEARS	EUR MILLION	ANNUAL INTEREST	OTHER INFORMATION
Citycon	1.9.2015	1.9.2025	10	1.4 bn NOK	3.90 %	Unsecured
Citycon	1.9.2015	1.3.2021	5.5	1.25 bn NOK	3 m NIBOR + 1.55 %	Unsecured
SATO	10.9.2015	10.9.2020	5	300	2.25 %	Unsecured
Citycon	16.9.2015	16.9.2022	7	300	2.375 %	Unsecured
SATO	24.3.2016	24.3.2021	5	300	2.375 %	Unsecured
Citycon	8.9.2016	8.9.2026	10	350	1.25 %	Unsecured
VVO (now Kojamo)	17.10.2016	17.10.2023	7	200	1.625 %	Secured
Kojamo	19.6.2017	19.6.2024	7	500	1.50 %	Unsecured
Citycon	22.9.2017	22.9.2025	8	1.0 bn NOK	2.75 %	Unsecured
Mercada	24.10.2017	24.10.2022	5	175	1.875 %	Secured
Kojamo	7.3.2018	7.3.2025	7	500	1.625 %	Unsecured
Regenero	31.5.2018	31.5.2021	3	100	4.00 %	Secured
Citycon	22.8.2018	15.1.2027	over 8	300	2.375 %	Secured
University Properties of Finland	2.11.2018	2.11.2023	5	100	1.80 %	Unsecured

Source: Press releases

European construction company. The company has operations in 11 countries. In Finland, YIT develops and builds both residential and commercial properties. Its Business Premises segment is responsible for commercial property construction and project management, and the Partnerships Properties unit is responsible for financing major development projects and the ownership and subsequent realisation of plots and developed properties. The largest project underway in this unit is the Tripla project in Pasila.

Skanska has organised its development operations in the Nordics through Skanska Commercial Property Development Nordic, which can also remain as an investor in the buildings it develops. Skanska CDF's major ongoing projects include K6 office property in Sörnäinen and an office building leased to European Chemicals Agency ECHA in Telakkaranta area in Helsinki. The K6 project was sold to Senate Properties in 2018. Skanska also sold the first phase of the Aviabulevardi office project to Niam. The second phase, completed in late 2018, is still owned by Skanska.

The Fredriksberg business park in Vallila is the largest project currently developed by NCC Property Development. The first phase was completed and sold to Swiss Life in 2018, and the second and third phases are currently underway.

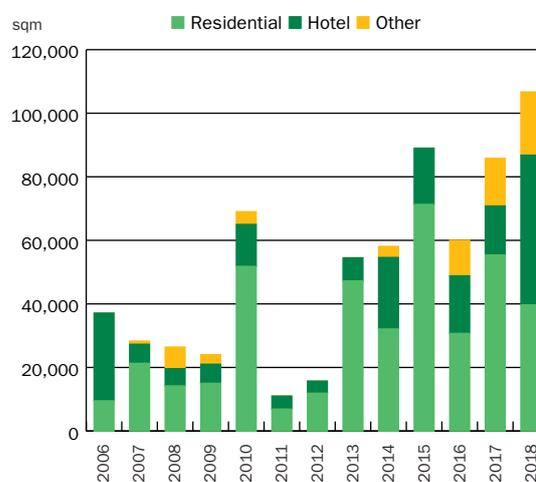
"Construction companies have specialized property development units"

SRV completed the REDI shopping centre in Kalasatama in 2018, and continues to develop high-rise residential buildings in the area. The company is also developing the Woodcity project in Jätkäsaari, where mobile game company Supercell is an investor and will be the main user. Pressi Smart Premises project in Vantaankoski is another project of SRV, and the first phase was sold to Julius Tallberg-Kiinteistöt in 2018. SRV is also planning to start the Tampere Deck and Arena residential, sports and culture arena project in 2019.

Hartela completed the Ilmalan Asema project in Pasila in 2018, and Ramboll's new head office in Leppävaara is due for completion in early 2019. Hartela and YIT develop jointly the 25,000 sqm local commercial centre Hertsi in Herttoniemi. Peab Invest develops the second phase of its Ultimes Business Garden in Pitäjänmäki, which is due for completion in the first quarter of 2019.

Most of these companies also develop residential properties and typically buy and hold a significant amount of plots. In the past couple of years in particular, construction companies have also been active in housing development projects, which they sell to investors, most often property funds. This activity, however, seems now to be slowing down due to increased uncertainty and an increasing supply of rental residential properties. In the residential property development sector,

Office stock reduction through change of use in the Helsinki metropolitan area



* If information on rentable area hasn't been available, rentable area has been estimated based on gross area information.
** Projects are allocated between years according to the point of time when they are not offered for office use; i.e. when the new plan is confirmed / conversion project has been started

Source: KTI, RPT Docu Oy

there are also numerous, typically smaller local players, who mostly develop apartments for home buyers.

Some owner-occupiers – large retailers S Group and Kesko, in particular – are significant and professional property developers. S Group's largest development project is the 193,000 sqm Freeway logistics centre in Sipoo, which has been developed in several phases and is currently being extended by another 19,000 sqm phase. S Group and its local co-operatives also have several retail and hotel property development and renovation projects underway in various parts of the country. Lidl also continues to develop properties for its own use.

Institutional investors traditionally have quite conservative strategies concerning commercial property development. For instance, in projects led by construction companies, institutions typically only enter a project when the majority of the premises are pre-let. In both the REDI and Tripla shopping centres as well as in the Tampereen Deck and Arena multipurpose project, for example, there are institutional investors as shareholders in the developing company, and they thus share the development risk with the main developer. Institutions may also work together directly with occupiers in development projects.

Institutions' development strategies emphasise the redevelopment of existing assets in their portfolios, where they can, for instance, look for new uses for vacant properties. This is emphasised in current market conditions due to the oversupply of office premises in the Helsinki metropolitan area, which is pressuring investors to look for new solutions.

At the moment there is, however, a major office project being developed by Varma in Kalasatama. The majority of the 35,000 sqm building will be rented to Kesko, but with plenty of premises also available to be rented by other tenants. Varma is also carrying out a major extension to its Flamingo hotel property in the vicinity of the airport, and converting an office building in Espoo into a school rented to the City of Espoo. Keva is developing a hotel property for Marriott in Tampere.

Institutions typically pursue more active strategies in residential development, which is considered less risky than commercial property development, especially in cases where they have appropriate plots in their portfolio. Residential development has also been encouraged by regulators, and pension funds are temporarily allowed to use debt financing in residential development.

Property investment companies also actively develop assets in 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. Sponda completed the Ratina shopping centre project in Tampere in 2018, and is currently developing an office and retail property in the vicinity. Technopolis also has some ongoing office development projects in Tampere, and it is also expanding its campuses with new buildings in Espoo, Vantaa and Oulu. Large residential companies, Kojamo and SATO in particular, are also active property developers.

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. HGR Property Partners is another real estate investment company focusing on real estate development, mainly investing in existing buildings to be redeveloped for some other use. HGR has also founded, together with construction company YIT, a property development company Regenero Oy, the aim of which is to invest and redevelop large property projects in good locations. Regenero's largest project so far is Fortum's former head office property in Keilaniemi, Espoo. Regenero will redevelop this landmark property, which will remain in office use, and also exploit the unused building right on the plot. The majority of the building has been rented to accounting firm Accountor. Another project of Regenero is the redevelopment of an office building into educational and office use in the Otaniemi district. The building is rented to the City of Espoo and was sold to eQ's fund in late 2018.

"Plenty of office redevelopment projects in the Helsinki metropolitan area"

Auratum is an example of a property fund that redevelops existing properties, often into residential use. Lindström Invest and Ahlström Capital are examples of traditional Finnish corporations' investment arms that are also active in property development and investment. Also Exilion's fund has invested in some redevelopment projects. The company just started the conversion of the old office premises at the Helsinki main railway station into hotel use.

In recent years, some international investors have invested in properties that are planned to be redeveloped into a new use. For example, AXA Investment Managers, Real Assets and NREP invested in the former head office of Kesko, which will be redeveloped for residential and hotel use. Barings Real Estate Advisers acquired an office property in Helsinki CBD and will redevelop it into hotel use.

"Old offices are being converted into residential or hotel use"

An oversupply of offices in the Helsinki metropolitan area has generated lots of conversion and redevelopment projects in recent years. These projects have, however, often been slowed down by planning processes. In recent years, however, the conversion volumes have increased significantly, and in 2018, more than 100,000 sqm of office space was removed from the market. The majority of the old office premises will be converted into residential use. In the most central locations in Helsinki, many offices have been and are being converted into hotel use. In some cases, office buildings are also converted into some other, for example educational use. In these projects, the former owner typically acts as the developer. Sometimes these projects are, however, sold to investors or developers more willing to carry the development risk.

4 Property sectors: market structure, practices and investment performance

In terms of property sector structure, the Finnish property investment market has changed markedly in recent years. A decade ago, office properties were clearly the largest sector in the investment market and the one most favoured by investors. In recent years, due to weak investment performance of offices and expansion of the investor base in other sectors, the share of offices has decreased. At the same time, the position of residential properties in particular has strengthened due to strong demand for rental residential dwellings and an increasing supply of investment capital. Within the past couple of years, public use properties, for instance healthcare and educational properties, have also increased their attractiveness as recognised property asset classes in the investment market.

Residential properties are currently the largest sector in the Finnish property market. In 2018, the invested residential property market continued to increase through both new development and growth in asset values, and, at the end of the year, residential properties represented 29 per cent of the total property investment market.

Of the commercial properties, offices and retail properties are the largest sectors, with shares of 28 and 23 per cent, respectively, of the total market. Hotel properties have also increased their attractiveness in the investment market in recent years, and at the end of 2018, they represented some 5% of the total market. The invested stock of care properties has increased rapidly in recent years, but their share of the total invested property stock still remains only at 4%.

"Residential properties strengthen their position as the largest sector in the investment market"

According to the KTI Index, the total return on the Finnish property market remained stable at 6.6% in 2018 (6.6% in 2017), consisting of a capital growth of 1.3% and a net income of 5.3%. There were, again, significant differences between property sectors and regions.

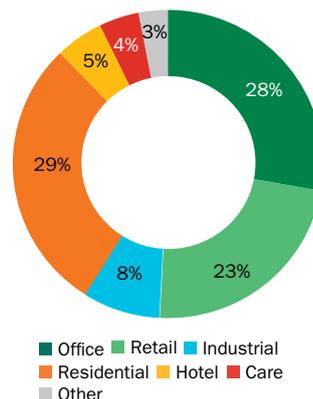
4.1 The office market

Stock

The total stock of office space in Finland is some 19.8 million square metres. The Helsinki metropolitan area has a dominating position within the Finnish market, and of the total stock, 44 per cent, some 8.8 million sqm, is located in Helsinki, Espoo and Vantaa. The office stock in Tampere

The structure of Finnish property investment market by sector

Total size EUR 69.5 bn



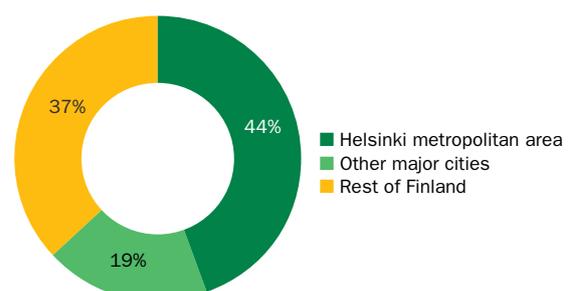
Source: KTI

amounts to some 1.1 million sqm, and that of Turku to 0.8 million sqm.

New development is also concentrated in the metropolitan area, and, within the past decade, some 76,000 sqm of new office space has been completed annually in the Helsinki metropolitan area. During the same period, the annual average volume of office stock reduction through conversions has been some 57,000 sqm, with accelerating speed in recent years. In 2018, conversions of more than 100,000 sqm of office space were started.

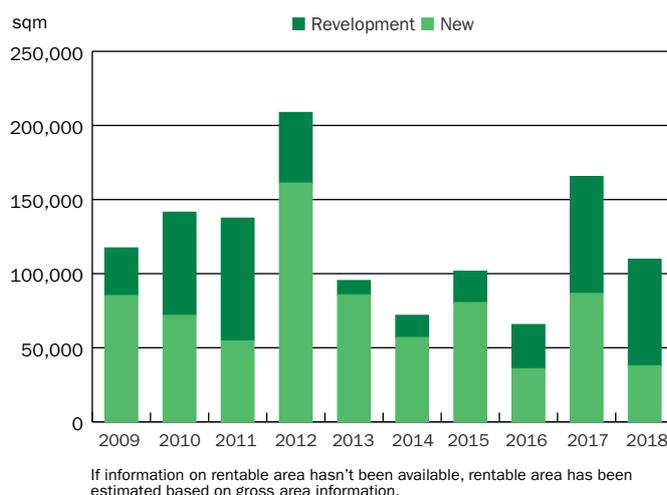
In 2018, only four office development projects, totalling some 38,000 sqm of space, were completed in the Helsinki metropolitan area. However, at the end of the year, some 228,000 sqm was under construction, of which the vast

Distribution of office stock by location, sqm



Source: Statistics Finland

Completions of offices in the Helsinki metropolitan area in 2009-2018



Source: KTI, RPT Docu Oy

majority, 180,000 sqm, is in Helsinki. The largest ongoing projects in Helsinki are located in the Pasila and Kalasatama areas.

In the main cities outside the Helsinki metropolitan area, in the Tampere, Turku, Oulu, Jyväskylä, Kuopio and Lahti regions, only some 13,000 sqm of new office space was completed in 2018. At the year-end, however, some 60,000 sqm was under construction, about half of which is located in the Tampere region.

Players

Offices have traditionally played a significant role in Finnish institutional property portfolios, although their share has decreased rapidly in recent years due to the growth of other sectors.

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 CBD and in some other areas in the Helsinki metropolitan area. The third office category is business-park-type properties located near good traffic connections, mainly in the Helsinki metropolitan area.

The biggest investors in the office sector include large Finnish institutions such as Varma, Ilmarinen and Keava, as well as specialised investment companies such as Sponda, Technopolis and Antilooppi. Foreign investors, for instance Niam, Deka Immobilien and Union Investment, also have significant investments in Finnish office properties.

"Offices accounted for 39 per cent of the total transaction volume in 2018"

In 2018, offices were the largest sector in the transactions market for a second consequent year with a share of 39 per cent of the total volume. The vast majority of the transactions activity was concentrated in the Helsinki metropolitan area.

The largest transaction was the acquisition of Technopolis shares by Kildare Nordic Acquisitions S.à.r.l. At the time of the transaction, the value of Technopolis's 430,000 sqm Finnish office property portfolio amounted to € 950 million. The second largest office transaction in 2018 was carried out in December, when Commerz Real acquired the Tripla Workery offices being developed in Pasila by YIT.

Other office property portfolio transactions exceeding €100 million included, for instance, acquisitions carried out by Cromwell's REIT as well as by a joint venture between Cromwell and Goldman Sachs.

"Several exceptionally large single asset office transactions took place in 2018"

Several exceptionally large single asset office transactions were carried out in 2018, mostly by foreign investors. The largest ever single asset office transaction was published early in the year, when Ilmarinen sold an office property in Töölönlahti in the Helsinki CBD to Deka Immobilien for a price of almost €190 million. In December, Hemsö acquired the Helsinki Court House, which, in addition to court premises, also includes office space, for €200 million from Sponda. In the autumn, Union Investment invested €165 in the Urban Environment House of the City of Helsinki, which is under construction in Kalasatama, and in December, M&G European Property Fund acquired an office property in Töölönlahti for €116 million.

Other foreign investors who increased their investments in the Finnish office markets in 2018 include, for instance the Swedish Kielo AB, which entered in several transactions

throughout the year, as well as AREIM, who acquired a portfolio of eight office properties from a joint venture between Tristan Capital Partners, Avant Capital Partners and Varma.

Newcomers in the Finnish office investment market in 2018 included, for instance, BlackRock Real Assets, Swiss Life Asset Management and Castellum.

"The Finnish office investment market attracted new investors in 2018"

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 most often gross rents, which include operational costs. Operating costs can also be charged separately to tenants. Typical operating costs for office properties vary between €4.50 and €5.50 per square metre per month, depending on the location and characteristics of the building.

Indefinite lease terms are commonly applied in multi-tenant office buildings. Typical notice periods are three, six or twelve months, and the same period applies for both the tenant and landlord. 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. In single-tenant buildings, the terms are usually quite long – between ten and twenty years. In these agreements, net rents are commonly applied. These kinds of agreements are also typically applied in sale-and-leaseback deals.

Business parks compete by offering flexible agreements and an extensive service supply, 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.

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

"The supply of flexible office concepts increased to some 100,000 sqm in the HMA"

In recent years, the increase in office occupiers' flexibility demands has brought up the need for more flexible office space supply. Property owners have responded to this need through new kinds of co-working or flexible space concepts, where occupiers can rent space and acquire business services for short-term and temporary use with very flexible contracts. These kinds of space concepts are currently offered by, for instance, Sponda, Technopolis, Turun Teknologiaikiinteistöt, Varma and Antilooppi. Of the international players, IWG's brands Regus and Spaces are represented in the market, and the Swedish Epicenter has just opened their first location in Helsinki.

There are also some targeted concepts offered to, for instance, start-up companies in the technology sector. Examples of these kinds of concepts include A Grid in the Aalto University campus in Espoo as well as Maria 01 in the Helsinki CBD. In total some 100,000 sqm of office space was occupied by flexible office space concept in the Helsinki metropolitan area at the end of 2018.

Rental market – offices

During the past years, the differences in the rental performance of prime and secondary office areas have remained distinctive. Also, the quality of office space has a major impact on rental levels and vacancy rates.



The Helsinki CBD is the most appreciated office area in Finland. When the economy turned more positive in 2016, the rents in the CBD reacted positively almost immediately, and in 2018, the annual rental growth accelerated to some 6-7 per cent, according to the KTI Rental Index.

Rents in the best premises in particular have increased in recent years, and in the KTI rental database, the upper quartile for new rental agreements stood at €33/sqm/month in 2018 in the Helsinki CBD. Median and average rents increased to some €30/sqm/month. With the increased demand, the occupancy rate has also improved in the CBD, and stood at 90% in September 2018, which is the highest figure since 2012.

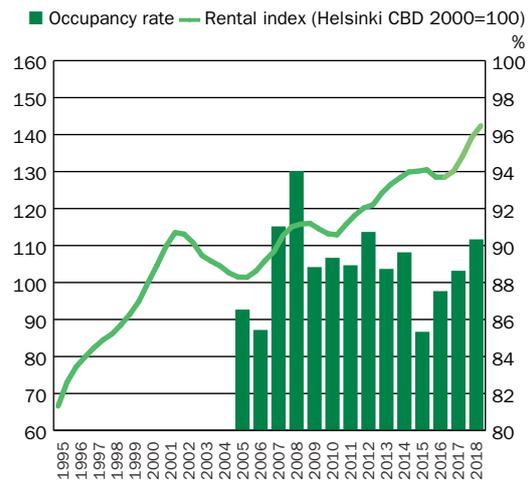
"Office rents increased by 6 per cent in the Helsinki CBD in 2018"

In most office areas, performance is dependent on the micro location and characteristics of the individual asset in question. The best areas with positive rental development in recent years include, for instance, Ruoholahti and Kalasatama in Helsinki, Keilaniemi in Espoo and Aviapolis in Vantaa.

The vacancy rate of offices has remained high in the Helsinki metropolitan area for the past decade already. In 2018, despite the strong economic development, the vacancy rate remained at over 13%, according to Catella. In the KTI rental database, the occupancy rate of offices in large investors' portfolios increased to 83% in September 2018, which is the highest level since autumn 2012.

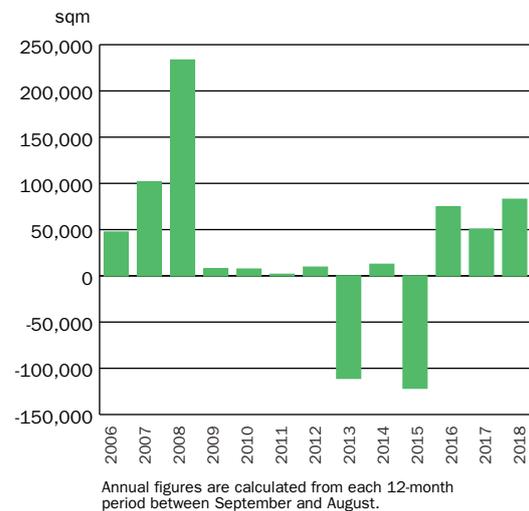
Of the other main cities, the vacancy rate decreased markedly in Tampere in 2018, but still stands at almost 11%. Of the main cities, vacancy rate is lowest in Turku, 6.8, due to both strong space demand and low volumes of new construction in recent years. In Oulu, Lahti and Jyväskylä, office vacancy rates vary between 8.5 and 9.5 per cent.

KTI office rent index and occupancy rate, Helsinki CBD



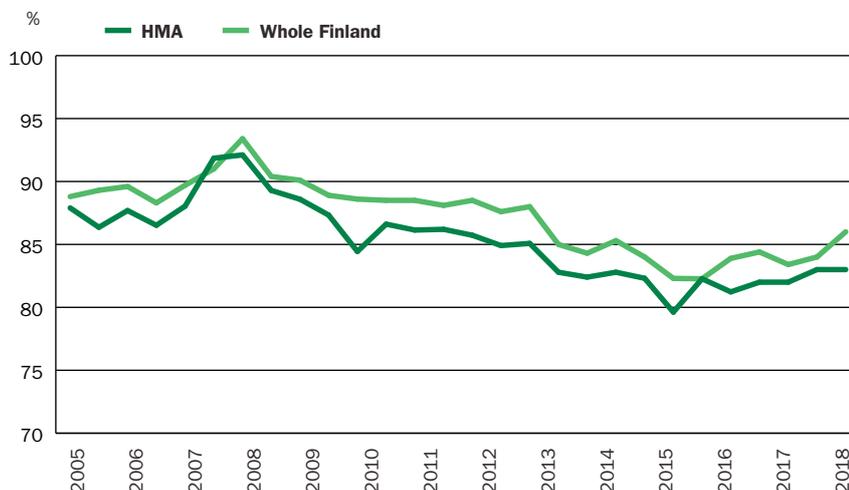
Source: KTI

Office net take-up, Helsinki metropolitan area



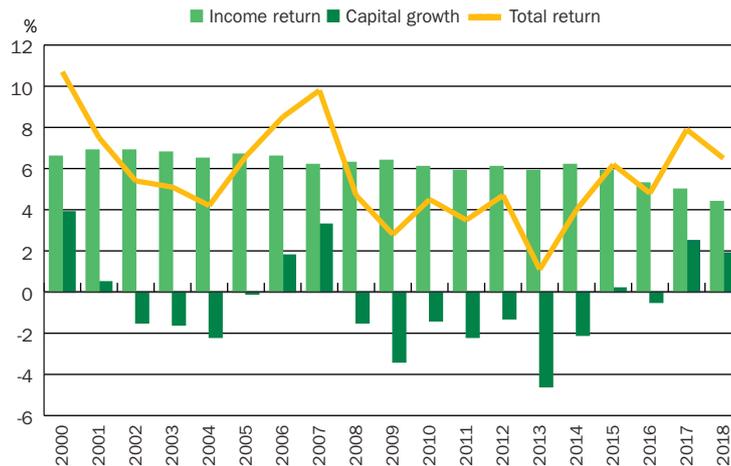
Source: KTI

Office occupancy rates in the Helsinki metropolitan area and whole Finland



Source: KTI Rental database

Total returns on office investments, 2000-2018



Source: KTI Index

Supported by the strengthening economy, net take-up of offices increased in 2018, amounting to some 83,000 sqm. This is the highest annual net take-up within the past decade. Gross take-up also increased and amounted to some 355,000 sqm.

"Net take-up of offices exceeded 80,000 sqm in 2018"

Office rents and yields in Helsinki and other European capitals

In recent years, Helsinki CBD offices have outperformed all other office sub-markets in Finland. Capital growth has been supported by both increasing rental values and decreasing yields, and capital growth has remained positive every year since 2013 despite the continuous decline in most other areas. In 2018, however, capital growth slowed down close to zero, and income return continued to decrease, which deteriorated the investment performance of central Helsinki offices.

"Yield compression slowing down in Helsinki CBD"

The investment performance of offices has improved in recent years after many years of weak returns. In 2017 and 2018, both decreasing yields and increasing rental values have supported the capital growth of offices. However, at the same time, increasing values and the concentration of institutional investments in the best quality properties have pressured income returns. In 2018, office properties produced a total return of 6.7% (7.7% in 2017).

Prime office yields in the Helsinki CBD have decreased steadily during the past decade, supported by low interest rates and strong investment demand. In the latest RAKLI-



Photo: SATO

KTI Property Barometer, carried out in October 2018, yield compression for for prime office buildings in the Helsinki CBD had slowed down, and prime yield stood at 4.1% on average (4.2% in 2017). In the recent transactions, yields for the best properties have been well below this level.

In other major cities, yields started to decrease several years later than in Helsinki and the yield gap between Helsinki and other main Finnish cities has remained wide. For instance, in the RAKLI-KTI Property Barometer, carried out in October 2018, the yield for Tampere stood at 6.5%, and that of Turku at 6.8%, both representing a slight growth from their lowest levels in spring 2018.

The strengthening economy has supported rental growth in recent years. However, together with the increasing uncertainty in the economy, the rental outlook for offices turned slightly less positive in 2018. The Helsinki CBD continues to hold a unique position within the market, and in the RAKLI-KTI Property Barometer, the majority of the respondents expected office rents to continue increasing in the area. In the other largest cities, office rents are expected to remain mostly stable, whereas outside the major cities, the outlook for rental growth is negative.

4.2 The retail market

Stock

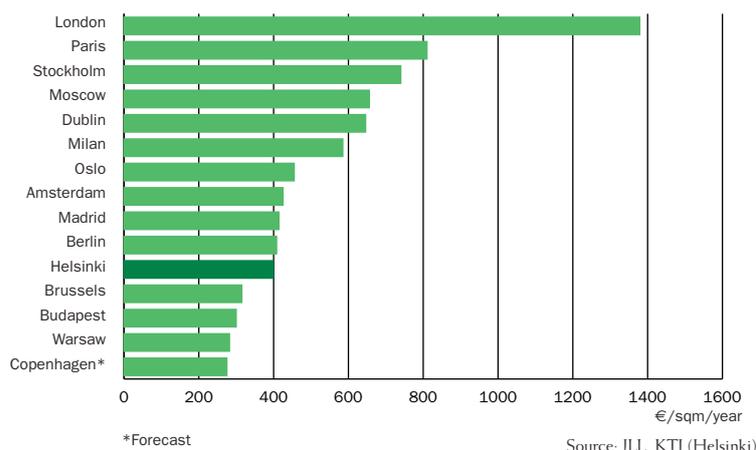
Altogether, there are some 30 million sqm of retail space in Finland. In Statistics Finland's data, this also includes hotel properties. About 4 million sqm of the retail space stock is located in the Helsinki metropolitan area, and 5.7 million in other major cities.

"Retail property stock continues to increase"

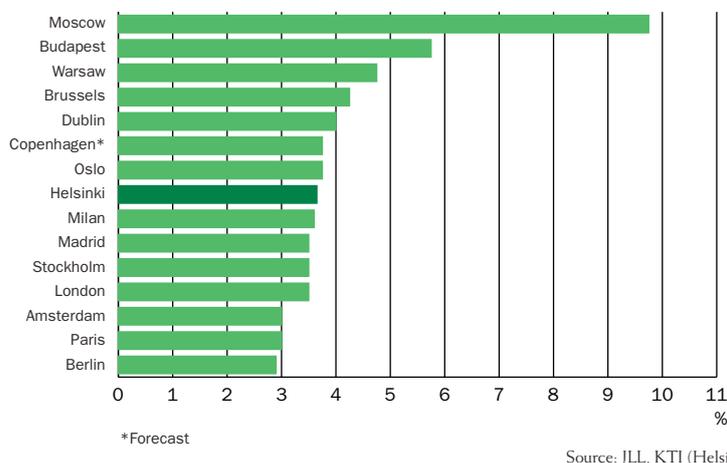
According to the Finnish Council of Shopping Centers, there were 101 shopping centres with a total leasable retail area of some 2.2 million sqm in Finland at the end of 2017. The most significant new openings in 2018 include those of the Ratina shopping centre in Tampere and REDI in Helsinki.

The retail property stock owned by professional investors has grown steadily in recent years, mostly due to new development and some major sale-and-leaseback transactions. At the end of 2018, the total amount of retail

Prime office rents in Helsinki and other European cities, Q4/2018



Prime office yields in Helsinki and other European cities, Q4/2018



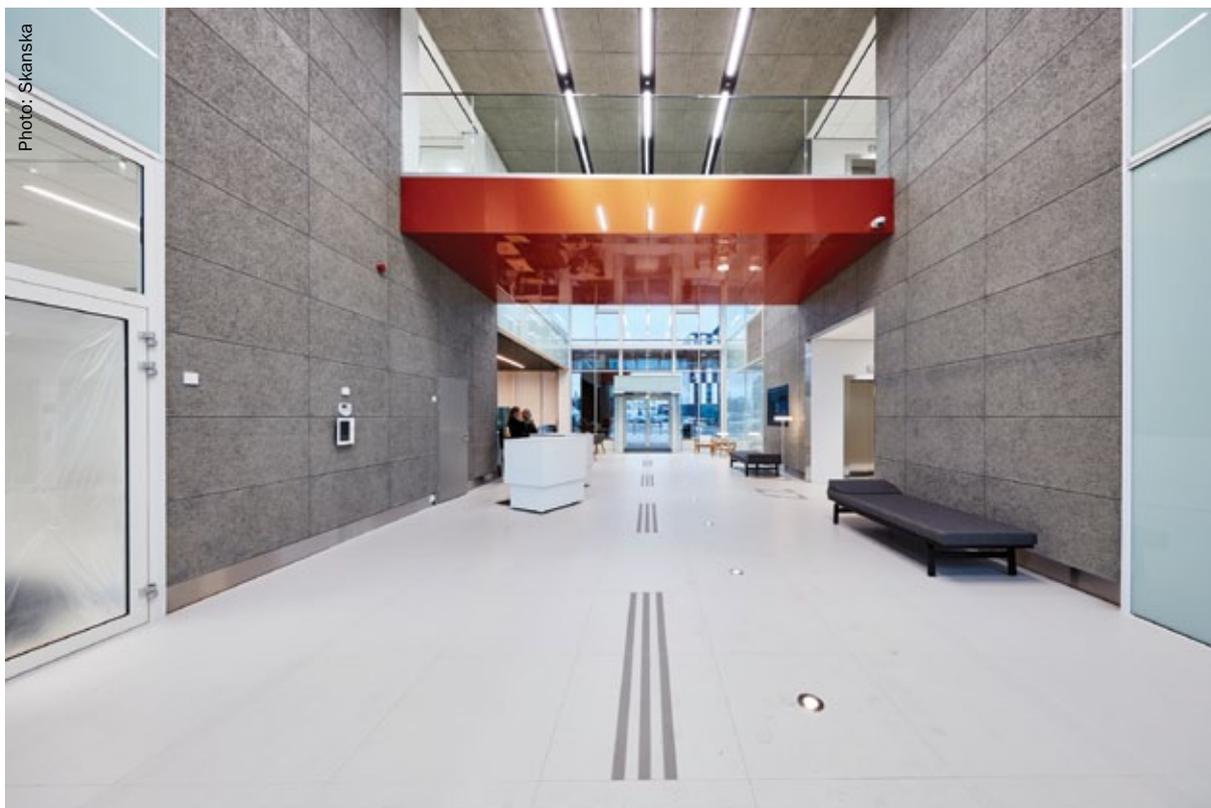


Photo: Skanska

properties in the investment market amounted to €16 billion, corresponding to 23 per cent of the total market.

Retail property stock in the Helsinki metropolitan area has increased markedly during the past decade. In 2018, some 104,000 sqm of new retail space was completed, representing a growth of 2.6% for the total stock. During the past decade, the annual completions have amounted to some 50,000 sqm on average. At the year-end, some 203,000 sqm of retail space was under construction in the Helsinki metropolitan area.

The largest ongoing projects include the Mall of Tripla in Pasila and Lippulaiva in Espoo, with leasable areas of 85,000 and 44,000 sqm, respectively. Shopping centre Ainoa in Tapiola is being extended by another 20,000 sqm of retail space. In Herttoniemi, the construction of the local service centre Hertsii is underway.

Outside the Helsinki region, the largest shopping centre project underway is the 66,000 sqm Ideapark shopping centre in Seinäjoki, scheduled for completion in late 2019. During 2018, in addition to Ratina, the largest completed projects included the extension of the Ideapark shopping centre in Lempäälä and the 12,000 sqm first phase of the Zsar Outlet Village in Vaalimaa, close to the Russian border.

Players

The investor base for retail properties is diverse, including domestic institutions, specialised retail investment companies and funds, international investors and main retailers.

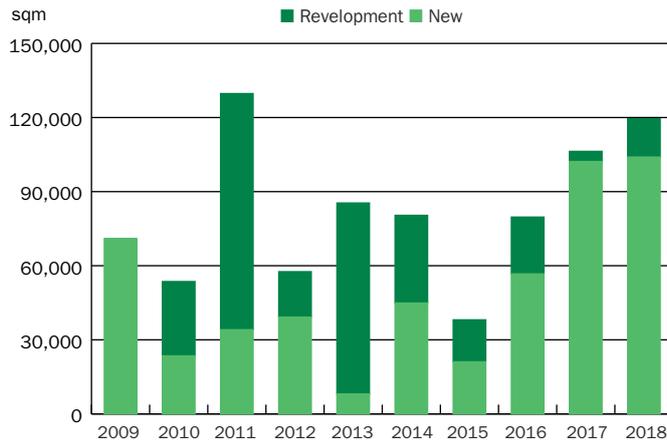
The largest specialised shopping centre investor in Finland is Citycon, which currently concentrates on shopping centres. Citycon currently owns and operates 12 shopping centres across Finland, with Iso Omena being the portfolio's largest

asset. Another major shopping centre investor is Sponda, whose biggest centres include Forum and Citycenter in the Helsinki CBD, Ratina in Tampere centre, Elo near Tampere as well as Zeppelin in the Oulu region. Another large retail investor is Mercada, which owns three shopping centres and 31 other retail assets in Finland. The majority of Mercada's properties are leased to Kesko Group. Both large retail chains, Kesko and S Group, also own some shopping centre properties.

Many Finnish institutional investors, including, for instance, Ilmarinen, Varma, LocalTapiola and Keva, own whole shopping centres across Finland. In larger centres, they also often enter into joint investments with other investors. For example, the Sello shopping centre in Espoo is owned jointly by three pension institutions – Keva, Elo and Ilmarinen – while the Jumbo shopping centre in Vantaa is owned by a group consisting of Elo, Unibail-Rodamco, Kesko and S Group. Ilmarinen is a co-investor in Citycon's IsoKristiina centre in Lappeenranta, as well as in Renor's Puuvilla in Pori. Domestic institutions have also invested in both REDI and the Mall of Tripla, together with the developers SRV and YIT, and LocalTapiola's fund owns the Ainoa centre in Tapiola, Espoo.

The Finnish shopping centre market has also attracted foreign property companies and funds. The largest foreign owners include Morgan Stanley Real Estate Investing, who acquired the Itis shopping centre from Wereldhave in 2018 for €516 million, and Allianz and Nuveen Real Estate, who jointly own the Kamppi shopping centre in the Helsinki CBD. Funds managed by CBRE Global Investors, Barings and AXA Investment Management – Real Assets have also invested in Finnish shopping centre properties, and Cerberus Capital Partners owns four smaller centres, three of which are located in the Helsinki metropolitan area and one which is located in Jyväskylä.

Completed retail space in the Helsinki metropolitan area in 2009-2018



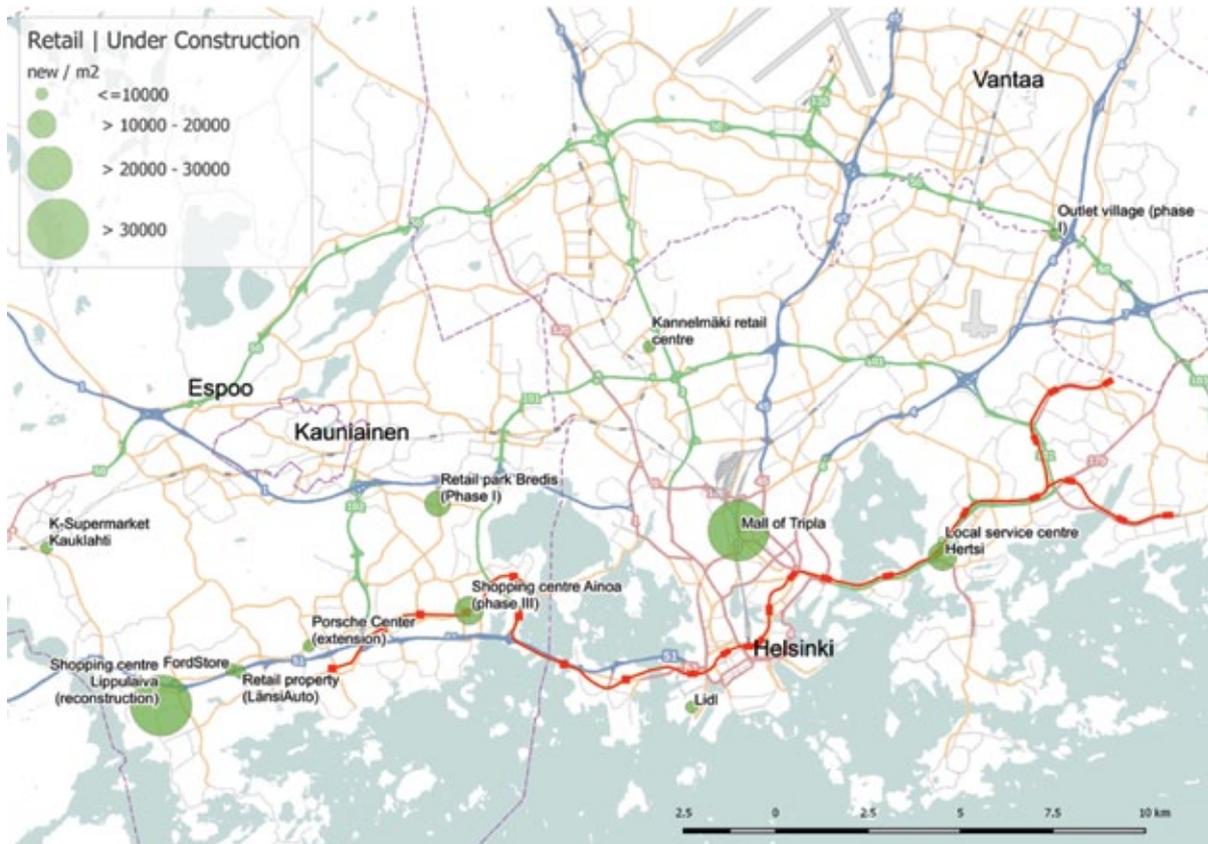
If information on rentable area hasn't been available, rentable area has been estimated based on gross area information.

Source: KTI, RPT Docu Oy

"The Itis shopping centre transaction was the largest single asset deal in Finland ever"

Domestic funds investing in shopping centre and other retail properties include those managed by, for instance, eQ, OP, Fennia and VVT. In 2018, also Trevian Finland Properties I fund invested in some smaller centres across Finland. Agore Kiinteistö's portfolio also includes some shopping centres, and in 2018, the company acquired two more centres, one located in Lappeenranta and one in Rovaniemi.

Major retail development projects in the Helsinki Metropolitan Area



Additions to the map by KTI. OpenStreetMap Finland web services, licensed under CC BY 4.0. Map: Ministry of Education and Culture. Data: OpenStreetMap contributors.

High street shops are typically located in Helsinki CBD office buildings, and, as a result, major office investors such as Keva and Ilmarinen are also significant retail owners in prime retail areas in Helsinki. In many regional cities, city centre high street shops typically compete for consumers with out-of-town shopping centres.

Other retail properties, such as hypermarket and supermarket properties as well as smaller retail centres, are owned by a diverse group of investors, including, for instance, large retailers, domestic institutions and funds, and foreign investors. In 2018, the largest newcomer in this sector was the Swedish Cibus Nordic Real Estate, who, early in the year, acquired a €767 million portfolio comprising 123 retail properties across Finland, and who later expanded the portfolio with nine more properties in two smaller transactions. Another significant player in this segment is Trophi Fastighets, managed by Redito, whose portfolio comprises more than 100 retail assets across Finland.

**"Cibus Nordic Real Estate
became one of the largest
retail investors in Finland"**

During the past few years, several new international retail chains have entered the Finnish market, attracted by both the increasing population and modern space supply in Finland's main cities. In particular, the best locations in the Helsinki CBD and in large shopping centres have attracted international retailers.

The Finnish daily goods market is dominated by S Group and Kesko, with shares of 46% and 36% of total sales in 2017, respectively. They operate in all store categories – hypermarkets, supermarkets and smaller stores – under

different brands. The German chain Lidl is the third largest player in the daily goods market with a share of some 9%. In 2017, the total sales of daily goods amounted to some €17.6 billion, representing a growth of 1 per cent compared to the previous year.

The current government has liberated the regulation of retail business markedly. Examples of this include the total deregulation of opening hours of all retail units, as well as the liberation of the sales of low-volume alcoholic drinks.

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 especially in high street shops.

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

In shopping centres, anchor tenants often have leases of five to ten and even fifteen years, with renewal options sometimes applied in shorter leases. Other tenants typically have shorter leases. The use of turnover leases is increasing in shopping centres. According to the KTI rental database, 64% of the total retail space of shopping centres is leased for a rent partly or totally based on the tenant's turnover.

Top 10 Shopping centres in Finland

CENTER	RETAIL NLA	MAIN OWNERS	LOCATION
Sello	97,900	Keva, Ilmarinen, Elo	ESPOO
Ideapark	91,712	Private investors	LEMPÄÄLÄ
Jumbo	85,000	Unibail-Rodamco, Elo, HOK-Elanto, Kesko	VANTAA
Itis	78,559	Fund advised by Morgan Stanley Real Estate Investing	HELSINKI
Iso Omena	84,700	Citycon Finland	ESPOO
Matkus	65,000	Ingka Centres Kuopio	KUOPIO
REDI	58,334	SRV, Ilmarinen, OP Group ja LocalTapiola	HELSINKI
Mylly	58,149	Kauppakeskus Mylly	RAISIO
Willa	53,415	Varma, CapMan Real Estate, Nordic Real Estate Partners, HOK-Elanto	HYVINKÄÄ
Hansa	49,121	Kauppakeskus Hansa Ky, Keva, Nurmi-yhtiöt	TURKU
Veturi	48,500	Mercada	KOUVOLA

Source: Finnish Council of Shopping Centres

The retail market in 2019

The total volume of retail sales increased by some 1.7% in 2018, according to Statistics Finland. The growth was supported by strong consumer confidence, slow inflation and decreasing unemployment. Private consumption increased by some 1.3% in 2018, and in 2019, the growth in consumption is expected to accelerate slightly.

"Total sales in shopping centres increased by 1 per cent in 2018"

Total sales in shopping centres increased by 1% in the whole of Finland in 2018, when comparing like-for-like stock. The number of visitors decreased by 1.6%, according to the indices produced by KTI and the Finnish Council of Shopping Centers. The growth in sales was stronger in the Helsinki metropolitan area than in the other parts of Finland. The growth in shopping centre stock in the Helsinki metropolitan area makes the increase in sales even more pronounced. However, the number of visitors decreased more in the Helsinki metropolitan area.

The share of services of the total sales and space area of shopping centres continues to increase. For example, the sales of cafes and restaurants in shopping centres increased by some 3%, and represented some 9% of the total sales in 2018. The sales of leisure and entertainment services increased markedly, by almost 19% in 2018, but their share of total sales still stand at only 2 per cent.

Other retailer categories showing positive development are furnishing, home décor and supplies, health and beauty as well as leisure goods. On the other hand, the sales of fashion and accessories has decreased steadily in recent years, and their share of the total sales currently stands at 17%.

The Helsinki CBD has an undisputed position as the prime retail area in Finland. The CBD's 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 Kämp Galleria, Kluuvi, Forum, Kampi and Citycenter.

In the Helsinki CBD and in the best shopping centres, the development of prime retail rents continued to increase in 2018. According to the RAKLI-KTI Property Barometer carried out in October, prime rents in the Helsinki CBD stood at some €123 per sqm per month on average, which shows an increase of 8% compared to the previous year.

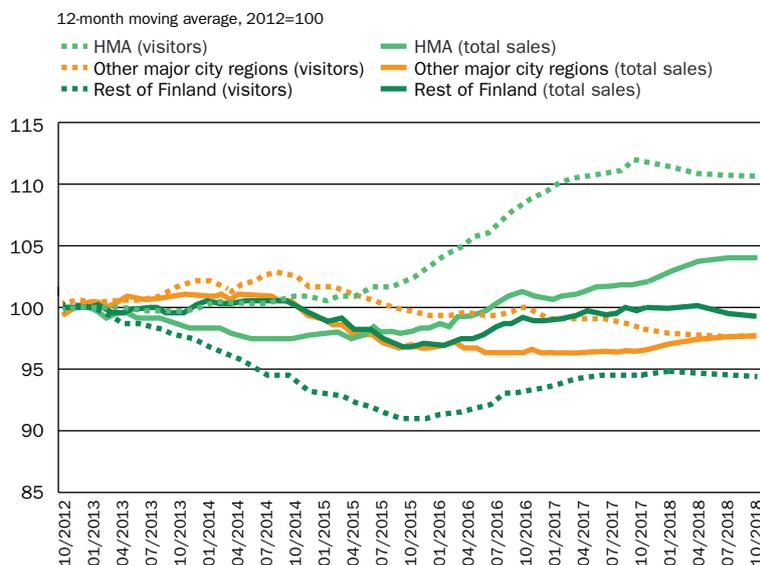
"Retail vacancy rate remains low in the Helsinki metropolitan area"

The vacancy rate of retail premises remain low in all major cities. In the Helsinki metropolitan area vacancy rate decreased to 2.8% in 2018, and stood at 4.5 and 4.0 per cent in Tampere and Turku, respectively, according to Catella. In the KTI Shopping centre database, the occupancy rates of retail premises stood at 95.7% in the Helsinki metropolitan area at the end of the year, but were slightly lower elsewhere in the country.

However, during the year, the outlook of the retail markets turned more uncertain. In 2018, some traditional stores, together with some newer international chain stores, closed in the Helsinki CBD, many of these being replaced by different kinds of retailers. The change in consumer behaviour and an increase in e-commerce, as well as an increase in retail property stock increased the uncertainty in the rental market.

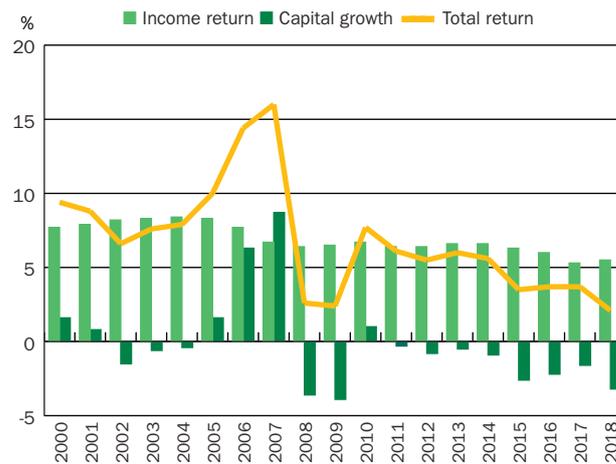
However, as private consumption is expected to be the main driver for economic growth going forward, expectations for rental growth in the retail markets remain positive, especially in the Helsinki CBD, according to the RAKLI-KTI Property Barometer. Elsewhere in the Helsinki metropolitan area and

Sales and visitors in the Finnish shopping centres



Source: KTI and Finnish Council of Shopping Centers

Total return on retail investments, 2000-2018



Source: KTI Index

in Tampere and Turku, rents are expected to remain stable, whereas elsewhere in the country, the outlook for rental growth is negative.

"Increasing uncertainty in the retail property markets"

In the Shopping Centre Barometer carried out by KTI and the Finnish Council of Shopping Centers, the outlook for shopping centres had also turned clearly more uncertain during 2018 compared to the previous year. Expectations remain the most positive for large shopping centres in the Helsinki metropolitan area, whereas for smaller centres and other areas, the outlook for both rents and occupancy rates is negative.

Investment performance of retail properties reflects the increasing uncertainty in the market. In the KTI Index, capital growth for retail properties has been negative every year since 2011, and in 2018, the total return on all retail properties decreased to 2.1%. Shopping centres' investment performance was even weaker than that of other retail properties. In 2018, capital growth for shopping centres turned negative also in the Helsinki metropolitan area.

The total volume of retail property transactions remained high in 2018, at €2.2 billion, representing 24 per cent of the total volume. The transactions carried out by Cibus Nordic Real Estate and Morgan Stanley Real Estate Investing rank high in the all-time list of largest transactions in Finland. Otherwise, a large number of relatively small transactions contributed to the total volume.

4.3 Rental residential sector

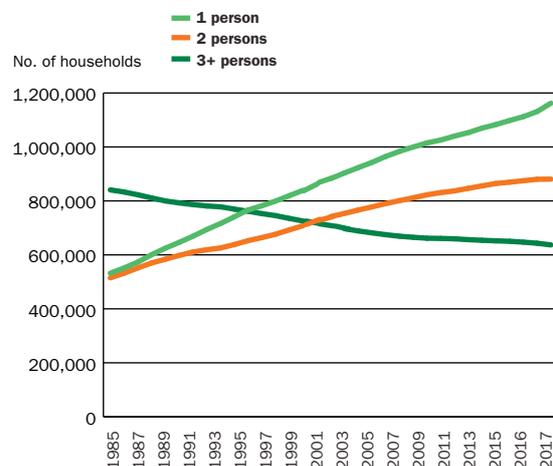
Stock

There are some 2.68 million occupied housing units in Finland, and of these, about 40% are single-family homes. The share of dwellings in apartment buildings stands currently at 45%.

The average size of a Finnish household has been decreasing steadily, and in 2017, some 76% of all households consisted of only one or two persons. In Helsinki, their share is even higher, 7%. Because of the decreasing average size of households, the demand for smaller dwellings is increasing in the largest cities in particular.

In 2017, about 64% of Finnish households live in owner-occupied homes. Home ownership is widespread in all forms of housing, including apartments as well as detached and terraced houses and single-family houses.

Finnish households by size



Source: Statistics Finland

Some 877,000 dwellings representing some 32% of the total stock, are rented dwellings. Rented housing is more common in major cities than in the whole country on average. In the Helsinki metropolitan area, some 44% of all dwellings are rented. In Helsinki, the share of rented dwellings is 49%, and there are currently more rented than owner-occupied dwellings.

Of all rented dwellings, some 36% have been provided with some kind of public subsidy, most commonly a state-guaranteed loan or an interest subsidy. The share of subsidised dwellings of all rented dwellings has decreased steadily during the past decade. The majority of subsidised dwellings are owned by the Finnish municipalities' daughter companies. Other major providers of subsidised housing include non-profit organisations offering rental housing for specific groups such as students, elderly people or the disabled. Y-Foundation, TA-Yhtymä and KAS Asunnot, as well as numerous student housing foundations are examples of these kinds of players. Kojamo, SATO and Avara also hold this non-profit status enabling them to offer subsidised housing. This currently applies to a limited part of their businesses, and they are all currently reducing the share of subsidised dwellings in their portfolios.

In the subsidised markets, the terms and regulation of different types of public subsidy for housing supply vary significantly between different forms. Some have specific rules for tenant selection and, in the majority of the subsidised stock, rents are cost-based.

In total, the construction of some 8,600 subsidised dwellings was started in 2018. Of these, some 2,400 were so-called normal rental dwellings, and 3,300 targeted at special groups, both types provided with a 40-year interest subsidy.

The government may also offer different kinds of subsidy frameworks for private sector players in order to boost the supply of housing in major cities. The most recent framework was introduced in 2016, based on a 10-year interest subsidy and state guarantee, during which period the dwellings have to be rented to low-income tenants at moderate rental levels. After this period, the dwellings can be freely let at market price. In 2018, the construction of 730 dwellings was started within this framework. In total, subsidised dwellings represented some 20% of the total housing construction in 2018.

Tenants with low income may also be subsidised through public housing support. This subsidy may be granted for tenants living in both subsidised and non-subsidised dwellings. The amount of subsidy depends on the household's income and size, as well as the dwelling's location.

Owner-occupied and rented dwellings in the Helsinki metropolitan area

Size of household-dwelling unit					
Tenure status	1 person	2 persons	3 persons	4+ persons	Total
All owner-occupied dwellings	40%	55%	57%	65%	280,634
All rented dwellings	54%	39%	37%	30%	250,020
Right of occupancy dwellings and other or unknown tenure status	6%	5%	6%	6%	31,363

"Rental housing stock continues to increase"

According to KTI estimations, non-subsidised rental housing stock amounted to some 510,000 dwellings at the end of 2017, showing an increase of some 30,000 dwellings compared to the previous year. The stock continues to increase through new construction, and, to a lesser extent, through the termination of the restrictions of subsidised stock. Of professional investors, all investor groups, institutions, property companies and funds as well as foreign investors have increased their residential investments. Professional investors owned some 190,000 rental dwellings at the end of 2017. Finnish households have also increased their investments in rental dwellings in recent years, and the majority of the non-subsidised stock, some 320,000 dwellings, is owned by Finnish households or other private investors.

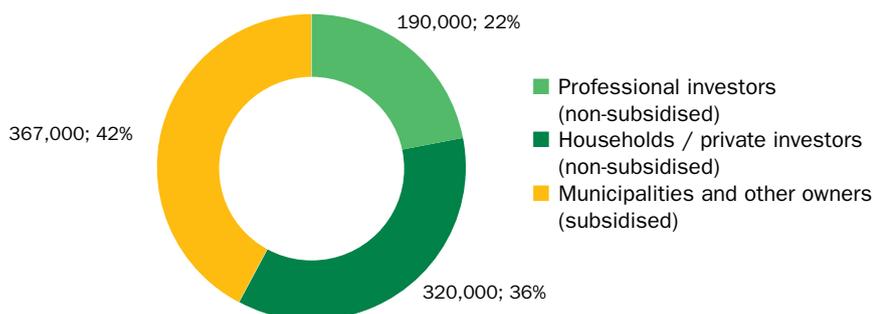
Residential construction activity remained high in 2018. According to the estimates of the Confederation of Finnish Construction Industries RT, the construction of some 45,000 new dwellings was started during the year. Construction activity is weighted in the largest cities, in the Helsinki metropolitan area in particular. In 2018, the construction of some 17,300 new dwellings was started in the Helsinki metropolitan area, and, of these, some 8,200 were located in Helsinki. In 2019, residential construction starts are expected to decrease to some 39,000 dwellings, which would still clearly exceed the long-term average volume.

"Urbanisation and demographics as drivers for housing construction"

New housing construction is concentrated on apartment buildings and in smaller apartments. Of the construction permits in 2018, some 75% were for studios or one-bedroom flats. Therefore, the increase in construction volumes is significant in terms of number of dwellings, but measured by space area, the development is much more moderate. The share of studios of all construction varies between municipalities according to their housing strategy. Of the major cities, the share of studios is largest in Oulu, more than 50% and lowest in Helsinki, at some 30% of all permits.

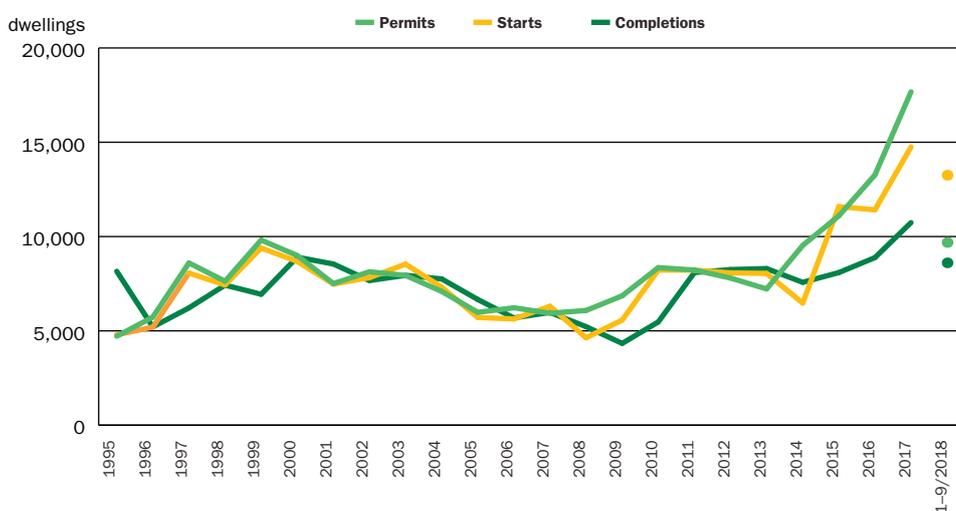
Ownership structure of rental apartments in Finland, in 2017

Total 877,000 rental apartments



Source: ARA, Statistics Finland, Suomen Vuokranantajat, KTI

Residential construction activity in the Helsinki metropolitan area



Source: Statistics Finland

Active construction of rental housing has been one of the drivers of the increase in construction volumes. According to the KTI statistics, almost 12,000 new rental dwellings were under construction in major cities at the end of 2018. This figure only comprises apartment buildings, which will be 100 per cent in rental use. Of the rental dwellings under construction, almost 9,000 are in the Helsinki metropolitan area.

Players

The majority of 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 48,000 apartments. The city of Espoo's housing company owns some 15,000 dwellings, and the other large municipal companies with 9,000-11,000 dwellings include those of Turku, Vantaa and Tampere.

In the non-subsidised rental residential market, the so-called professional investors have increased their holdings rapidly in recent years, currently comprising some 190,000 dwellings. In this segment, specialised residential investment companies Kojamo, SATO and Avara are the biggest players with 34,000, 26,000 and 8,000 dwellings, respectively.

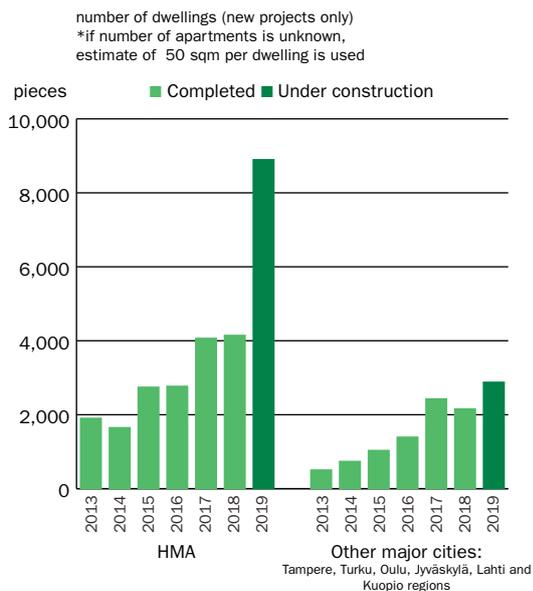
Residential construction activity

Started residential dwellings	2010	2011	2012	2013	2014	2015	2016	2017	2018*	2019*
Apartment buildings	21,000	21,200	20,100	19,600	18,400	22,100	26,500	32,500	32,600	27,500
Non-subsidised	9,800	12,700	13,900	13,200	11,000	13,600	18,600	23,900	24,100	19,000
Subsidised	11,200	8,500	6,200	6,400	7,400	8,500	7,900	8,600	8,500	8,500
Single-family homes	12,500	11,600	9,800	8,100	6,700	6,500	6,700	7,300	7,500	7,500
Non-subsidised	12,500	11,000	9,800	8,100	6,700	6,500	6,700	7,300	7,500	7,500
Total	34,500	33,700	31,000	27,900	25,300	32,500	37,300	44,200	44,000	39,000
Non-subsidised	23,300	25,200	24,800	21,500	17,900	24,000	29,400	35,600	35,500	30,500
Subsidised	11,200	8,500	6,200	6,400	7,400	8,500	7,900	8,600	8,500	8,500

*Estimate

Source: Statistics Finland, ARA, RT

Residential building (rental apartments) projects completed during 2013–2018



Kojamo and SATO currently hold positions one and four in the ranking of the largest property investors in Finland. In recent years, both companies have been active in restructuring and increasing their portfolios through both property development and acquisitions. In 2018, Kojamo sold a portfolio of 1,600 apartments to Morgan Stanley Real Estate Investing, and acquired almost 1,000 apartments from OP Group's funds. SATO did not enter in any major transactions in 2018, but concentrated on its own development activities. Avara also entered into residential portfolio transactions by selling some 465 dwellings to NREP and by purchasing five properties under construction to its residential property fund.

The largest pension funds are also significant players in the rental residential market. Residential properties are a recognised sector in the institutional investment market, and Varma, Ilmarinen, Keva and Elo, for instance, all

have several thousand rental dwellings in their portfolios. Many institutions also have significant indirect exposure to residential investment through specialised property companies and funds. Institutional investors' residential investments are also currently boosted by the temporary possibility to use leverage in new housing development.

There are also several non-listed property funds specialising in residential property investment. Funds managed by for instance ICECAPITAL and LocalTapiola Real Estate are targeted at domestic institutions. In the past two years, some new open-ended special mutual investment funds targeted at private investors have been established, and these have attracted investors. The largest funds that invest in residential properties and are targeted at private investors are managed by OP Property Management and Ålandsbanken, whose branch networks create a good platform for distribution to private investors.

"Foreign investor interest increasing in the Finnish rental residential market"

Foreign investors have been interested in the Finnish rental residential investments for several years, but only in the past 2-3 years has this interest materialized as significant transactions. In addition to Morgan Stanley's fund, other new foreign players in the residential investment market included the Round Hill Capital and Aberdeen Standard Investments' fund. Of the investors already present in the market, NREP, a fund managed by AXA Investment Managers – Real Assets, as well as Bayerische Versorgungskammer (BVK) increased their investments in 2018. In total, foreign investors owned some 11,000 rental dwellings in Finland at the end of 2018, according to KTI estimates.

The market entry of foreign investors has been enabled by the domestic investors' increased willingness to restructure their portfolios. The growth of the residential fund sector has also boosted market activity, as terminations of funds increases the supply in the transactions market.



Photo: Newsec / Maria Putaansuu

Biggest foreign investors in the Finnish residential property market

INVESTOR	NUMBER OF RENTAL APARTMENTS IN FINLAND (ca.)
Round Hill Capital	3,500
Bayerische Versorgungskammer (BVK)	2,100
Fund managed by Morgan Stanley Real Estate Investing	1,600
NREP	1,400
Funds managed by AXA IM	1,200
Aberdeen Standard Pan-European Residential Property	800
Fund managed by Barings Real Estate Advisers	300

Source: KTI

Foreign capital is also invested indirectly in the Finnish residential market: for instance, the Swedish listed property company Balder currently owns the majority of SATO, and another 23% of the company is owned by the Dutch pension fund APG. Also, in Kojamo's IPO in summer 2018, a large proportion of shares were acquired by foreign investors.

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, with the agreement continuing afterwards until further notice.

"Regulation of the residential rental market is liberal"

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. 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 is used by professional investors in particular, and allows the landlord to adjust rental increases to prevailing market conditions in different areas and buildings.

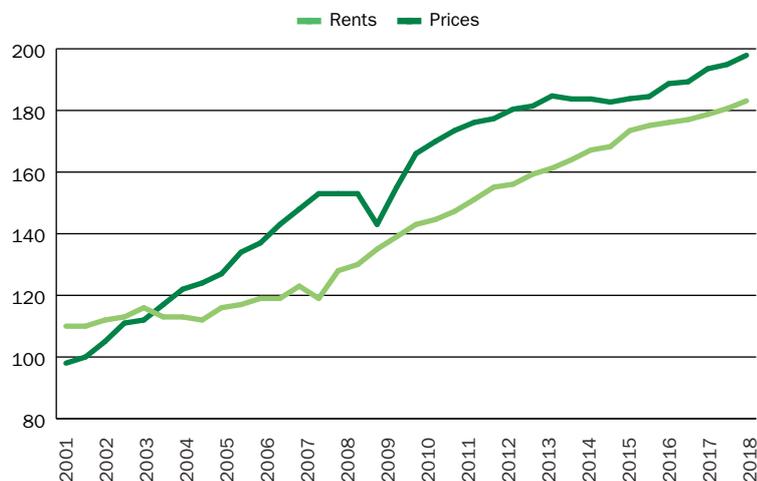
In the subsidised housing stock – depending on the form of subsidy – there might be restrictions related to both rental levels and tenant selection. However, in 2018, strict income criteria were removed from tenant selection rules, and selection is now based on a more holistic approach with consideration on the need for moderately priced housing. In so-called ARA-housing stock, where long-term state housing loans or subsidies are used, rents are cost-based, and the calculation of costs is controlled and supervised by ARA.

In some interest subsidy dwellings, there might be varying conditions for tenant selection or the holding period of buildings, but rents are typically market-oriented. In the current 10-year subsidy model, there are restrictions for annual rental increases, the amount of dividend paid to the investor, as well as for the amount collected and reserved for repairs and refurbishments. In these apartments, rents are expected to be higher than in traditional subsidised stock, but lower than in the non-subsidised market.

The residential market in 2019

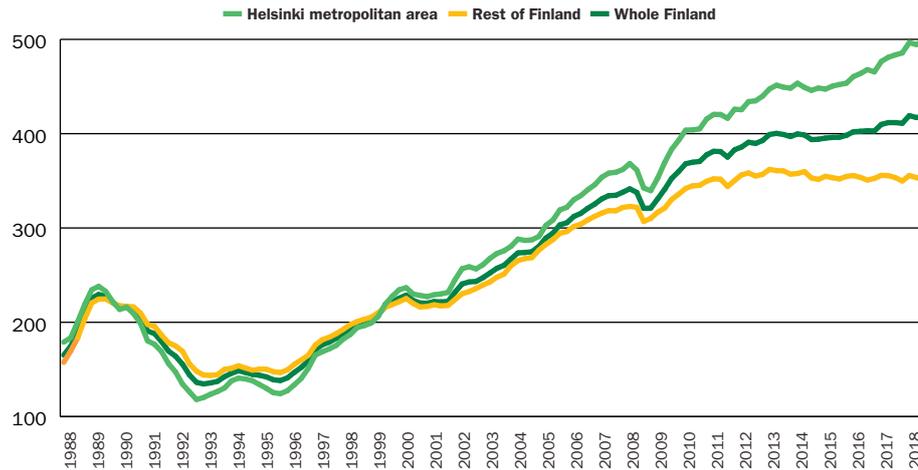
In recent years, the development of the housing markets has differentiated between the various parts of the country. In the largest cities, housing prices and rents have increased steadily, whereas in smaller municipalities, the prices have decreased, and in some cases, supply of rental dwellings exceeds the demand. Among the large cities, the Helsinki metropolitan area stands out due to its larger volumes and most rapid growth in demand.

Residential price and rent indexes, Helsinki metropolitan area, index (2000=100)



Source: KTI and Statistics Finland

Prices of old residential dwellings, index (1983=100)



Source: Statistics Finland

"Housing markets are differentiating between large cities and smaller municipalities"

According to Statistics Finland, prices for old residential dwellings increased by some 0.8% in the whole country on average in 2018. In the Helsinki metropolitan area, prices increased by 2.2% on average, whereas elsewhere in the country they decreased by 0.6%. Outside the Helsinki area, housing prices increased in Turku by 4.9%, and in Tampere by 4.6%.

Pellervo Economic Research PTT forecasts that housing prices will continue increasing at the same pace also in 2019. However, according to this forecast, the differentiation between the largest cities and the rest of the country will be even more pronounced.

In the professional property investment market, residential property portfolio transaction activity accelerated in 2018, and the total annual volume amounted to €1.8 billion, which is the second highest volume ever in this sector. In the residential property sector, the largest acquisitions were typically carried out by foreign investors.

"Residential property transaction activity accelerated in 2018"

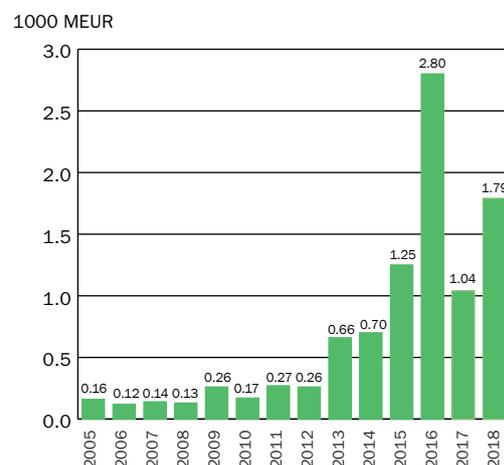
Demand for rental housing remains strong, especially for small apartments in the major cities. The demand is strengthened by continuing urbanisation and a decrease in average household size.

The increasing differentiation between different regions is also clearly visible in rents. In 2018, KTI rental index for new agreements showed an annual increase of 2.5% for the

Helsinki metropolitan area and 0.6% for other main cities on average. Among the large cities outside the Helsinki metropolitan area, rental growth has been strongest in Tampere and Turku regions. During the past year, the increase in rents has been stronger in larger apartments, due to the more narrow supply.

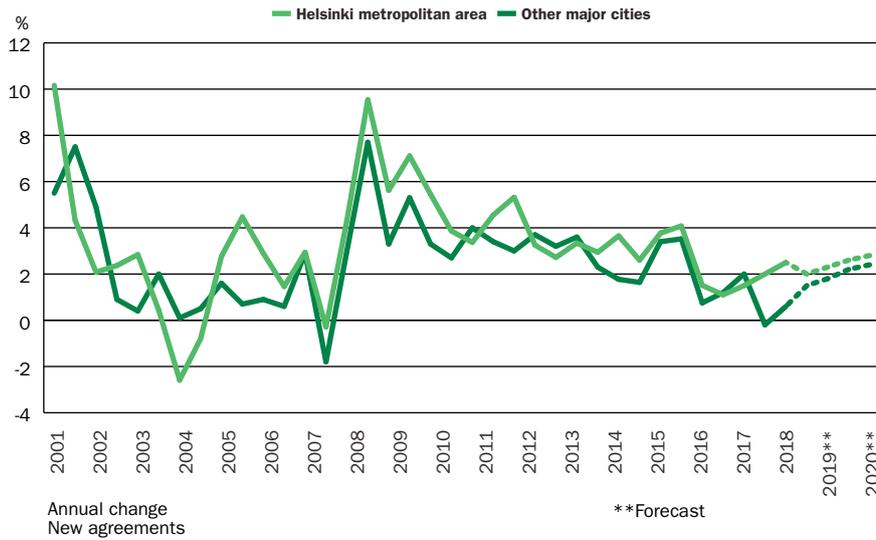
Also in the RAKLI Residential Barometer, the expectations for rental development remained positive, and the majority of the respondents expected the increase in rents to continue. The expectations were most positive for Helsinki, Espoo, Vantaa, Tampere and Turku, where rents in both small and larger apartments were expected to continue increasing. In Oulu, Jyväskylä and Kuopio, rental growth expectations were positive for small apartments, but stable for large apartments. In Lahti, the expectations for rental development are clearly less positive than in any other large city, due to the rapid increase in supply in the area.

Volume of residential portfolio transactions



Source: KTI

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



"Rents continue to increase in largest cities"

Residential is currently the largest property sector in the professional property investment market, and its share increased to 29 per cent in 2018. Residential is also the largest sector in the KTI Index database.

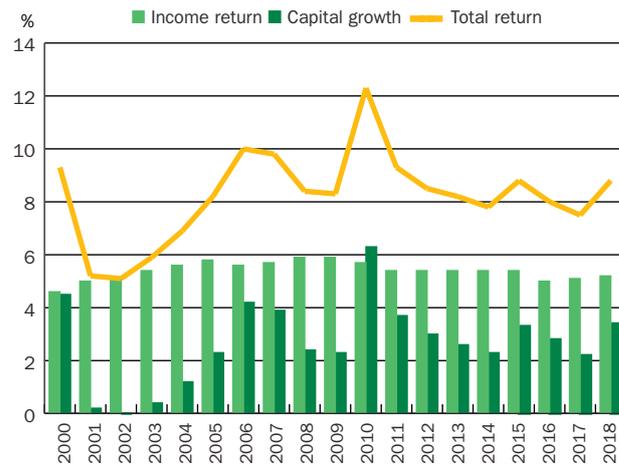
Residential properties' investment performance has remained strong, supported by both decreasing yields and increasing rents. In the RAKLI-KTI Property Barometer, the yield

for a residential property in a central location in Helsinki decreased to 3.7% in 2018, and in the RAKLI Residential Barometer, all types of investors were expected to increase their investments in rental residential properties within the next year.

"Residential properties continue to perform strongly in the investment market"



Total return on residential property investments, 2000-2018



Source: KTI Index

In the KTI Index, residential properties' capital growth has remained positive every year since the index's start in 2000. In 2018, residential took back its position as the best performing sector in the KTI Index, with the total return of 8.8%. Due to increasing rents, income return remained healthy at more than 5%.

4.4 Public use properties

Stock

Properties used for the supply of different kinds of public services have increased their attractiveness in the investment market in recent years. Investor interest was first mainly targeted at healthcare properties, but during the past years, other kinds of public properties such as educational buildings have also started to attract investors.

Properties used for the provision of public services are a diversified market segment ranging from normal office properties to highly specialised large hospital buildings and serviced housing offered for specific target groups. Municipalities and the Finnish state are still the predominant owners of these properties. Only in the past couple of years, the market has started to attract private investors. At the same time, public sector operators are also increasingly interested in considering alternative opportunities for providing both the services and the premises needed for service provision.

"Investment potential continues to increase in public use properties"

Healthcare properties are a diversified market segment consisting of assisted living facilities and nursing homes for different target groups (e.g. elderly people and mental patients as well as disabled people), children's day care facilities, 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 have also provided social services and have operated the facilities.

According to Statistics Finland, the total stock of healthcare facilities amounted to some 12.9 million sqm at the end of 2017. The amount of healthcare properties in the investment market has increased rapidly in recent years, and, according to KTI estimates, the market value of the healthcare properties owned by professional investors amounted to close to €3 billion at the end of 2018, showing an increase of almost 40 per cent compared to the previous year.

In other public use property segments, the amount of private investments is still rather small in relation to the total supply of these properties. Private sector investors own, for instance, various educational and cultural buildings as well as sports facilities, but these typically represent individual assets in investors' portfolios. It is also increasingly common for public sector organisations to rent normal office premises from private sector investors.

Players

The demand for healthcare and other social sector properties is increasing with the ageing of the population. The structural change in the healthcare and social service provision caused by the approaching reform is also opening up new opportunities for both healthcare service operators and private property investors.

Private sector players in the healthcare property investment sector include institutional investors, domestic property funds and companies and some specialised foreign investors. Pension funds' investments in healthcare sector have typically been targeted at assisted living facilities for elderly people.

The largest domestic property funds investing in healthcare properties are managed by eQ Bank, Titanium Rahastoyhtiö and Evli Fund Management Company. eQ's special mutual fund eQ Hoivakiinteistöt has increased markedly in recent years and the market value of its property portfolio exceeded

€1 billion in 2018. Evli Healthcare I was launched in early 2018 when it acquired a €140 million care property portfolio from Northern Horizon Capital's fund. Later in the year, the fund expanded its portfolio with three more acquisitions totalling some €78 million. In January 2018, the total size of Titanium's healthcare property fund amounted to €480 million. Northern Horizon also manages funds investing in healthcare properties. Its newest fund, Nordic Aged Care, invests in healthcare properties across the Nordic region. OP Group also has a special investment fund investing in various kinds of public service properties. The fund was launched in late 2017, and by the end of 2018, the fund's size amounted to some €140 million.

Suomen Hoivatilat is a listed property company that invests in healthcare, educational and children's daycare properties. At the end of 2018, the company had a property portfolio worth €350 million.

"New players enter the Finnish care property market"

The Swedish Hemsö is the largest foreign investor in the Finnish public use property sector. The company continued to expand its Finnish property portfolio in 2018, and, at the end of the year, the value of its properties amounted to some €724 million. Hemsö invests in healthcare, educational and other kinds of public use properties.

Origa Care AB, managed by Pareto Business Management, entered the Finnish care property market in 2018 by acquiring a €48 million portfolio from Titanium's fund. Another Swedish newcomer in this market was SBB i Norden. Yet another Swedish investor active in the Finnish market is Hemfosa, which has mainly invested in office properties used by public agencies. The German Deka has invested in a health and well-being centre that was recently completed

in Kalasatama, Helsinki. Other foreign players in the Finnish care property market include Pioneer Property Group and AXA IM – Real Assets.

Market practices

Market practices in the public use property sector depend on the type of property in question. In special use properties, rental agreements are typically rather long, whereas in premises adaptable to various users, normal office market practices can be applied.

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 to 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 further leases the premises to a private operator.

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

Market in 2019

The transaction volume of healthcare properties reached a new record level in 2018, amounting to €620 million. This represents a growth of more than 50% from the previous year. In addition, many investors continued investing in new development.



Photo: YIT

"Care property transaction volume reached a new record in 2018"

In 2018, several significant care property portfolio transactions took place, which indicates that also in the care property market, more portfolios are maturing to the selling phase. The largest transaction was the acquisition of the €140 million portfolio carried out by Evli's fund in the first quarter of the year. Other active players in the transaction market included eQ's and OP's funds, as well as Suomen Hoivatilat. The service operator Attendo also bought several properties throughout the year, and in these cases, the seller was most typically the municipality, who outsourced their services.

Hemsö has been one of the most active players in the market, and in early 2019, the company acquired a €130 million portfolio of care and hospital properties from the City of Turku. In late 2018, Hemsö also acquired the Helsinki Court House from Sponda for €200 million.

4.5 Industrial / logistics market

Stock

The Finnish industrial and logistics property stock amounts to some 73 million sqm, according to Statistics Finland. Of this, the Helsinki metropolitan area accounts for some 12%.

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 are typically owner-occupied. In the investment market, light manufacturing properties and modern warehousing and logistics properties are the main sub-categories. 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 particular, the supply has increased in municipalities with good traffic connections and surrounding the Helsinki metropolitan area.

In the Finnish context, the major retail chains have traditionally pursued centralised in-house warehousing and logistics systems. These strategic properties are typically owner-occupied.

Modern, efficient logistics properties have attracted investors in recent years. The demand for these kinds of properties is supported by increasing foreign trade and e-commerce, as well as by reorganisations of supply chains and logistics systems.

Players

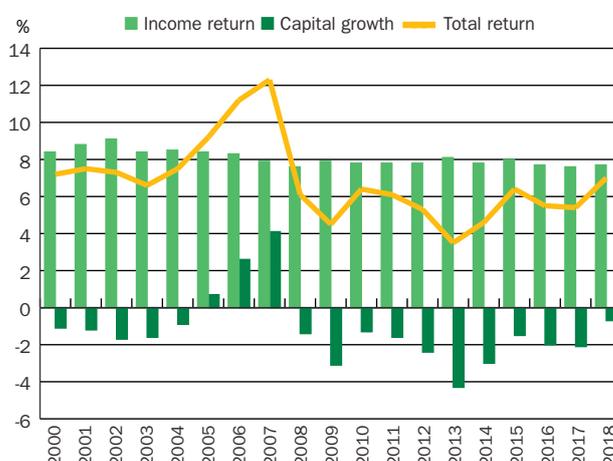
Logistics and light manufacturing properties are attracting investors, with the main players including domestic institutions, property funds and foreign players. Foreign investors in particular have increased their investments in recent years, while many domestic investors have sold their assets in this sector.

Measured by capital value, some 85% of the total stock of industrial and warehouse properties is estimated to be owner-occupied. Big owner-occupiers include, for instance, large industrial and retail corporations. Also international logistics operators sometimes develop and own their own properties.

The Swedish listed property company AB Sagax continued to increase its Finnish portfolio in 2018, and the company is currently the largest investor specialising in industrial and warehouse properties. Its Finnish portfolio amounted to €1.1 billion at the end of 2018.

Logicor, owned by China Investment Corporation, together with its investment partners, is another significant investor in the Finnish logistics / industrial property sector. The company's Nordic holdings comprise 86 properties and some 1.3 million sqm. 77 of these properties are located in Finland.

Total return on industrial property investments, 2000-2018



Source: KTI Index

DWS, on behalf of a German institutional client, entered the Finnish logistics property market in 2018 by acquiring a 42,000 sqm logistics property in Vantaa from pension insurer Elo.

Other foreign investors investing in logistics properties include those managed by NREP and Aberdeen Standard Investments.

Of the domestic funds, those managed by OP, eQ, Fennia and Trevian, for example, invest in industrial and logistics properties.

Another significant domestic player in the logistics property market is Posti Kiinteistöt, the property arm of the Finnish postal, logistics and e-commerce service company. In addition, there are numerous smaller players in logistics and manufacturing property development and investment.

Market practices

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

The industrial / logistics market in 2019

The amount of vacant logistics and industrial space has remained rather low in recent years in the Helsinki metropolitan area. According to Catella, the vacancy rate continued to decrease in 2018, and stood at 4.6% at the year-end.

Industrial and logistics property rents have remained fairly stable in recent years. However, by international comparison, rental levels for modern logistics premises are relatively high, partly explained by high construction costs.

In the KTI database, the upper quartile rental levels for the best logistics areas in the Helsinki metropolitan area and surrounding municipalities stand at some €10-11 per sqm per month. In the airport area in Vantaa, the prime logistics rents are typically €13-14 per sqm per month.

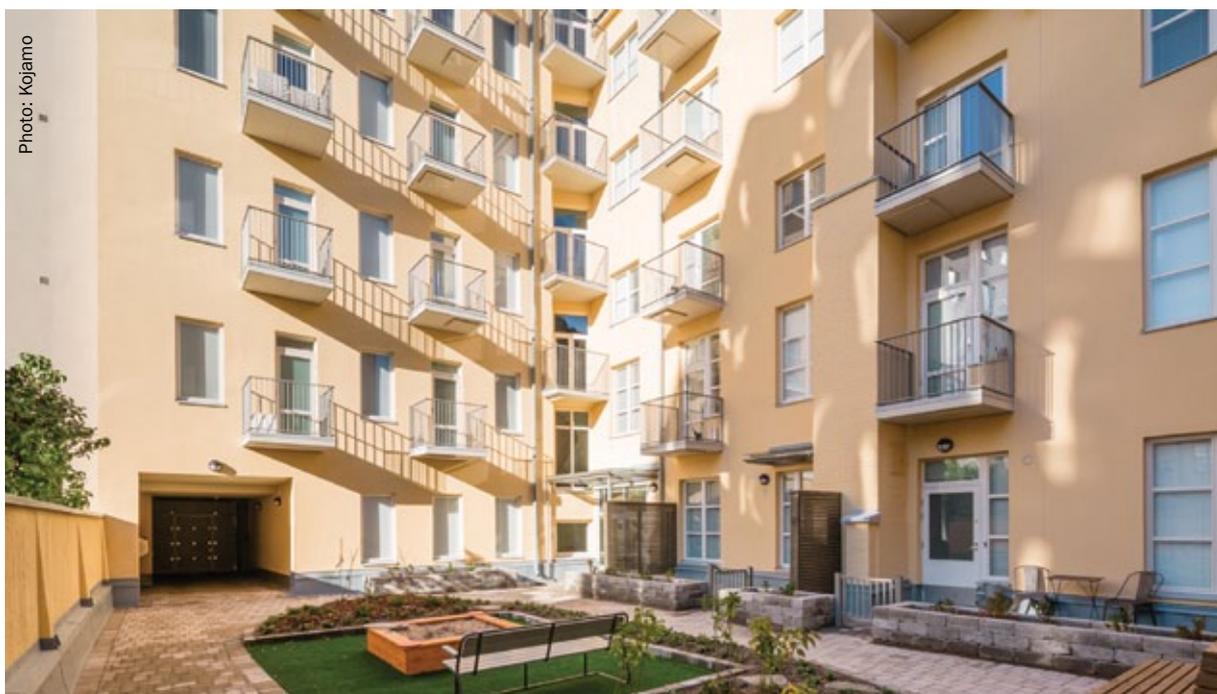
The transaction volume of industrial and logistics properties amounted to €0.5 billion in 2018, which represents a clear decrease from the previous year, when several large transactions took place.

Sagax was the most active player in the market and increased its portfolio in several transactions. The largest single asset transaction was carried out by DWS, on behalf of its German client. Another new player who entered the market in 2018 was the Finnish Conficap, who invested in three logistics properties with a total area of 48,000 sqm located in the Helsinki metropolitan area.

New development of logistics and industrial properties in the Helsinki metropolitan area has recently been concentrated in the airport and the Vuosaari harbour areas. In 2018, three significant logistics / terminal properties were completed in the vicinity of the airport, and several smaller ones were underway. In the Tampere and Turku regions, significant logistics property projects were under construction.

S Group's logistics centre in Sipoo, north of Helsinki, is being built in several phases, the largest of which was completed in late 2018. Another extension is currently underway, and in total, the centre will comprise more than 200,000 sqm of modern and highly automated logistics premises. In Järvenpää, also north of Helsinki, Lidl completed a 60,000 sqm logistics facility for its own use in late 2018, and is currently extending the centre by another 12,000 sqm.

The Finnish industrial / warehouse property sector produced a total return of 7% in 2018 (5.4% in 2017). Net income remained healthy, but capital values continued to decrease for the 11th consecutive year.



4.6 Hotels

Stock

According to Statistics Finland, there are 628 hotels in Finland, comprising some 53,000 rooms. Of these, 127 hotels with some 15,600 rooms are located in the Uusimaa region. According to KTI estimates, the market value of hotel properties owned by professional investors stood at some €3.5 billion at the end of 2018.

Players

The two biggest hotel property owners in Finland are CapMan's hotel fund and the Swedish Pandox. Most of the biggest institutions hold some hotel properties in their portfolios. Of the domestic funds, those managed by Exilion, eQ and Fennia, for example, have invested in hotel properties. Foreign investors in the Finnish hotel property market include Deka Immobilien, Corum and Balder. Some hotel operators, S Group in particular, also own some hotel properties.

The largest hotel operators include Scandic and S Group. Scandic currently operates 69 hotels, and S Group 53 hotels, both located across the whole country. Finlandia Hotels operates 14 hotels, also across the country. Other expanding but more concentrated operators include Lapland Hotels, who operates 17 hotels, mostly located in Lapland but now also expanding into the largest cities. Another expanding operator is Kämp Collection, which operates 10 hotels, the majority of which are located in the Helsinki CBD.

Finnish hotel property investors typically favour long, triple net rental agreements with a lease length of 15-25 years. 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. Management agreements, where the investor carries part of the hotel's business risk and is closely involved in property management, are not common in Finland.

Hotels market in 2019

According to Statistics Finland, the occupancy rate of hotel rooms was 55.3% in the whole country on average in 2018. In the Uusimaa region, the occupancy rate was clearly higher, increasing to 69.1%.

According to Statistics Finland, the number of nights spent in the Finnish hotels continued to grow to over 22 million in 2018, representing a growth of 1.4% compared to the previous year. The growth was evenly split between domestic and foreign tourists. Russians remained the largest tourist group despite the slight decrease in the number of nights spent in Finland. Other increasing tourist groups included German, British and Chinese travellers. The number of nights spent in Finnish hotels by Swedish tourists decreased by 6% compared to 2017; they were the fourth biggest tourist group in Finland in 2018.

The two main growth areas for tourism in Finland include the Helsinki metropolitan area and Lapland. In 2018, the number of nights spent by foreign tourists in the Uusimaa region increased by some 0.7% compared to 2017. In Lapland, the number of hotel nights increased by 3% in 2018 compared

to the previous year. The number of nights spent increased by more than 5%.

Hotel supply is increasing markedly in the Helsinki metropolitan area in particular, and in the next couple of years, several thousands of new hotel rooms will come to the market. In the Helsinki CBD, several old office buildings have been or are being converted into hotel use.

In 2018, the main hotel completions in the Helsinki metropolitan area included Hotel St. George in the Helsinki CBD, as well as Scandic Helsinki Airport. Both of these are redevelopments from old office properties. In early 2019, another conversion, that of Lapland Hotels in the Helsinki CBD was completed. Other significant conversions are underway in Katajanokka, where the former head office of Kesko is being partly converted into hotel use, as well as in Hakaniemi, where another old office property is under redevelopment. NREP is the investor in both projects.

In the Helsinki city centre, the office premises of the main railway station are currently being redeveloped into a 500-room hotel, which will be operated by Scandic. Exilion's fund has invested in the project. The fund also acquired the new Tripla hotel development project in Pasila, comprising 430 rooms.

"Hotel construction is active
in the Helsinki metropolitan
area"

Other new hotel development projects are currently underway in, for instance, Matinkylä in Espoo and Ruskeasu in Helsinki. In Vantaa, the Flamingo Hotel is undergoing a major extension project, and Hotel Marski in the Helsinki CBD is being refurbished. Several hotel projects are planned to be started in 2019.

Outside the Helsinki metropolitan area, the largest projects underway include the new Marriott hotel in Tampere, as well as two hotel projects in Turku, one in Kupittaa, and another in the old prison area in Kakolanmäki. Also in Turku, the traditional hotel Hamburger Börs is planned to be demolished and replaced by a new, larger hotel building.

In 2018, the total transaction volume of hotel properties amounted to €240 million. The transactions were mostly single asset deals. The largest hotel property portfolio transaction was carried out by the French Corum Asset Management, which acquired six hotel properties from CapMan's hotel fund. Of the domestic funds, those managed by eQ and Fennia, for instance, invested in hotel properties in 2018. Also HYY Group expanded into the hotel sector by acquiring a hotel and office property in the Helsinki CBD from Sponda. The company also plans to develop hotel premises in Hakaniemi in the near future.

According to the KTI Index, hotel properties continued their strong performance and delivered a total return of 8.4% in 2018 (8.7% in 2017). Capital growth remained positive in the Helsinki metropolitan area, but has been negative elsewhere in the country for the past two years.

5 Property markets in different regions

The Helsinki metropolitan area is the dominant region in the Finnish property market. Its dominance is the most prominent in the office markets: measured by value, the Helsinki metropolitan area accommodates more than 60% of the total office stock.

The institutional property investment market is also concentrated in the Helsinki metropolitan area. The area is well recognised among foreign investors, and many large global players only invest in the capital region.

The second-tier markets include the regional growth centres of Tampere, Oulu, Turku, Jyväskylä, Lahti and Kuopio. Many large domestic investors invest in these cities in their selected sectors. In all these cities, there are local players who operate only in these market areas. Some international investors also invest in these cities in their selected market segments. In recent years, the attractiveness of these cities has been strengthened by the positive yield gap they offer compared to the Helsinki metropolitan area.

Property markets in smaller city regions are traditionally dominated by local investors and owner-occupiers. Some larger investors, both domestic and international funds and companies, also invest in smaller cities, especially in retail and residential portfolios.

5.1 The Helsinki metropolitan area

The Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen, has a population of 1.2 million people. The entire Helsinki region consists of 14 municipalities and has some 1.5 million inhabitants. The region's land area accounts for 1.2% of the area of the entire country, but it accommodates 27% of the Finnish population, accounts for about 32% of all jobs and delivers some 37% of the Finnish GDP.

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: 645,000
Espoo: 280,000
Vantaa: 224,000
Helsinki region: 1,491,000

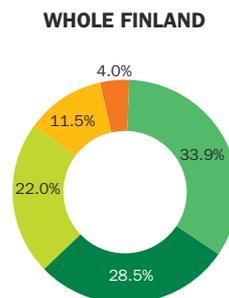
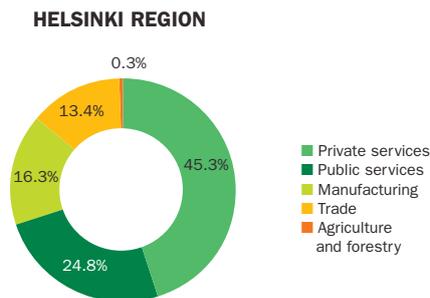
Economic base: Information industries, professional and financial services, wholesale trade, logistics, high-tech industries, research and development occupations

In the Helsinki region, the proportion of jobs in the private service and retail trade sectors is significantly higher – 59% – than across the entire country. On the other hand, the proportions of occupations in manufacturing (16%) and public services (25%) are clearly lower than in the entire country on average, according to the Helsinki region industry review, published by the Helsinki Region Chamber of Commerce.

The specialist areas of the Helsinki region differ significantly from those of the other main cities. Specialist professional and financial services, research and development as well as high-tech industries, wholesale trade and logistics businesses have a stronger role in the Helsinki region than in the whole country. The region's position as the administrative centre of Finland also impacts the knowledge profile and structure of jobs.

"Growth in the Helsinki region exceeds clearly that of the whole country"

The structure of the economy
Percentage of jobs, 2017



Source: Helsinki Region Chamber of Commerce

In recent years, the amount of production and the number of jobs have developed more positively in the Helsinki region than in the whole country on average. Between 2013 and 2018, total production increased by 12 per cent in the Helsinki region, but only by 6 per cent in the whole country on average. The number of jobs has also increased significantly more in the Helsinki region. In 2018, total production increased by some 3 per cent in the Helsinki region, while the growth in the whole country was at some 2 per cent.

Population growth is fast in the Helsinki region, and, by 2030, the population in the region is expected to grow to 1.7 million inhabitants, and by 2050, to some 1.9 million.

In recent years, the growth of Helsinki has exceeded expectations, and amounted to some 7-8,000 inhabitants per year. The population is expected to exceed 700,000 by 2025, and to increase to some 860,000 by 2050. The population growth is based on both immigration and internal migration and, until 2030s, also on positive natural population growth.

"Growth in the Helsinki region requires major investments in infrastructure"

The region's growth also fuels construction in the Helsinki metropolitan area. The growth of residential construction continued in 2018: between September 2017 and September 2018, some 15,700 dwellings were completed in the Helsinki region. The growth was fastest in Helsinki and Vantaa, and altogether, the Helsinki metropolitan area accounted for more than 75% of the region's total construction. During the same period, new construction starts amounted to almost 22,000 dwellings, which is the highest volume in the 2000s. However, the number of construction permits decreased to some 18,500 dwellings, which indicates a slight decrease in construction volumes going forward.

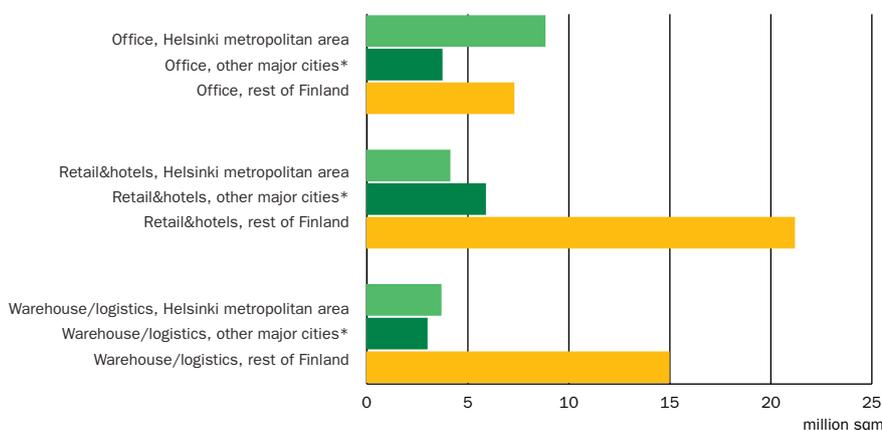
Current major investments in the public transportation network support the growth and construction in the Helsinki metropolitan area. The Ring Rail Road, which connects the Helsinki airport and several significant residential areas with the city centre, was completed in 2015. The Western Metro line to Matinkylä in Espoo started operating in late 2017 and is now being extended to Kivenlahti. The construction of the so called Rail Joker, a fast tram connection from Keilaniemi in Espoo to Itäkeskus in Helsinki, which would go through the northern parts of Helsinki, is planned to be started in summer 2019 and completed in 2024, provided that the needed decisions in the city councils of Helsinki and Espoo will be made during the spring 2019.

Furthermore, the so called Pisara rail connection is being planned between Central Station, Töölö, Pasila and Hakaniemi, which would ease public transportation in the inner city. The final decision about the construction of the Pisara rail is still to be made, and it is also related to other major rail investments between Helsinki and other major cities.

Other public transport development projects currently being planned include several developing tram lines, to, for example Jätkäsaari, Hernesaari and between Kalasatama and Pasila, as well as the construction of Kruunusillat, a light traffic and tram bridge connecting the inner city with Kalasatama, Laajasalo and Korkeasaari.

Another major infrastructure project in planning is a 90-100-kilometer railway tunnel between Helsinki and Tallinn in Estonia in order to form a twin city with some 3 million inhabitants. The total cost of the tunnel is estimated at some €15-16 billion. The tunnel would connect Finland to Rail Baltica and form a European Gateway, and would be used both for freight and passenger traffic. It would also connect the Tallinn airport with the Helsinki-Vantaa airport. At the moment, there are several independent initiatives around the project. According to the current plans, the project is planned to be financed by private sources.

Commercial property stock by region and property sector



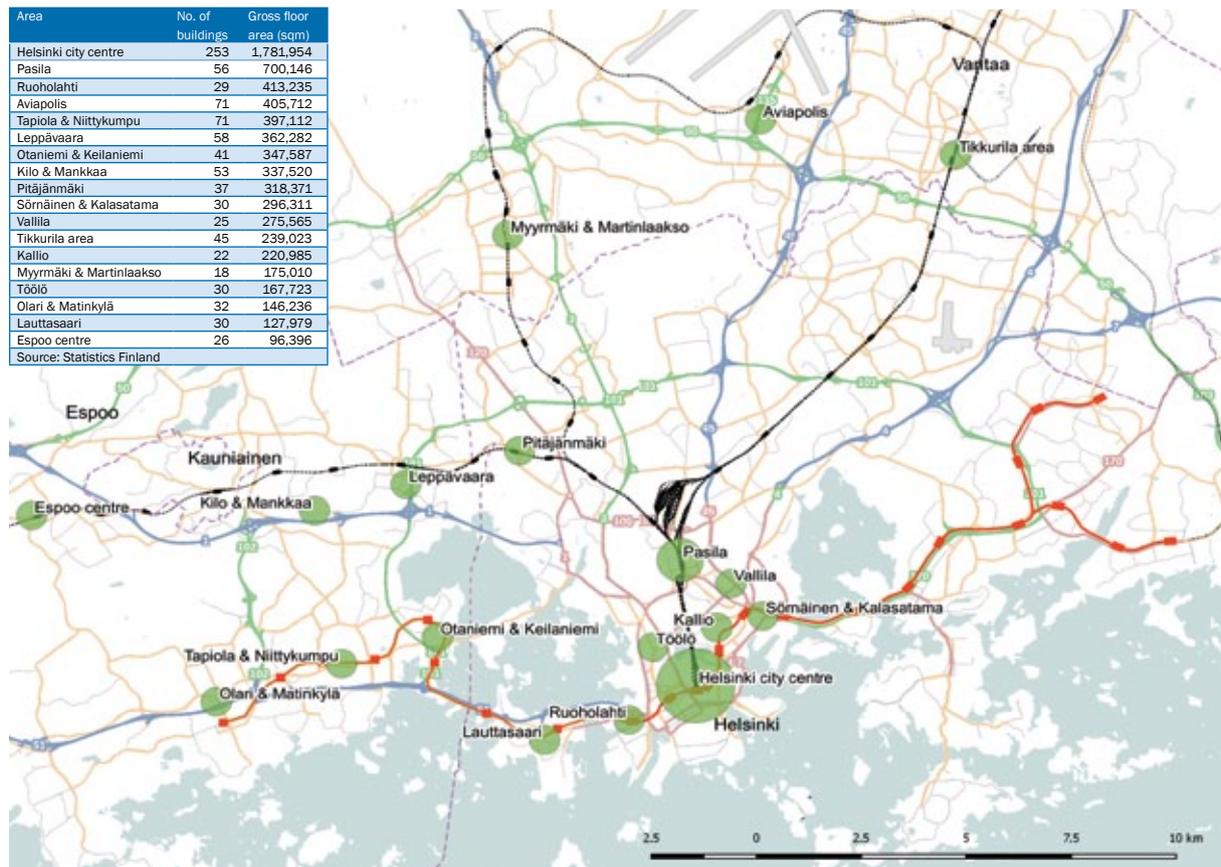
* Turku, Tampere, Oulu, Lahti, Jyväskylä and Kuopio

Source: Statistics Finland 2017

Main office areas in the Helsinki metropolitan area

Area	No. of buildings	Gross floor area (sqm)
Helsinki city centre	253	1,781,954
Pasila	56	700,146
Ruoholahti	29	413,235
Aviapolis	71	405,712
Tapiola & Nittykumpu	71	397,112
Leppävaara	58	362,282
Otaniemi & Keilaniemi	41	347,587
Kilo & Mankkaa	53	337,520
Pitäjänmäki	37	318,371
Sörnäinen & Kalasatama	30	296,311
Vallila	25	275,565
Tikkurila area	45	239,023
Kallio	22	220,985
Myrmyäki & Martinlaakso	18	175,010
Töölö	30	167,723
Olari & Matinkylä	32	146,236
Lauttasaari	30	127,979
Espoo centre	26	96,396

Source: Statistics Finland



Additions to the map by KTI.

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Within the Helsinki metropolitan area property markets, the Helsinki central business district (CBD) has an indisputable position as both the prime office and prime retail market location. Outside the CBD, other prime office locations include Ruoholahti and the Pasila–Vallila–Kalasatama areas in Helsinki, Keilaniemi and Leppävaara in Espoo and the airport area in Vantaa.

In the retail markets, in addition to the CBD, the important areas include the regional centres of Leppävaara, Tapiola and Matinkylä in Espoo and Tikkurila in Vantaa. Main shopping centres are located in Itäkeskus (Itis), Kalasatama (Redi), Kannelmäki (Kaari), Leppävaara (Sello), Aviapolis (Jumbo), Tapiola (Ainoa) and Matinkylä (Iso Omena), as well as in the Helsinki CBD (Kamppi, Forum, Kämp Galleria, Citycenter and Kluuvi). Another major shopping centre is currently being developed in Pasila (Mall of Tripla).

Of around 8.8 million sqm total stock of offices in the Helsinki metropolitan area, some 6 million sqm is located in Helsinki. Espoo accommodates about 1.9 million sqm and Vantaa about 1 million sqm of offices. Retail space stock of the Helsinki metropolitan area amounts to about 4.1 million sqm. Of this, about 2.1 million sqm is located in Helsinki.

5.1.1 Helsinki

The current city master plan of Helsinki is based on a prediction that, by 2050, the population in Helsinki will grow to some 860,000 people. The master plan is based on a vision of the increased building density in the inner city, as well as zoning of new areas – for instance the Malmi airport area and parts of the central park – into residential use. In terms of traffic connections, the plan emphasises the most important rail hubs as well as improvements in pedestrian and cycling possibilities.

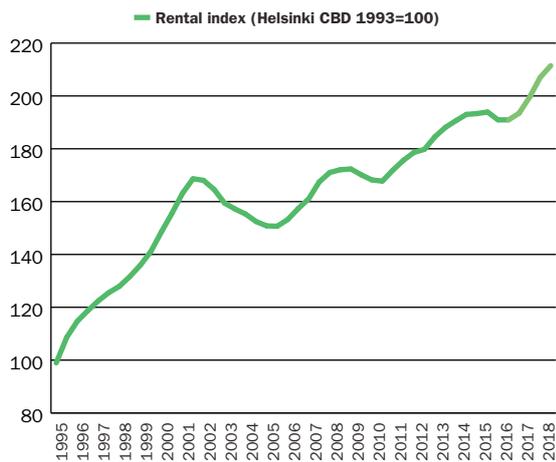
The master plan predicts that there will be 560,000 jobs in Helsinki in 2050. Areas with increasing commercial property supply include, for instance the extending Pasila–Vallila–Kalasatama axis, as well as the traditional office and industrial areas Pitäjänmäki and Herttoniemi.

The Helsinki Central Business District

The Helsinki CBD is the most important single property submarket in Finland, both in the office and retail property markets. This geographically small area also accommodates the most important public sector administrative functions as well as several cultural buildings.

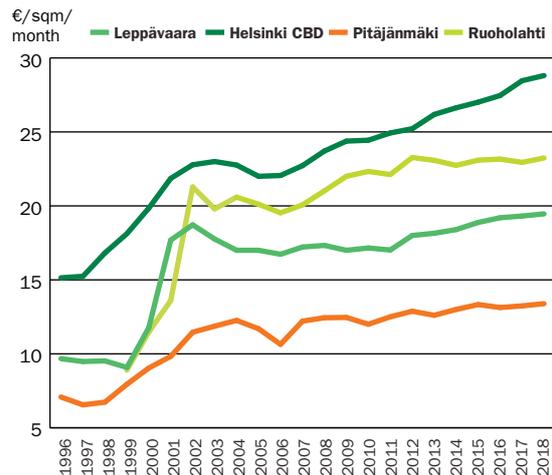
Office users in the city centre are mostly companies offering business-to-business services – such as business consultancies, law firms and financial service firms – together with some company headquarters and ministries'

KTI Rental index, Helsinki CBD offices



Source: KTI

Median office rents, all agreements



Source: KTI

"Rental growth accelerated in the Helsinki CBD in 2018"

Strengthening space demand has also resulted as a decrease in vacancy rates in the Helsinki CBD. According to Catella, office vacancy rate stood at 6.7% in the central areas in Helsinki.

As a result of both decreasing yields and increasing rents, capital values in Helsinki CBD offices continued to increase in 2018. However, due to the increasing need for capital expenditure, the capital growth slowed down to under 1 per cent in 2018. Income return continued to be pressured by increasing costs and low occupancy rate, which, in the KTI Index database remained below 90%.

Due to increasing demand for hotels, as well as an oversupply of office space, several office buildings in the CBD have been converted to hotel use in recent years. In 2018, Hotel St. George in Kamppi was completed, and the Lapland Hotel in Bulevardi opened in early 2019.

At the main railway station, Exilion's fund is converting office premises into a 500-room hotel, and in Unioninkatu, Barings is planning to start another conversion project. HYY Group acquired an office and hotel building in Kaivokatu, opposite to the main railway station, and is planning to carry out an extension project and open a 240-room modern hotel in 2021. In addition, two hotels in the CBD are currently undergoing redevelopment and extension projects. In the vicinity of the city centre, conversion projects from office to hotel use are also underway in Katajanokka and Hakaniemi.

"Hotel supply is increasing in the Helsinki CBD"

Main shopping centres in the Helsinki CBD include Kamppi and Forum in the Kamppi area, Kämp Galleria (formerly Galleria Esplanad) and Kluuvi in the Kluuvi area, and Citycenter next to the main railway station.

The main shopping streets include Aleksanterinkatu and the Northern Esplanade as well as the streets connecting these two streets. The traditional Stockmann department store is located between these two streets. In recent years, extensive pedestrian areas have been developed around the most important shopping locations.

The amount of vacant retail space remains low in the CBD, and it is very easy to find tenants for the best premises. In the KTI rental database, the occupancy rate of retail space in the CBD remained above 95% in 2018. The upper quartile of new retail rental agreements stood at some €110 per sqm per month. For small premises and in the best locations rents are significantly higher than this. In the RAKLI-KTI Property Barometer, the outlook for the CBD's retail rents turned less positive, but the majority of respondents still expected rents to increase, whereas in all other areas, rents were expected to remain stable or even to decrease.

"Outlook for retail rents is positive in the Helsinki CBD"

The tenant base of retail premises in the Helsinki CBD is mixed with international luxury brand stores, local entrepreneurs, and an increasing number of cafes and restaurants as examples of retail space users. Shopping centres in the CBD have also recently attracted some users of large premises, like home decoration and electric goods shops. In 2018, some international fashion brands and local retailers closed their shops in the most central locations due to the changing consumer behavior and occupancy cost affordability issues.

Ruoholahti – Salmisaari

Ruoholahti is a modern office area near the Helsinki 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 currently stand at some €23-24 per sqm per month on average. Modern and efficient office premises of the area attract tenants, but the occupancy rate remains quite low at 84% in the KTI rental database.

Investors in the area include domestic institutions and property companies as well as some international funds. Retail space in Ruoholahti is concentrated in the Ruoholahti shopping centre, owned by Sponda and rented and operated by Kesko Group.

In 2018, the largest transactions in Ruoholahti area were carried out by foreign investors. Both Castellum and BlackRock made their first Finnish property investments by acquiring office properties in Ruoholahti. Genesta acquired another office property next to BlackRock's investment, and is currently refurbishing the building. All these properties were large, comprising 12,000-15,000 sqm of rentable space, and in all these transactions, the seller was also a foreign investor. In late 2018, Hemsö acquired the Helsinki Court House, located in Salmisaari, from Sponda for €200 million, and in early 2019, Patrizia sold an office property in the area to a fund managed by eQ.

"Large office properties in Ruoholahti attracted foreign investors in 2018"

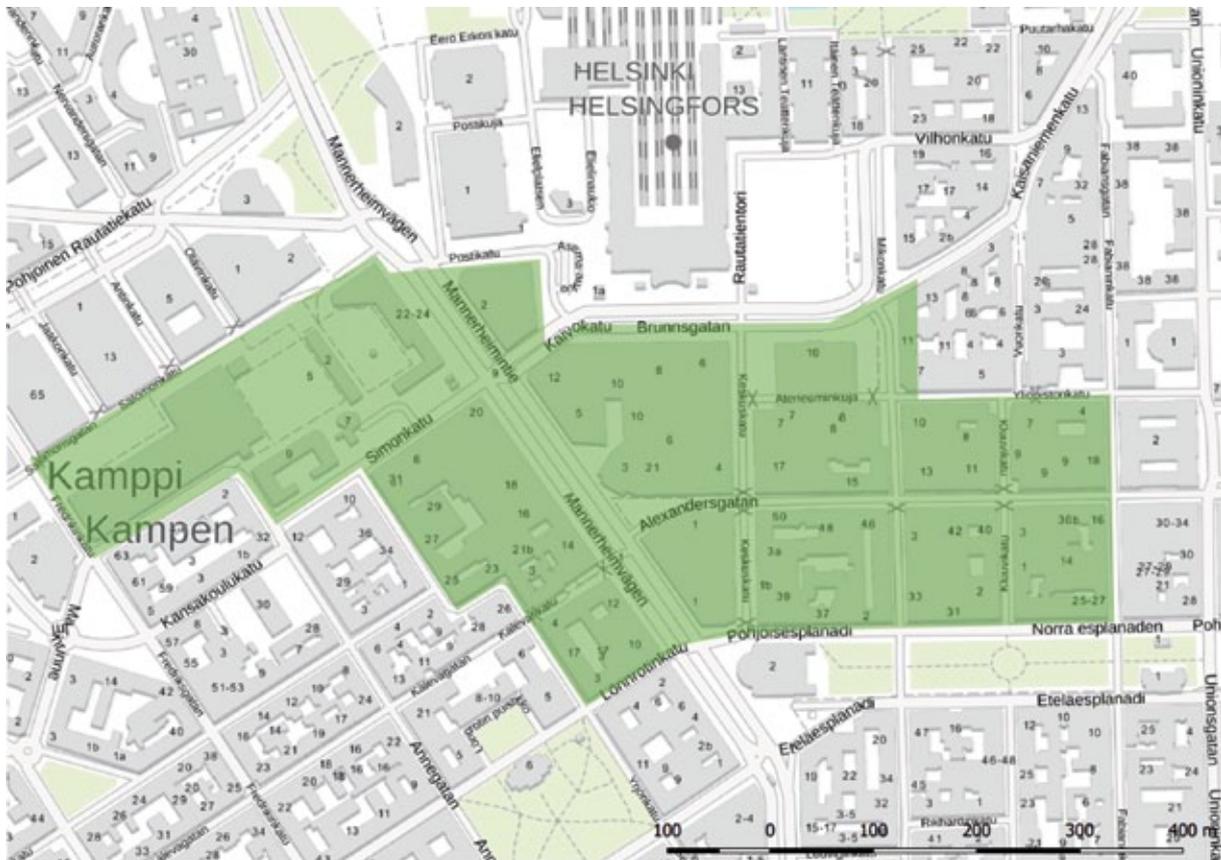
Technopolis completed the construction of the third phase of its Ruoholahti Campus in Salmisaari in the latter half of 2018. Otherwise, there are no major development projects underway in Ruoholahti.

Next to Ruoholahti is the growing Jätkäsaari area, which was freed for development after the harbour moved its operations to Vuosaari. The West Harbour, which serves passenger ferries to Tallinn and Saint Petersburg, is still located in Jätkäsaari.

Residential development remains active in the Jätkäsaari area. The area accommodates both subsidised and non-subsidised rental housing, as well as owner-occupied projects. In 2018, some 300 rental residential dwellings were completed in the area, and, at the year end, some 600 were under construction. The area is planned to accommodate some 18,000 inhabitants and 6,000 jobs by 2030.

The development of SRV's Wood City block is underway with two residential buildings just about to be completed and one office building being under construction. The block will also comprise a hotel building, planned to be started in 2019. There are also four other hotel buildings being planned in the area.

Prime retail area in Helsinki CBD



Additions to the map by KTI.
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Maanmittauslaitos & ESRI Finland LITE open data, licenced under CC BY 4.0.

"The construction of the Telakkaranta area is underway"

The development of the old dock and industrial Telakkaranta land area, next to Jätkäsaari, is underway with the construction of a 17,500 sqm office property, which is rented to the European Chemicals Agency. Skanska owns the plots in the area, and will also remain as investor in the project. The area will also accommodate residential buildings, as well as a promenade along the seashore with cafes and restaurants.

Pasila – Vallila – 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. Adjacent to Sörnäinen, there is the developing Kalasatama area, where land was released for development when the harbour moved its operations to Vuosaari. The Pasila–Vallila–Kalasatama area is named as an "axis of growth" in the City of Helsinki growth strategy. A new tram connection is being planned from Pasila to Kalasatama, which would connect rail, metro and the new Kruunusillat high-speed tram line.

Pasila is an important railway hub and multifaceted property market area north of the city centre. Pasila consists of several areas including the traditional submarkets of Eastern and Western Pasila, the developing Ilmala, Northern Pasila 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.

Both commercial and residential property stock in Pasila are planned to increase significantly. In the city's long-term plans, the number of jobs will double to 50,000 and number of inhabitants almost triple to 30,000 residents. Pasila station is expected to become the busiest railway hub in Finland with some 47 million passengers per year.

"The Mall of Tripla shopping centre will be opened in late 2019"

Pasila is currently under major redevelopment. In the Central Pasila area, in the surroundings of the current railway station, the three-block Tripla project is currently being carried out by YIT. The project comprises the 85,000 sqm Mall of Tripla shopping centre, three office buildings totaling some 50,000 sqm, a hotel with 430 rooms, as well as some 400 residential dwellings. A parking facility for 2,300 cars is also under construction. The Mall of Tripla will be opened in late 2019, and the hotel and office buildings will be completed in 2020. Pension insurance company Ilmarinen, insurance company Fennia and investment company Conficap are YIT's co-investors in the shopping centre project. Exilion's fund has invested in the Tripla hotel property, and in late 2018, a fund managed by Commerz Real acquired the Tripla Workery Offices.

"Pasila is planned to accommodate 50,000 jobs and 30,000 residents"

Next to Tripla, in the Central Pasila area, YIT also won the design and construction competition of the "Helsinki High-Rise" project, with their proposal called Trigoni. The agreement on the first phase of the project was signed by the City of Helsinki, Senate Properties and YIT in early 2019, comprising two high-rise buildings with a total worth of some €500 million. The buildings are located in the western part of the planning area, and will comprise residential, hotel, office and retail premises, and the construction is estimated to be started in 2020 or 2021. In total, the project comprises nine high-rise buildings in the area.

There are also major plans to develop the Ilmala and Northern Pasila areas north of the railway station. These areas will accommodate both residential and office properties, and current new construction is concentrated on residential projects. The head office of the Finnish state's railway company VR Group has recently moved to Ilmala, into the premises refurbished by the Finnish broadcasting company Yle. VR Group's former offices at the main railway station are currently being converted into hotel use.

The amount of vacant office space continued to decrease in Pasila in 2018. Rental levels vary significantly between older and modern stock in the area. In KTI's rental database, the average rents in new agreements stood at some €19–22 per sqm in 2018, and the occupancy rate was 94%.

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, head offices of banks and telecommunications companies. NCC is currently developing the second and third phases of their Fredriksberg project, comprising a total gross area of some 18,600 sqm. The first phase was completed in 2018 and sold to Swiss Life Asset Managers. Of the domestic investors,

Prime retail rent in the Helsinki CBD



Source: RAKLI-KTI Property Barometer



Photo: Kojamo

Antilooppi, as well as eQ's and UB's funds invested in office properties in Vallila in 2018.

The old VR machine workshop properties, located in Vallila, south of Pasila station were sold in 2018 and 2019. The Train Factory project plans to develop exhibition, event, restaurant and office premises in the old assembly and painting hall property, and OP's fund is developing a hotel in the old office and canteen premises.

Next to Vallila is Sörnäinen, a traditional industrial and harbour area, which currently accommodates many refurbished office buildings. Skanska is developing the K6 office project with a gross area of 18,500 sqm in the area. The project is due for completion in summer 2019, and was sold to Senate Properties in 2018. The premises will be accommodated by state agencies.

The quality of office stock in Vallila and Sörnäinen is varied, and the areas have also suffered from rather low occupancy rates, which, however, improved in 2018. Rents in these areas also vary significantly between the traditional and modern stock.

Adjacent to Sörnäinen is the developing Kalasatama area. Kalasatama 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. When completed in about 2040, the area is planned to accommodate some 25,000 people and 10,000 jobs.

"REDI shopping centre was opened in 2018"

Construction work in Kalasatama started with residential projects. Residential stock comprises both rental and owner-occupied dwellings. The area currently accommodates some 3,000 inhabitants. At the year end, more than 2,400 new dwellings were under construction in the area.

The 60,000 sqm REDI shopping centre was opened in Kalasatama in late 2018. The centre's developer SRV is currently constructing residential towers in the centre, the first of which is due for completion in summer 2019, and the second has just been started. Altogether, the centre is planned to comprise seven residential towers and one mixed-use building with residential, office and hotel premises.

"Office construction remains active in Kalasatama"

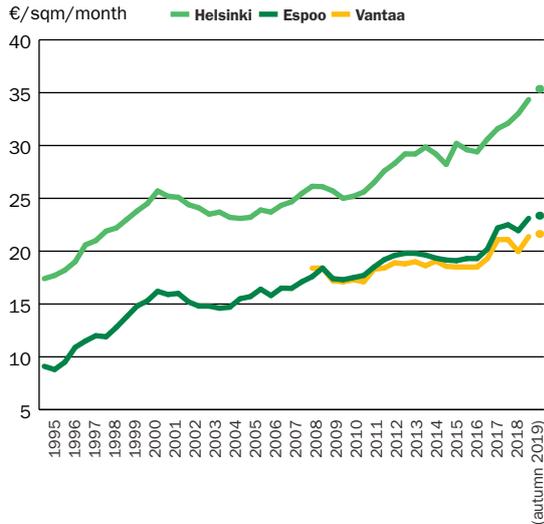
Office construction continues to be active in Kalasatama. Varma is developing the 35,000 sqm K-Kampus office property, where Kesko will be the main tenant, and Lindström Invest is developing the third phase of Rantatie Business Park project in the area. Both projects are located in the vicinity of the Kalasatama metro station and are due for completion in the first half of 2019. Also in the vicinity, the City of Helsinki is developing the Urban Environment House, comprising a gross area of 40,000 sqm. The building was sold to Union Investment Real Estate in 2018 for €165 million.

Ruskeasuo

Next to Pasila, by Mannerheimintie, is the Ruskeasuo office area with mostly modern space supply. The area currently accommodates, for example, the first two phases of Skanska's Manskun Rasti project, as well as the two buildings of NCC's Aitio Business Park. In 2018, Union Investment sold the Manskun Rasti Kathy-building, used as Skanska's headquarter, to Corum AM. Aitio Business Park is currently owned by OP's fund.

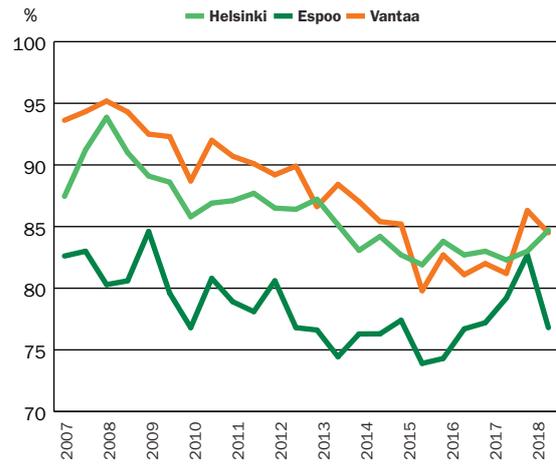
North of eastern Pasila is the traditional residential area Käpylä. The surroundings of the Käpylä railway station accommodate a relatively modern office stock where a couple of company headquarters are located. In the plans of the City of Helsinki, Tuusulanväylä motorway is planned to be developed as a city boulevard, and some 20,000 new residents will be accommodated in the area. These plans would transform the current Käpylä railway station into an

Prime office rents in Helsinki, Espoo and Vantaa



Source: RAKLI-KTI Property Barometer

Office occupancy rates in Helsinki, Espoo and Vantaa



Source: KTI Rental database

important transportation hub for train, bus and light rail connections.

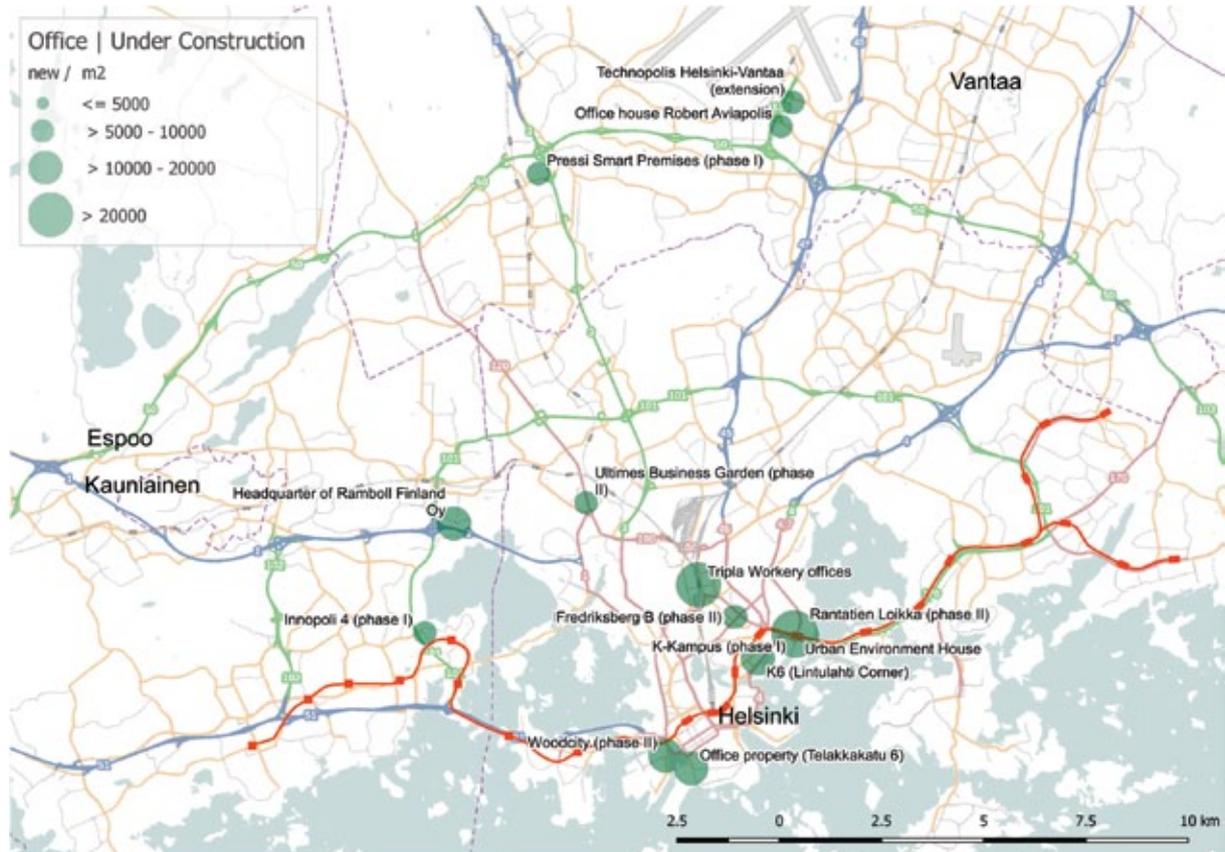
Pitäjänmäki

Pitäjänmäki, situated seven kilometres north of the Helsinki city centre, is an old industrial area that was converted into mainly office use in the 1990–2000s. The investor base

in the area is varied and comprises institutions, property companies and funds, foreign investors and corporations.

The amount of vacant office space has remained high in Pitäjänmäki for several years. In KTI's rental database, the area's occupancy rate improved in 2018, but only stood at some 68%. Due to low demand, investors are actively looking for opportunities for changes of use in the area.

New office projects under construction in Helsinki metropolitan area

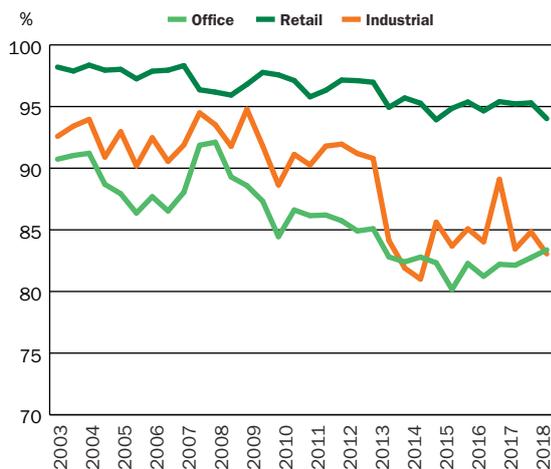


Additions to the map by KTI.

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OpenStreetMap Finland web services, licenced under CC BY 4.0. Map: Ministry of Education and Culture, Data: OpenStreetMap contributors.

Occupancy rates of offices, retail and industrial in the Helsinki metropolitan area



Source: KTI Rental database

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. In the KTI rental database, office rents vary between 13 and 17 euros per sqm per month.

Peab is about to complete the second phase of the Ultimes Business Garden in the area. In 2018, Conficap acquired three office properties located in the area from a fund managed by Aberdeen Standard Investment.

Herttoniemi – Itäkeskus – Vuosaari

Herttoniemi is an area five kilometres east of the Helsinki 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. There is also extensive residential stock.

"Retail and residential property stock is increasing in Herttoniemi"

The total stock of offices is rather small in the area. YIT and Hartela are currently constructing the 20,000 sqm Herts centre by the metro station, which will be connected with the existing Megaherts centre. Fennia and Aktia life insurance companies and Yleisradio Pension Fund are investors in the new centre, and eQ's fund is the investor in the existing part. OP's fund has invested in an 18-store residential building to be constructed on the Herts centre. In 2018, OP's Real Estate Fund Finland acquired the head office property of Marimekko located in Herttoniemi.

South of Herttoniemi is the Laajasalo residential area, where the 8,500 sqm retail centre Saari was opened in 2018. Niam has invested in the property.

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 both retail and living. It is also the eastern end of the new Jokeri Light Rail line. The Itis shopping centre is one of the largest shopping centres in northern Europe with a gross leasable area of more than 100,000 square metres. The Dutch Wereldhave sold the centre in 2018 to a fund managed by Morgan Stanley Real Estate Investing for over €500 million. Kesko's 20,000 sqm Easton shopping centre was completed in the vicinity in late 2017. Next to Itäkeskus is Myllypuro residential area, where the City of Helsinki has just completed an extensive new campus building for the Metropolia University of Applied Sciences.

Vuosaari currently accommodates some 38,000 residents and is one of the fastest growing areas in Helsinki. Next to the Vuosaari metro station is the 21,000 sqm shopping centre Columbus, which is the centre of the area's retail supply. Vuosaari accommodates the City of Helsinki harbour, with an extensive logistics property stock. Logicor is one of the main owners of the logistics space in the area.

5.1.2 Espoo

Espoo, Finland's second biggest city, has property stock scattered within five regional centres: Leppävaara and Espoo centre are by the western railway, and Tapiola and Matinkylä-Olari are by the western metro line. The fifth centre, Espoonlahti, will also be served by the metro when the extension is completed in 2023, according to current plans. Espoo's commercial property stock is multifaceted, which can also be seen in the diverse development of rental levels and vacancy rates in different areas and properties.

High office vacancy rates have been a problem for many areas in Espoo for the past few years. Areas suffering from high vacancies include, for instance, the Kilo-Mankkaa and Olari-Niittykumpu areas. Areas with healthier occupancy rates include Keilaniemi and Tapiola by the new metro line. In Leppävaara, located by the Ring Road I, the Turku motorway and the western railway, office demand has increased in the past two years and the occupancy rate has increased markedly. In the whole Espoo, however, only some 78% of all office premises owned by large investors were rented in September 2018, according to the KTI rental database.

The construction of the new western metro line has been boosting the property markets in the vicinity of the new stations in Espoo. The extension of the metro line to Kivenlahti is currently being constructed.

Keilaniemi – Otaniemi – Tapiola – Matinkylä

The five established commercial property submarkets in southern Espoo – Keilaniemi, Otaniemi, Tapiola, Niittykumpu and Matinkylä – all accommodate new metro stations. Office stock in these areas is mainly modern. Retail and residential construction is active in the new station areas.

Keilaniemi is a modern office area accommodating several major head office properties as well as some modern business park concepts. Prime rental levels are at the same level than

in Ruoholahti, at some €22-24 per sqm per month. The vacancy rate in the area currently stands at 10.4%, according to Catella.

There are several major property development projects being planned in the area, including some high-rise residential buildings as well as hybrid projects combining office, residential and congress centre use. At the moment, the so called Accountor Tower project is underway, where Regenero is redeveloping the former head office of Fortum. Accounting firm Accountor will be the main tenant in the building. The largest transaction in the area in 2018 was the acquisition of two office buildings in Keilaranta by Sirius.

The City of Espoo is currently moving the Ring Road I into a tunnel between Keilaniemi and Tapiola, in order to both increase the attractiveness of the area and improve the opportunities for residential development. The 440 metre tunnel project is planned to be opened in spring 2019.

"Otaniemi and Tapiola areas are developing"

The Otaniemi area is located next to Keilaniemi. Aalto University is located in Otaniemi, and it is centralising its main campus in the area through major redevelopment of existing buildings and development of new premises. In 2018, Aalto University Properties completed the 6,000 sqm A Bloc shopping centre located at the Otaniemi metro station, and a new campus building with a gross area of 47,500 sqm. The Otaniemi area also accommodates several business parks targeted at high-tech companies. Technopolis's Innopoli campus is now being extended by the fourth phase. Also in the vicinity, Regenero is redeveloping a 26,000 sqm office property and converting it partly into educational use. The property is rented to the City of Espoo, and it was sold to eQ's fund in late 2018.

Next to Otaniemi, by the Ring Road I, is the 50,000 sqm Spektri Business Park. The centralisation of the ownership of the business park was completed in 2018, when Keva sold the Spektri Kvartti building to a joint venture between Varma, Ilmarinen, YLE Pension Foundation and the Parish Union of Helsinki.

Tapiola is a traditional retail, office and residential area, which is currently undergoing major redevelopment. The project includes major investments in both transportation infrastructure and existing and new property stock. The third phase of the Ainoa shopping centre is under construction in Tapiola. When completed in late 2019, the centre will comprise some 50,000 sqm of retail space. The Tapiola area also accommodates a diversified office stock, where a large part of older properties has been redeveloped. Rents in Tapiola are typically some 2-3 euros lower than in Keilaniemi.

The next two stations after Tapiola are Urheilupuisto and Niittykumpu. Residential development remains active in all these station areas.

Matinkylä, the final stop of the current metro line project, is one of the most significant retail centres in Espoo, which also

accommodates some modern office buildings. Matinkylä station is also a hub for the public traffic connections from the western and southern areas of Espoo. Citycon's Iso Omena shopping centre has undergone a major redevelopment and extension, and it also accommodates the Matinkylä metro station. The shopping centre currently comprises over 100,000 sqm of lettable space.

"Residential construction activity remains high in Espoo"

Next to Iso Omena, a hybrid development project comprising hotel, residential and parking facilities is currently underway. Lujatalo is the developer in the project, and the pension insurance company Veritas has invested in its two hotel properties, due for completion in late 2019. The City of Espoo will construct a swimming hall connected to the project.

West of Matinkylä is the traditional retail and light manufacturing area of Suomenoja. The area currently accommodates mainly big box retail properties as well as the Merituuli and Liila shopping centres.

Further west, along the extension of the metro line, is the Espoonlahti area. Citycon is carrying out a major project in the area, where the Lippulaiva shopping centre was demolished and replaced by a temporary 10,000 sqm Pikkulaiva centre. A new 42,000 sqm Lippulaiva centre is currently under construction and scheduled for completion in late 2021. The project also comprises a metro station, bus terminal and some 550 residential apartments.

Leppävaara

North of Otaniemi, along Ring Road I and the Turku motorway and also by the western railroad is the Leppävaara area, comprising a diversified office stock, the 100,000 sqm Sello shopping centre, some older retail premises and some modern residential supply.

The Leppävaara area is characterised by business park complexes with several buildings, which have been built in phases. At the moment, there are no ongoing extension projects in these business parks. NCC completed the fifth and final phase of the Alberga Business Park in late 2017, and the building was sold to OP-Rental Yield fund in 2018. In the vicinity, Antilooppi acquired one of the buildings of the Stella business park.

The new office building of the technical planning and consultancy firm Ramboll Finland is scheduled for completion in early 2019. Hartela is developing the property, and Keva has invested in the project. Residential construction activity remains high in Leppävaara and in the adjacent Perkkää area.

"Vacancy rate decreased in Leppävaara"

The office vacancy rate in Leppävaara has decreased markedly due to some significant leases recently, and currently stands at below 10%, according to Catella. Prime rents for offices in Leppävaara stand at some €20 per sqm per month.

Espoo centre

Espoo centre, an area accommodating the administrative buildings of the city as well as various retail buildings, is situated west of Leppävaara, close to the Turku motorway and alongside the western railway route. The shopping centres Espoontori and Entresse are located in Espoo centre.

In the Lommila area, situated next to Espoo centre at the junction of the Turku motorway and Ring Road III, retail space comprises mainly car, furniture, electronics stores and other large retail units. Kesko and HOK-Elanto are planning a major shopping center in the area. The project has been postponed for several years due to planning issues, but the plan was finally confirmed in late 2017. In the vicinity, YIT is planning another 10,000 sqm retail property. Residential construction activity is high in Espoo centre.

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, which also accommodates the administration of the city. The development of the Ring Rail Line has boosted property development around the station areas, including abundant residential projects and several 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, LAK Real Estate, all major property developers and several property companies. LAK Real Estate is a former daughter company of Finavia, but in early 2018, Finavia sold 51% of the shares of the company to NREP and Pontos Oy in order to expand the financial base and to boost the area's development.

There are currently some 18,000 inhabitants in the area and further plans for significant growth. The area accommodates about 35,000 jobs, and further growth of some additional 15,000 jobs is estimated. The Ring Rail Line has stations at the airport as well as in Aviapolis, thus linking the area with the city centre and main railway connections.

Commercial property stock in the Aviapolis area includes modern office premises, an increasing hotel stock and abundant retail supply. Aviapolis and the adjacent Viinikkala areas also form an important logistics hub with rather modern space supply.

**"Logistics properties in
Aviapolis attract investors"**

Logistics property development has been active in the area in recent years, and this segment has also attracted investors. In 2018, new logistics properties were completed for Posti Group and Wihuri in Viinikkala. Aberdeen Standard

Investments' fund has invested in the Wihuri Logistics property. In the vicinity, DWS, on behalf of a German investor, acquired a 42,000 sqm logistics property from Elo in 2018. The property is predominantly rented to DHL.

Modern office space supply is abundant in the area, both in the airport area itself and by Ring Road III, where several business park complexes are located. Skanska CDF completed the second phase of the Aviabulevardi project in late 2018, and Technopolis extended the Helsinki-Vantaa Campus with another building. Also NREP is currently developing a 10,000 sqm office property in the area. A fund managed by Tristan Capital Partners acquired two office buildings of the business park Plaza by the Ring Road III from Union Investment in 2018, and another Plaza building was sold to eQ's fund by NREP.

In the vicinity, in Vantaankoski area located in the junction of Ring Road III and Hämeenlinnanväylä and by the Ring Rail, SRV is developing the Pressi project. The first phase of Pressi Smart office project was sold to Julius Tallberg-Kiinteistöt in 2018, and OP's fund invested in the STC Pressi industrial project.

Due to increasing supply, office vacancy rate increased in Aviapolis in 2018, and currently stands at some 13%, according to Catella. Rental demand remains healthy, and prime rents stand at above €20 per sqm per month.

Hotel supply is increasing in the Aviapolis area. In early 2018, the Scandic Helsinki Airport Hotel was opened. The hotel was converted from an old office building, just some 100 metres from the airport terminal.

**"Hotel supply increasing in the
airport area"**

The 85,000 sqm Jumbo shopping centre is the major retail centre in the area. In the immediate neighbourhood of Jumbo is the Flamingo leisure centre comprising hotel, office and leisure premises. The centre's owner Varma has extended the hotel by 230 new rooms, and by its opening in February 2019, it became the largest hotel in Finland with 540 rooms.

The Koivuhaka area, just east of Aviapolis, accommodates large retail units, some logistics and office properties, and is also an expanding residential area. Marriott is planning to start the construction of a 200-room hotel property in Koivuhaka.

In the southern part of the Aviapolis area, 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.

East of the airport, in Porttipuisto, by the Ring Road III, the first phase of Helsinki Outlet is under construction by the Norwegian Fortus AS, and due for completion in late 2019. Further north-east, in Päiväkumpu, DSV completed a 64,000 sqm logistics centre and head office property in late 2018.

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. Tikkurila's position as a hub for connections between the airport, long-distance trains and Helsinki centre were enhanced markedly by the Ring Rail Line, and the area is currently under major redevelopment.

"Office, residential and retail development is active in Tikkurila"

The City of Vantaa is developing its infrastructure, and several property investors are carrying out new investments in the area. The retail and office centre Dixi, where NREP's fund and Ilmarinen are investors, accommodates the Tikkurila train station and bus terminal.

In 2018, Sponda completed a 10,000 sqm multi-use property comprising office, retail and hotel premises in Värитеhtaankatu. The project is planned to be continued with another, even larger, phase later. In early 2019, Renor completed the first phase of an old industrial property conversion project in Tikkurilan Silkki, whereby some 5,000 sqm of new office space and a parking facility were built. In the latter phases, the multi-use property will also accommodate, for instance, restaurant and service premises. The City of Vantaa is also carrying out extensive redevelopment projects in its administrative buildings. Residential development is also active in Tikkurila area.

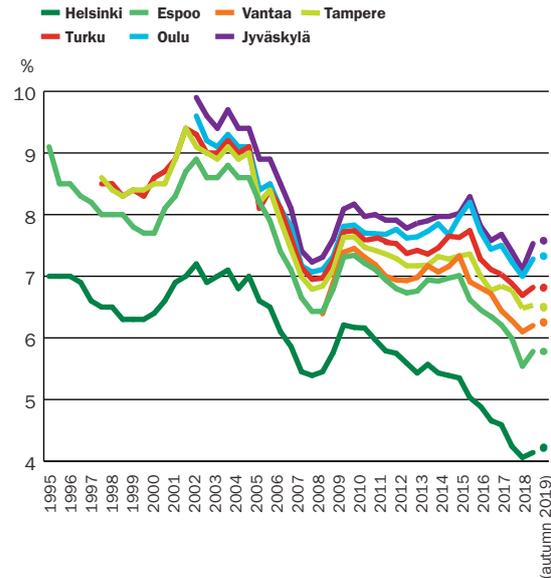
East of Tikkurila is Hakkila, an established logistics and warehouse area. Logicor is carrying out another extension of the Ruokakesko warehouse in the area, and another smallish logistics property development project is underway. In 2018, Conficap and Sagax, for instance, invested in logistics and warehouse properties in Hakkila.

Total returns in Finnish cities 2018, all property



Source: KTI Index

Prime office yields in major Finnish cities



Source: RAKLI-KTI Property Barometer

Kivistö

Vantaa's biggest development area is in Kivistö, close to Ring Road III and the Hämeenlinna motorway alongside the Ring Rail Line. Kivistö and its surrounding areas are planned to accommodate some 50,000 inhabitants and nearly as many jobs. Residential development has been abundant in the area in recent years.

At the Kivistö station, a full service shopping and service centre is being planned. The project is a joint effort between Skanska, NCC, HOK-Elanto and Kesko. In total, the centre is planned to comprise some 100,000 sqm, which will be constructed in phases. The start of the project has been postponed, and the final investment decision is yet to be made. The developers' current objective is to start the construction of the first 15,000 sqm of retail space in 2019.

Myyrmäki

Myyrmäki is a regional centre in western Vantaa by the Ring Rail Line. The growing area currently accommodates some 15,000 inhabitants, and the greater Myyrmäki region as much as 53,000 people. Residential construction activity remains high in Myyrmäki and in the neighbouring areas of Martinlaakso, Vapaala and Kaivoksela, for instance.

The 40,000 sqm Myyrmanni shopping centre is located in Myyrmäki centre, next to the station. Citycon's other shopping centre, the 15,000 sqm Isomyyri, is also located in Myyrmäki, slightly north of Myyrmanni. The area also accommodates some older office stock. Pension insurance company Elo is currently refurbishing a 44,000 sqm office property, which has been rebranded as Virtatalo. NREP is about to start the construction of a 322-room hotel in Myyrmäki, comprising both normal hotel rooms and longer-term accommodation, a spa, as well as lounge and working facilities.

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

Tampere

Location:	170 km north of Helsinki; the biggest inland city in the Nordic countries
Population:	Tampere: 232,000 Tampere region in total: 390,000

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. Tampere region consists of eight municipalities pursuing active cooperation in developing the business environment in the area. The population of the region grew by some 4,500 people in 2018, with the majority of the growth concentrating in the City of Tampere. By 2030, the city is expected to accommodate more than 250,000 inhabitants.

Tampere is a university city, where the Tampere University and Tampere Technical University were merged in the beginning of 2019, and together with the Tampere University of Applied Sciences, constitute the new Tampere higher education community. The Community has 30,000 students and more than 4,000 employees.

The growth of the city requires the development of new areas and redevelopment of old industrial areas into a new use. Examples of these kinds of areas include Hakametsä sports campus, the old industrial Hiedanranta area, as well as Viinikanlahti area by the Pyhäjärvi lake, close to the city centre.

Unemployment decreased markedly in the Tampere region in 2018, and stood at 9.5% at the end of the year.

The transportation network is developing in Tampere. Finland's longest road tunnel – 2.3 kilometres – was recently opened on the northern side of the city centre. A new tramway is currently under construction, scheduled to be completed in 2021. The two lines combine Hervanta in the south and the university hospital area in the eastern side of the city centre with Pyyntikintori. In the city centre, new

underground parking facilities are being planned, and the centre itself will be turned into mainly light transportation and pedestrian areas. Also, the fast rail connection to the Helsinki metropolitan area is under active discussion.

The Tampere region is the most active property market area in Finland outside the Helsinki region. The region has attracted both domestic and international real estate investors.

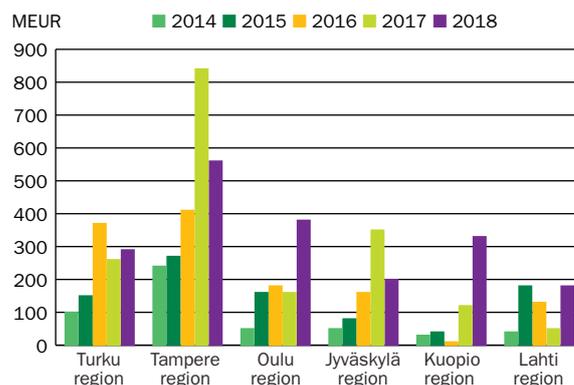
In the city centre, next to the railway station, the construction of Tampereen Kanssi (Deck and Arena) project is underway. SRV is the developer, and LocalTapiola and OP Group's insurance companies have invested in the project. The 120,000 sqm complex will comprise a multi-use arena for 13,000 people, five residential towers, a hotel, some office and retail premises as well as parking facilities. The City of Tampere is also involved in the multi-use Arena project. The project will be built in phases, the first of which is scheduled for completion in 2021, and the whole project by 2023.

Tampere office stock amounted to some 1.1 million sqm at the end of 2017. 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 as well as in Hervanta alongside the Technical University. In the best office locations in modern buildings, rental levels are around €20 per sqm per month, whereas in older stock the rents typically are at some €15 per sqm per month. Office vacancy rate decreased in Tampere in 2018, and stood at 10.8% at the year end, according to Catella.

"Tampere office stock is increasing"

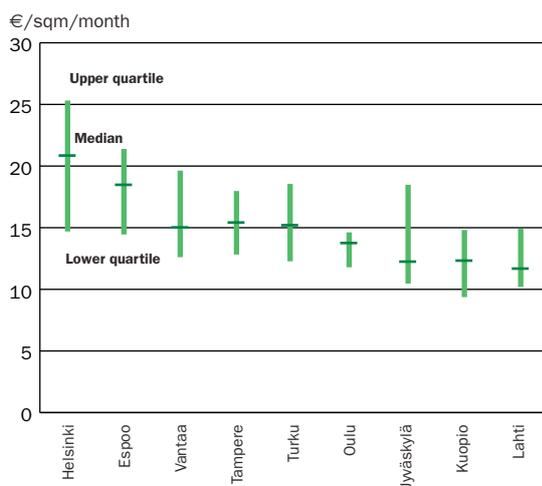
The office stock of Tampere is increasing through ongoing and planned development projects. In the vicinity of the Tampereen Kanssi project, Technopolis is currently developing two office buildings with a combined gross space of almost 34,000 sqm. In Ratina, Sponda is developing a 13,700 sqm office and retail property. The office towers of Tampereen Kanssi project are planned to comprise a gross area of 27,000 sqm.

Transaction volume in cities outside the Helsinki metropolitan area



Source: KTI

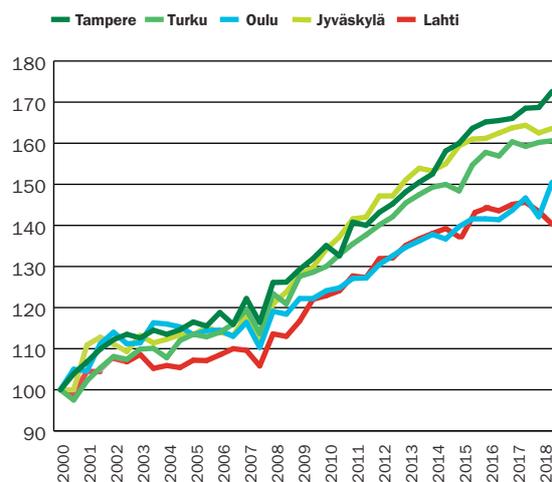
Prevailing office rents in major Finnish cities, autumn 2018



Based on lease agreements in KTI database.

Source: KTI

Residential rent indexes in Tampere, Turku, Oulu, Jyväskylä and Lahti index spring 2000 = 100



Source: KTI

Despite of active new construction in recent years, retail vacancy rate has remained low in Tampere, at some 4.5%, according to Catella. The prime retail locations in Tampere include the main street, Hämeenkatu, and the Koskikeskus and Ratina shopping centres in the vicinity. Sponda completed the 53,000 sqm Ratina shopping centre in spring 2018. In Lempäälä, south of Tampere, the 100,000 sqm Ideapark shopping centre was extended by another 15,000 sqm. At the moment, there are no major retail projects underway in the area.

In recent years, industrial property construction has been concentrated mostly in Pirkkala, south of Tampere and close to the airport. There are currently two logistics projects under construction.

The hotel stock continues to increase in Tampere. Keava is developing a 229-room Marriott hotel next to Tampere Hall, scheduled for completion in late 2019. Lapland Hotels will be the operator in the hotel of the Tampereen Kansi project, comprising 285 rooms and planned to be completed in 2021.

Residential development activity is also high in Tampere, which is one of the fastest growing city regions in Finland. There are numerous development projects ongoing, partly boosted by the developing transportation infrastructure. Domestic funds and property companies are investors in the residential projects in Tampere. Residential rents have continued to increase steadily in Tampere.

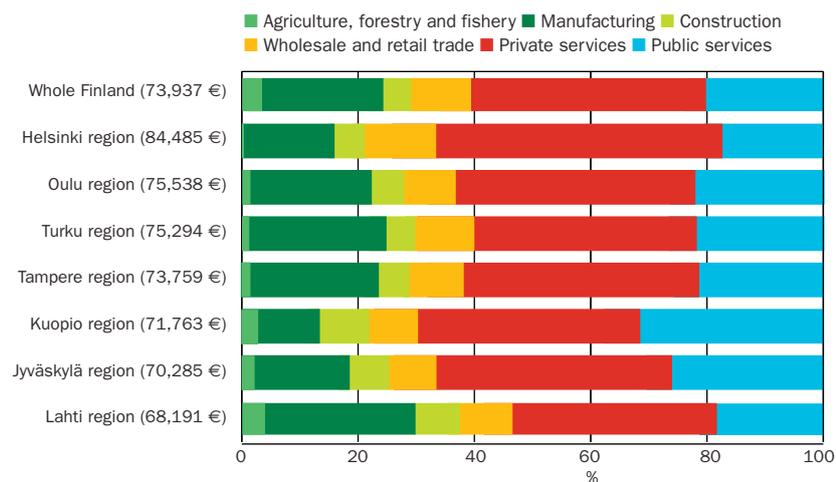
In the transactions market, Tampere typically holds the position of the second most active market area after the Helsinki metropolitan area. In 2018, total transactions volume amounted to €560 million, with both domestic funds and foreign investors being active in the region. Investor interest was widely spread among all property sectors. In many cases, properties in Tampere were exchanged as part of larger portfolios, and no major single asset transactions were carried out in 2018.



Photo: YIT

Value added by sector and region 2016

Value added by employee (€) in parenthesis



Source: Statistics Finland

Oulu

Location: 600 km north of Helsinki
 Population: Oulu: 202,000
 Oulu region in total: 247,000

The City of Oulu has evolved markedly since the mid-1990s, first due to the rapid growth in the high-tech sector, which created new jobs, and more recently due to the merger of neighbouring municipalities. Oulu is a university, science and technology city whose influence covers all of northern Finland – about one-half of the area of the entire country. The city is part of the Arctic Europe network.

The emphasis of the Oulu region's economic structure is on services. Information technology services, other technology sectors as well as life science services are examples of the specialisations of the region. Oulu is specialised in electrotechnical manufacturing, and the services supporting it: for example, engineering, software and information services. In the vicinity of Oulu, in Pyhäjoki, a €6-7 billion nuclear power plant is being planned. The project would boost the employment and impact the region's economy markedly.

Like in most major cities, employment developed positively in the Oulu region in 2018. Unemployment stood at 9.5% at the end of the year, having been at 11.6% a year before.

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

The total office stock of Oulu amounts to some 670,000 sqm. The most important office areas include, in addition to the city centre, Peltola just east of the city centre and the Linnanmaa area north of the city centre, which accommodates several high-tech companies and Oulu University.

Like in other major cities, office demand has strengthened in Oulu, supported by the increase in employment, and the

office vacancy rate decreased markedly during 2018. In the best locations, office rents are at or even slightly above €20 per sqm per month. On average, office rents stand at some €15 per sqm.

In 2018, Technopolis started the construction of a 8,400 sqm office building in the city centre. Another project underway is a mixed-use 5,000 sqm residential and office property, also close to the city centre. In Limingantulli, the local building technical service company Movitek is about to start a 7,000 sqm retail and office property project.

"Office vacancy rate decreased in Oulu in 2018"

The demand for retail premises has also recently picked up, and the vacancy rate stood at 4.4% at the year end, according to Catella. Prime retail rents stand at the same level as in Tampere and Turku, but there is some downward pressure on rents. The recent and ongoing projects only include some supermarket projects outside the city centre.

The construction of public sector properties also remains active in Oulu. The 24,000 sqm new construction hospital project is underway, and major renovations are about to be started in the University hospital buildings. Also, a new police station and prison facilities are being planned, as well as a multi-use residential, retail and office project at the railway station. The City Hall is planned to be demolished and replaced by a new building that will include premises to be rented out.

"Residential rents increased by 2.6% in Oulu in 2018"

Residential construction activity has increased markedly in recent years with almost 4,000 dwellings being started in 2017, and some 2,000 by the end of the third quarter in 2018.

The share of rental residential developed by professional owners is, however, significantly lower in Oulu than in other major cities. In 2018, supported by the increasing demand, residential rents in new agreements increased by 2.6% which exceeds the growth in other major cities. In the KTI Index in 2018, the total return on Oulu residential markets exceeded that of the average in the whole country.

Property transaction volume increased in Oulu in 2018, and amounted to some €380 million, mainly thanks to the shares of Technopolis being acquired by Kildare Partners. Otherwise, the volume was based on the activity of domestic funds and local investors, and included mainly smallish deals.

Turku

Location: 160 km west of Helsinki; in south-western corner of Finland
Population: Turku: 191,000
Turku region in total: 330,000

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 and 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. The shipbuilding industry is currently developing strongly and, due to several major orders, the employment in the Meyer Werft shipyard is secured until the mid-2020s. Meyer Werft has also made significant investments in its facilities. The company itself currently employs some 2,000 people, and is recruiting more. Together with its contractors, the number increases to some 6,000-7,000 people in the region. Half of the Finnish medical industry is accommodated in the Turku area, and health and bio industries employ some 4,000 people in the area. Also, Valmet Automotive's growth in Usikaupunki, some 60 kilometres north of Turku, contributes to the strong economic development in the Turku region. The company employs some 6,000 people.

"Sea and health clusters are showing strong growth in the Turku region"

Thanks to the positive development in several industry sectors, the employment rate increased close to 74% in the Turku region in 2018. The growing industry sectors are currently suffering from the lack of skilled personnel, and, therefore, for instance, education possibilities are being developed in the area in order to better respond to businesses' needs.

The most important infrastructure development project being planned in Turku is the development of the fast train connection between Turku and Helsinki, which would decrease the travel time to one hour and create a unified commuting area for 1.5 million people. The final decision of the construction is expected to be made by the next

parliament and the construction work to be started in the mid 2020s. The development of the local public transport connections is also being discussed, and the city council decided to explore the development of tram connections from the city centre to Varissuo in the east and to Raisio in the north.

"Strong economic development is supporting population growth in Turku"

In the city centre, the reconstruction of the main marketplace area is underway, including the construction of a parking facility for 600 cars. The project is scheduled for completion in late 2020. By the market place, the traditional Hamburger Börs Hotel is planned to be demolished and replaced by a new 300-room hotel building.

Players in the Turku property investment market are a mixture of foreign, domestic and local players. Domestic institutions typically have investments in Turku, and property funds have recently increased their holdings in the area. Several Nordic and European players have also invested in Turku. The largest local player is Turku Technology Properties.

"Active development in the city centre and Kakola areas"

The Kupittaa area, 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. The area also accommodates the Turku Science Park, the local business development unit.

Turku Technology Properties is the major owner in Kupittaa, and in recent years has increased its portfolio both through acquisitions and new development. The company is currently developing a new 28,000 sqm campus building for the Turku University of Applied Sciences. In early 2019, the Swedish Hemsö became a shareholder in the company. The other owners include the City of Turku and local institutional and other investors.

"Kupittaa area continues to grow through new construction"

In the vicinity, the construction of a new University hospital building is underway, and in 2018 the projects of a new medical school building as well as OP Group's Pohjola hospital building were completed. The pension insurance company Veritas is about to start the construction of an office property in the area and to move its headquarter to the property in late 2020. Also in Kupittaa, a local investor Rausanne is developing a nearly 200-room hotel property.

In addition to Kupittaa, modern office supply can be found in the Pitkämäki and Port areas, as well as in the Logomo Centre, which is an event arena, conference centre and office centre targeted at creative companies.

Office demand is strong in the Kupittaa area in particular, where the vacancy rate has fallen close to zero. In the whole of Turku, the office vacancy rate continued to decrease and currently stands below 7%. The healthy occupancy rate is supported by the low amount of new office development in recent years.

Office rents for the high-quality premises in Kupittaa and the city centre exceed €20 per sqm per month, and for the smallest premises, rents are even higher than this.

The most important retail space submarkets in the Turku area include the city centre, the Hauninen area in Raisio as well as the Skanssi area east of the city centre. In Hauninen, the abundant supply of large units is occupied by, for instance, furniture and car retailers. The 58,000 sqm shopping centre Mylly is also located in the area. The Skanssi area accommodates the 38,000 sqm shopping centre Skanssi as well as other large retail units. In the city centre, the most expensive retail space can be found in the shopping centre Hansa and in its vicinity. The Hansa shopping centre is currently under redevelopment. Otherwise, the only ongoing new retail property project is underway in Piispanristi, east of Turku, where the local S Group's cooperative is building a new hypermarket building.

"Commercial property construction activity picking up in Turku"

Demand for logistics and manufacturing premises is currently supported by the good situation of the shipbuilding sector. Vacancy rates have also decreased in this sector recently. The volume of new development in this sector has also been low in recent years but is starting to pick up. DB Schenker is currently developing a nearly 20,000 sqm logistics centre in Lieto, north-east of Turku. In addition, the City of Turku is currently planning an extensive Blue Industry Park manufacturing and innovation centre in the vicinity of the shipyard. The city has acquired the 55 hectare land area for the centre, which is planned to be developed between 2019 and 2030.

Other major property development projects currently underway include the development of the former Kakola prison area close to the city centre. The area will accommodate mostly residential properties, but also a 155-room hotel property is under construction in the area. Next to the railway station, a €450 million, 200,000 sqm entertainment and event centre is being planned, comprising a multi-purpose arena, sports facilities and a hotel.

"In the residential markets, Turku outperformed other major cities in 2018"

Residential construction activity has increased in Turku in recent years, with some 2,800 new dwellings being started in 2017, and, based on the number of permits, the volume in 2018 is almost at the same level. Rental demand is healthy, and residential rents continue to increase. Investor interest in Turku residential has also increased. In 2018, total returns on Turku residential properties outperformed all other major cities, thanks to a healthy capital growth.

The property transaction volume in Turku amounted to some €290 million in 2018. Foreign investors active in the market included Hemsö, who expanded in Turku in two transactions in 2018 and early 2019, amounting to €12 and €130 million, as well as the Swedish Kielo, who acquired two office properties in the city centre from Turku Technology Properties. Corum acquired a hotel property in Turku as part of a larger portfolio deal. Examples of domestic investors making investments in Turku in 2018 include Nordea Life Assurance, as well as funds managed by Trevian and OP. In early 2019, the office premises of Logomo centre were sold to Aktia's fund.

Jyväskylä

Location:	270 km north of Helsinki, in the centre of Finland	
Population:	Jyväskylä:	141,000
	Jyväskylä region in total:	185,000

Jyväskylä is a university town located at the junction of several important national main roads. Jyväskylä's economic structure emphasises both traditional industries and new technology. The Jyväskylä region's industry areas cover wood and construction materials, ICT and healthcare industries. Some 17.5% of the jobs in the region are in the manufacturing industries, while services employ some 80% of the workforce. Labor markets also improved significantly in Jyväskylä in 2018, and, according to the Ministry of Economic Affairs and Employment, the average unemployment rate decreased from some 14% in 2017 to 12% in 2018.

The city centre is the most important office market area in the region, but no new stock has recently been developed in the most central locations. Other office areas with modern supply include the Mattilanniemi/Ylästönniemi area south of the city centre, and Tourula in the northern side, where old industrial properties have been redeveloped into office use. Some modern office supply can also be found in the Lutakko area, next to the city centre. The old paper mill area Kangas, next to Tourula, is a developing area for residential and office construction.

The vacancy rate of offices stands at some 9%, according to Catella. Modern offices, in particular, have continued attracting tenants. In the very best locations and premises, rental levels are at the same level as in Tampere and Turku.

Positive development in space demand has boosted new development also in Jyväskylä. Peab is developing a 10,600 sqm office property in the Kangas area, and Fennica fund has invested in the project. The local Jykia is about to start the Kankaan Arkki project in the area. In the city centre, the retail and office property Reimari will also be completed in 2020. Also in the city centre, the renovation of the heritage building Valtiontalo (State House) is underway.

The Hippos area south of the city is another significant area under development in Jyväskylä. A €300 million development project is planned in the area comprising a multi-purpose hall, sports facilities as well as retail and hotel properties.

"Office property development picking up in Jyväskylä"

In the retail property market, the Seppälä area north of the city is, along with the city centre, the most significant retail area in the Jyväskylä region. The area accommodates, for instance, the 24,000 sqm Seppä shopping centre. One smallish project was completed in the area in 2018, and at the year end, there were no ongoing retail construction projects in Jyväskylä.

The transaction volume in Jyväskylä amounted to some €200 million in 2018. Compared to 2017, the volume decreased significantly, but the number of transactions increased. Sagax was the only foreign investor involved in significant transactions in Jyväskylä in 2018. Of the domestic investors, for instance, funds managed by Evli, Trevian and Fennia, as well as Nordea Life Assurance invested in commercial properties in Jyväskylä in 2018.

"Domestic investors dominated the transactions market in Jyväskylä"

Residential construction activity is high in Jyväskylä, and the construction of some 2,000 new dwellings was started in 2017, and the volume in 2018 was expected to remain at the same level. The Jyväskylä rental residential market is also attracting investors, and the largest residential portfolio transactions, for instance those carried out by Kojamo and Morgan Stanley in 2018, also comprised properties in Jyväskylä. Residential rents continue increasing, although at a slower pace than in previous years, due to the increasing supply.

Lahti

Location:	104 km north-east of Helsinki
Population:	Lahti: 120,000
	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 educational base in the region also emphasises competence in cleantech and design. The region's favourable location has attracted logistics operators in the region. Services and trade occupations currently represent around 60% of the jobs in the region, while industry's share has decreased to 30%. Unemployment has been high in Lahti in recent years. However, as in many other major cities, the situation has improved recently, and unemployment stood at 14.3%, which was the second highest figure among the larger cities.

The attractiveness of the city centre has increased as a result of redevelopment efforts that have transferred old industrial buildings into other uses. The city has increased the centre's attractiveness by, for instance, constructing a new underground parking facility and a new public transport terminal as well as increasing pedestrian areas.

Retail supply in the city centre is concentrated around the Trio shopping centre and along the main street. In the Karisto area, there is shopping centre Karisma with a leasable area of 34,000 sqm. Retail property development activity remained low in 2018, and no major projects were completed, and at the year end, there was one ongoing 2,500 sqm project in the city centre.

In the old industrial Askonalue area, near the railway station, Renor Oy – a major owner and developer of old industrial properties – has redeveloped, for instance, office premises for business service companies.

The former Hennala garrison area is planned to be redeveloped into mostly residential use. The State's Senate developed an office property in the area for police office use. This was the only completed new office development project in Lahti in 2018.

Industrial and logistics property development has been rather active in Lahti in recent years. At the end of 2018, the largest project underway was Luhta's 20,000 sqm manufacturing and warehouse project in Nastola. Another project was underway in Kujala area, where OP's fund acquired a logistics property rented to Alfaroc.

The city is planning the redevelopment of the old bus station area into a residential and leisure area. The planning of the area is still underway. The construction of the planned water sports and leisure centre would also involve private investors.

After a couple of years, the Lahti office market attracted foreign investors in 2018, when transactions were carried out by Kielo and Corum. Otherwise, the transaction market was dominated by local investors and residential properties.

Residential construction is also active in Lahti, and the main residential property companies and funds are active in the area. However, rental growth has been slower than in other main cities in recent years. According to the KTI rental index, rents in new agreements decreased by as much as 3.7% in 2018.

Kuopio

Location:	400 km north-east of Helsinki
Population:	Kuopio: 118,000
	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 the jobs in the region, some 8% are in manufacturing 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. Unemployment has

continued to decrease in Kuopio during the past year, and it currently stands at a lower level than in other main cities outside the Helsinki metropolitan area, at some 10.6%.

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

The Kuopio office stock is concentrated in the city centre as well as in Technopolis Kuopio's two locations close to the University and hospital areas. The amount of vacant space remains relatively high.

In 2018, Technopolis completed the construction of another phase of its Microkatu project in the Savilahti campus area. The campus is planned to be completed by another 8,700 sqm building in 2019.

"Technopolis is expanding its Savonia Campus in Kuopio"

The retail space market in the Kuopio city centre is competing with the newly constructed Matkus Shopping 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 city centre, VR Group, the City of Kuopio and Lapti Group are carrying out the first phase of the Kuopion Portti centre. The first phase comprises some 11,000 sqm of residential, office, retail and service premises. In total, the centre is planned to comprise some 47,000 sqm.

The City of Kuopio entered in a 20-year financing and service agreement on the development of a new swimming hall and parking facilities in Niirala. The Kuntolaakso project is financed and owned by SEB Leasing, and managed by YIT and Caverion. The centre is planned to be completed in 2020.

Besides the Technopolis transaction, which included several assets in Kuopio, the transaction market was dominated by domestic investors in 2018. The only foreign involvement in the Kuopio commercial property market was the portfolio acquired by Cromwell, which comprised of properties in several cities including Kuopio. Otherwise, the transactions mainly included residential and care properties.

The partners of this publication

Helsinki

Helsinki is the commercial, political and cultural capital of Finland and a dynamic hub for international business. Helsinki is also a great region for living and working. It is clean, stable and secure, with a very high standard of living and welfare.

Many of Europe's biggest urban development projects are underway in the Helsinki region. New residential and working areas currently under construction make Helsinki one of the fastest growing metropolises in Europe. According to estimates, there will be 860,000 people living in the city and 1,882,000 in the region by 2050.

As a prime location for innovative companies, Helsinki welcomes organisations of all sizes. The City of Helsinki offers consultation regarding the business conditions of the city to investors and companies that are looking for a new location. The City also provides support for developers and investors looking for real estate projects.

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KIINKO Real Estate Education is Finland's leading training company. We offer 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.

KIINKO's unique concept brings together all players in the industry – end-users, developers, service providers, investors and financiers. This gives us an excellent insight into the needs of our customers and their businesses.

RE Finland is one of our main events, to be held this year on November 7. With over 600 participants, combining seminars and extensive networking, it is The Finnish Real Estate Summit – gathering executive and expert level representatives from real estate related businesses in Finland.

Our new seminar Future Spaces, to be held on May 8 in Helsinki, covers a variety of future trends relating to the developed environment as it relates to both people and innovations, and offers a unique platform for networking among professionals representing all areas of the construction industry and the real estate business.

Read more about Kiinko: www.kiinko.fi, www.refinland.fi, www.futurespaces.fi

kojamo

Kojamo is Finland's largest private residential real estate company and a front-runner in the rental housing business. Our mission is to create better urban housing.

We operate in Finland's most significant growth centres and with 50 years of experience, our Lumo brand provides rental housing and new services for urban housing. We actively develop the value and number of our investment properties by developing new properties and our existing property portfolio. We want to be the property market front-runner and the number one choice for our customers.

Kojamo's shares are listed on the official list of Nasdaq Helsinki.

www.kojamo.fi



LocalTapiola Real Estate Asset Management Ltd provides real estate portfolio and asset management services to separate account investors, and customizes portfolios to meet the best allocation in the direct Finnish real estate sector for each separate account.

We provide well-structured real estate funds to institutional or large real estate investors. The funds are developed by us, and all funds and assets are in our professional hands. Our funds give investors a defined risk and return exposure in the Finnish real estate market in range of the specific fund strategy and sector allocation. Our funds invest in direct properties in Finland, and their investments are leveraged in order to optimize the return. Each fund and account has its own in-house team focusing on active portfolio and asset management.

For our tenants, we provide service concepts such as Carefree Space and Easy Going Home, including business premises and rental homes with all accessory services.

The market value of the assets under our management is approximately €3 billion. We have extensive knowledge and insight of the Finnish real estate business, including investment strategies, transactions, management and letting. LocalTapiola is part of the finance house LocalTapiola Group, and thus benefits from the Group's vast and versatile financial knowledge.

LocalTapiola Real Estate Asset Management Ltd has been rewarded with the Finnish Quality Award 2018 and EFQM Recognised for Excellence 5 star.

The Finnish Quality Award is an international reward of excellence, appreciated by the interest groups of the organization.

The reward encourages organizations and employees to develop the business systematically, and supports the build-up of a strong brand.

www.lahitapiola.fi/kiinteistovarainhoito

NEWSEC

Newsec – The Full Service Property House in Northern Europe – offers real estate owners, investors and tenants a full range of services within Advisory and Property Asset Management, including property investment transaction advisory and leasing brokerage, valuation and analysis, real estate consultancy and corporate finance services. Our service portfolio also includes investment, asset and property management, corporate real estate management and corporate solutions.

Newsec was founded in 1994 and is today a partner-owned company with some 1,800 co-workers spread across the seven Nordic and Baltic markets. In Finland we have approximately 400 employees, with offices in Helsinki, Tampere, Turku, Jyväskylä, Hämeenlinna, Kuopio, Oulu, Imatra and Vaasa. In a survey carried out in 2018 by the Great Place to Work Institute® Finland, Newsec Finland was nominated for the 12th time among the top workplaces in Finland, and also the best workplace within the real estate industry.

Internationally Newsec has approximately €45 billion under management and it annually signs lease agreements of some 1 million square meters, manages transactions of some €3.3 billion and does real estate valuations of underlying property worth almost €165 billion. Thanks to large volumes, local presence combined with in-depth understanding of a range of businesses, Newsec has a unique expertise in the Northern European real estate market.

The market report Newsec Property Outlook Nordics has been published since 2001 and Newsec Property Outlook Finland since 2012.

The latest issue can be downloaded at www.newsec.com/insights/reports.

RAKLI

RAKLI, The Finnish Association of Building Owners and Construction, brings together property and construction professionals. RAKLI's members include Finland's most prominent owners of residential and commercial properties and infrastructure, tenants of commercial facilities, property investors, building contractors and service providers. The members represent both the private and the public sector, and member organisations number almost 220 in total.

The core of our operations is to influence, connect, develop, communicate and provide insights.

Welcome to our website: www.rakli.fi.

SATO

SATO is one of Finland's leading rental housing providers. We aim to offer a comprehensive choice of rental housing and an excellent customer experience. As of September 30, 2018, SATO owns around 26,000 apartments in Finland's largest growth centres and in Saint Petersburg.

We promote sustainable development and initiatives through our operations and work in open interaction with our stakeholders to generate added value. We operate profitably and with a long-term view. We increase the value of our housing assets through investments, divestments and repairs.

We provide our customers with rental homes and customer services. Our service promise is 'Home the way you want it', and our operations are guided by our Customer First service model. In 2018 we introduced a digital service, OmaSATO, for our residents, furthering our mission of home being more than just walls.

The SATO Group's net sales in 2017 were €280 million, operating profit €231 million and profit before taxes €185 million. The value of SATO's investment assets is roughly €3.6 billion.

www.sato.fi

SEB

SEB is a leading Nordic financial services group, guided by a strong belief that entrepreneurial minds and innovative companies are key in creating a better world. As a relationship bank, SEB in Sweden and the Baltic countries offers financial advice and a wide range of other services. In Finland, Norway, Denmark 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 been present in Finland since 1984, and today has 320 employees based in central Helsinki.

SEB's team in Helsinki offers a full range of financing and investment banking services to real estate investors. We work with everything from bilateral loans and syndication to a range of capital markets products and M&A advisory. We also offer SEB's full product portfolio within debt- and securities-related advisory services. We also assist our clients in foreign exchange, streamlining their cash management, and providing other customized banking services.

www.sebgroup.com or www.seb.fi



Sirius Capital Partners focuses on opportunistic and value-add real estate investments in Finland. We make funds or club deals based on an investment theme. Our investors range from global institutions to multi managers and fund of funds.

A strong track record in the Finnish real estate investment market coupled with experience in collaborating with leading global players make Sirius a unique investment manager to work with. Sirius' founding partners have extensive experience in real estate investments and in principal positions in leading industry firms over the past 15-20 years.

Sirius has raised a total equity capital of some €450 million for four vehicles. Sirius currently invests on behalf of its third fund, Sirius Fund III, and continues being heavily involved in the management of the newly stock-listed company Cibus Nordic Real Estate that it has created for the IPO of the two earlier funds, Sirius Fund I Grocery and Sirius Fund II.

www.sirius.fi

SKANSKA

Skanska is one of the world's leading construction and project development companies, focused on selected home markets in the Nordic region, Europe and USA. Supported by global trends in urbanization and demographics, and by being at the forefront in sustainability, Skanska offers competitive solutions for both simple and the most complex assignments, helping to build a sustainable future for customers and communities. The Group has about 37,000 employees. Skanska's sales in 2018 totaled €16.6 billion.

Skanska's operations in Finland cover construction services and residential and commercial project development. Construction services include building construction, building services, and civil and environmental construction. Skanska Oy employed 2,152 people in Finland at the end of the year 2018.

Skanska CDF Oy is part of Skanska Commercial Development Nordic, which initiates and develops office properties. The company's operations are concentrated in the three metropolitan regions in Sweden, the Copenhagen region in Denmark, the Oslo region in Norway, as well as Helsinki in Finland.

www.skanska.fi



YIT is the largest Finnish and significant North European construction company. We develop and build apartments and living services, business premises and entire areas. We are also specialised in demanding infrastructure construction and paving, and we are a property owner, too. Our Partnership properties segment is responsible for the financing the development phases of major development projects and the ownership and subsequent realisation of plots and developed properties at the right moment.

Our largest, and also Finland's largest, construction project is Tripla, which is a three-block complex to be completed in Central Pasila, Helsinki, in stages during 2019 and 2020. It includes the Mall of Tripla shopping centre, a parking facility, public transport hub, apartments, a hotel and offices. It is a perfect example of our urban development strategy.

Together with our customers, our nearly 10,000 professionals are creating more functional, attractive and sustainable cities and environments. We work in 11 countries: Finland, Russia, Scandinavia, the Baltic States, the Czech Republic, Slovakia and Poland. The new YIT was born when over 100-year-old YIT Corporation and Lemminkäinen Corporation merged on February 1, 2018.

Our pro forma revenue for 2018 was approximately €3.8 billion. YIT Corporation's share is listed on Nasdaq Helsinki Oy.

www.yitgroup.com



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Photos: Partner companies' archives





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