



The Finnish Property Market | **2018**

THE FINNISH PROPERTY MARKET 2018

The Finnish Property Market | **2018**

Contents

Preface	7
1 The Finnish economy	8
1.1 The structure of the economy	8
1.2 Outlook for the Finnish economy	10
1.3 Finnish public finances	12
1.4 Finland's international competitiveness	15
1.5 Main city regions in Finland	17
2 Institutional aspects of the Finnish property market	19
2.1 Two forms of property ownership	19
2.2 Market practices of property investment and renting	20
2.3 Planning	22
2.4 Taxation in Finland	23
2.5 Legislation for indirect property investment	26
3 The Finnish property investment market: volumes, structure and players	28
3.1 Investment market in 2017	28
3.2 Ownership structure	29
3.3 Real estate service sector	40
4 Property sectors: market structure, practises and investment performance	44
4.1 The office market	44
4.2 The retail market	49
4.3 Rental residential sector	54
4.4 Public use properties	59
4.5 Industrial / logistics market	61
4.6 Hotels	63
5 Property markets in different regions – outlook for 2018	64
5.1 The Helsinki metropolitan area	64
5.1.1 Helsinki	66
5.1.2 Espoo	71
5.1.3 Vantaa	74
5.2 Other growth centres: Tampere, Oulu, Turku, Jyväskylä, Lahti and Kuopio	76
The sponsors of this publication	83

Preface

The Finnish Property Market 2018 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 market.

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

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.

This publication is sponsored by 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, Colliers International Finland, KIINKO Real Estate Education, LocalTapiola, Newsec, RAKLI, SATO, SEB Group, Sirius Capital Partners, Skanska and YIT.

The report provides a comprehensive overview of the Finnish property market. KTI Finland can also provide more detailed information and analysis on the individual sub-markets for specific needs, upon request.

We hope you find the report interesting, relevant and worthwhile reading.

Hanna Kaleva
KTI Finland

KTI Finland is an independent research organisation and service company providing information and research services for the Finnish real estate industry. KTI maintains extensive databases on returns, rents, transactions, operating costs and customer satisfaction measures in the Finnish property market. Based on these databases, various kinds of benchmarking and analysis services can be provided. For more information, please call +358 20 7430 130 or visit www.kti.fi.

Basic facts about Finland

GEOGRAPHY	
Total area	338,000 square kilometres
Distances	1,160 km north to south 540 km east to west
PEOPLE	
Population	5.51 million Density: 18 inhabitants per square kilometre Helsinki 2,984 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 88.3% Swedish, spoken by 5.3% Foreign languages spoken by 6.4%
Religions	Lutheran 71.0% Orthodox 1.1%
Capital city	Helsinki, 642,000 inhabitants Helsinki region, 1.5 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo, 277,000 Tampere, 230,000 Vantaa, 222,000 Oulu, 201,000 Turku, 189,000 Jyväskylä, 139,000 Lahti, 119,000 Kuopio, 118,000
ECONOMY	
GDP per capita	€39,236 (2016)
Most important exporting industries	Chemical industry products Forest and paper industry products Metal and engineering products Machinery and equipment Electronics and electrotechnical goods
Currency	Euro (since 2002)
History and governance	Independent democracy since 1917
	Member of the European Union since 1995
Head of State	President of Republic, Sauli Niinistö (since 2012, 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).

1 The Finnish economy

1.1 The structure of the economy

Finland is an open, well-functioning and stable economy, where strong growth, innovation and structural reforms transformed the country into one of the world's most competitive economies during the late 1990's and early 2000's.

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.

Growth of industrial production has had a great impact on the development of the Finnish economy during the past decades. However, during the past years, share of industrial production has decreased, while that of services has increased. In 2000, industrial production accounted for 30 per cent of the Finnish GDP, and, by 2016, its share had fallen to some 20 per cent.

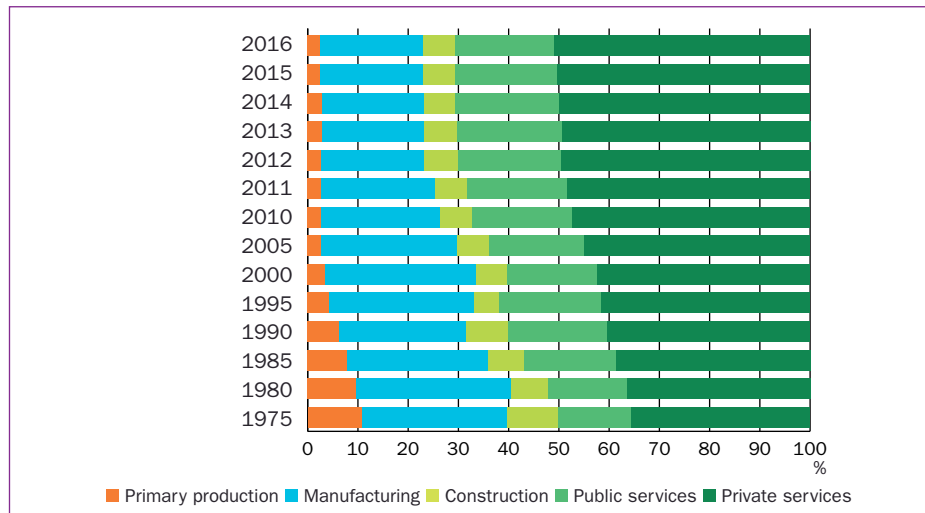
In 2016, the biggest industrial sector was metal industries, which accounted for some 40% of the total industrial production. The biggest categories within metal industries include mechanical engineering, electronics and electrotechnical industry, metals industry and information technology industries. 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. In 2016, exports accounted for some 35 per cent of the GDP, and some 22 per cent of the domestic value added (gross value deducted by the value of imported intermediate goods). The diversity of Finnish exports has increased in recent years. In 2016, chemical industries accounted for some 19 per cent of the total exports of goods. Other important exporting industries include forestry and paper (17%), metal and metal products (14%), machinery and equipment (13%), as well as electrotechnical industries (12%). A large share of Finnish exports are investment goods, and, therefore, the growth in global economy is crucial with regard to the demand for Finnish exports.

"The share of services of the Finnish GDP is increasing"

The share of services of total exports has increased steadily in recent years. The significance of services is highlighted by the fact that the share of domestic value added is typically markedly higher than in traditional manufacturing industries where value added is partly based on imported intermediate goods. According to a recent study conducted by Aalto University, ETLA, University of Helsinki and VATT Institute of Economic Research, services accounted for some 36 per cent of the combined domestic value added of Finnish exports in 2016. The biggest sector in services is IT services, which accounted for some 11 per cent of the

Finnish economic structure



Source: Statistics Finland

total domestic value added of exports. This is the second biggest share among all exporting business sectors after forestry industries (13%). 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.

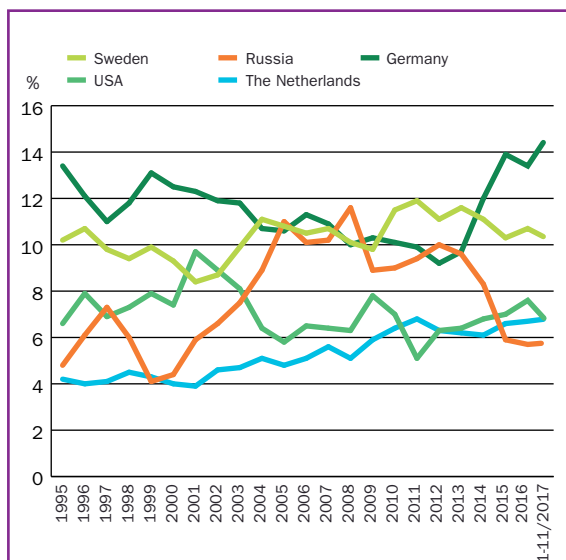
"The economic outlook is positive in all important target countries for Finnish exports"

In 2017, the total volume of the Finnish exports increased significantly. Between January and November, the volume of total exports of goods was 16 per cent higher than in the corresponding period in 2016. Within the three first quarters of the year, exports of services increased by 8 per cent.

"The volume of Finnish exports increased significantly in 2017"

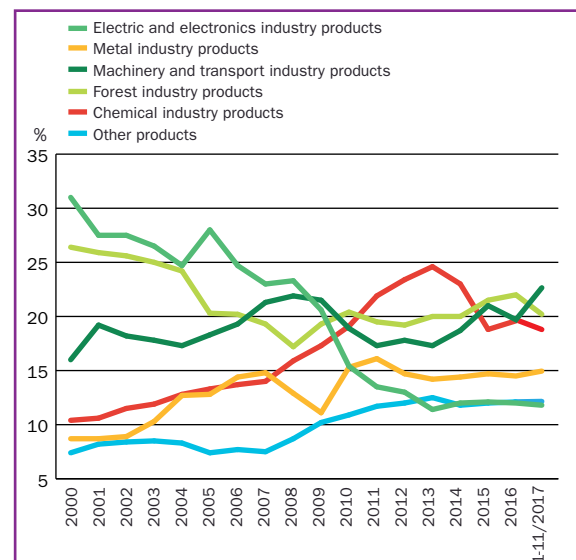
More than two thirds of Finnish exports go to other European countries. The most important target countries of Finnish exports include Germany (14%), Sweden (10%),

Finnish foreign trade by target area



Source: Finnish Customs

Finnish exports by industry sector



Source: Finnish Customs

the Netherlands (7%), the USA (7%), China (6%) and Russia (6%). Exports to Germany increased significantly in 2017, mainly due to the growth in exports of cars. Also exports to China increased, thanks to an increased demand for pulp.

"The competitiveness of the Finnish exporting industries strengthened in 2017"

1.2 Outlook for the Finnish economy

Finnish GDP growth remained sluggish for almost a whole decade following the global financial crisis. However, in 2017, the economy turned to a healthy growth path, with GDP growth forecasts being increased throughout the year, and the final figure even exceeding expectations and ending up to over 3 per cent. The absolute volume of production is finally expected to reach and exceed the previous peak level of 2008 in early 2018.

The current growth of the economy is broadly based and well balanced with exports, private consumption and investments all showing significant increases, which are expected to continue in 2018.

The competitiveness of the Finnish exporting industries remained weak for many years due to the increase in production costs and unfavourable structural changes in the economy. In recent years, however, competitiveness has been strengthened by more moderate labour cost development compared to the key competitive countries, as well as an increase in productivity. In 2016, the Finnish

government initiated the so called Competitiveness Pact, the main objective of which is to support the competitiveness of the Finnish exporting industries. The key contents of the Pact included the lengthening of working hours by 24 hours per year, zero wage increases for 2017 and the transfer of some employer contributions to employees. In return, the government committed to cutting some income tax and refraining from cutting any further public expenditures. Moderate wage increases have been extended to 2018 and 2019 with total increases of some 3.2 per cent for the two-year period in most important exporting industries.

"Finnish economy grew by more than 3% in 2017"

Due to increased competitiveness, the Finnish exporting industries have gained market share within the past year, and the growth has thus been stronger than in most other countries. However, going forward, these advantages are being mitigated, and the growth of the Finnish exports is expected to be more in line with the increase in global demand. Exports will continue to be broadly based with cars, metal products, paper and pulp products and raw materials all showing positive development. In 2018, the volume of exports is expected to increase by some 4-5 per cent.

Private consumption increased by some 2 per cent in 2017. In 2018, the consumption is expected to be boosted by improving employment and increasing earnings. Consumer confidence has been strengthening rapidly, and in the latest update in January 2018, the consumer confidence was at its highest level ever. Also a low inflation rate is supporting private consumption. The forecasts for the increase in private consumption for 2018 vary between 2 and 3 per cent.

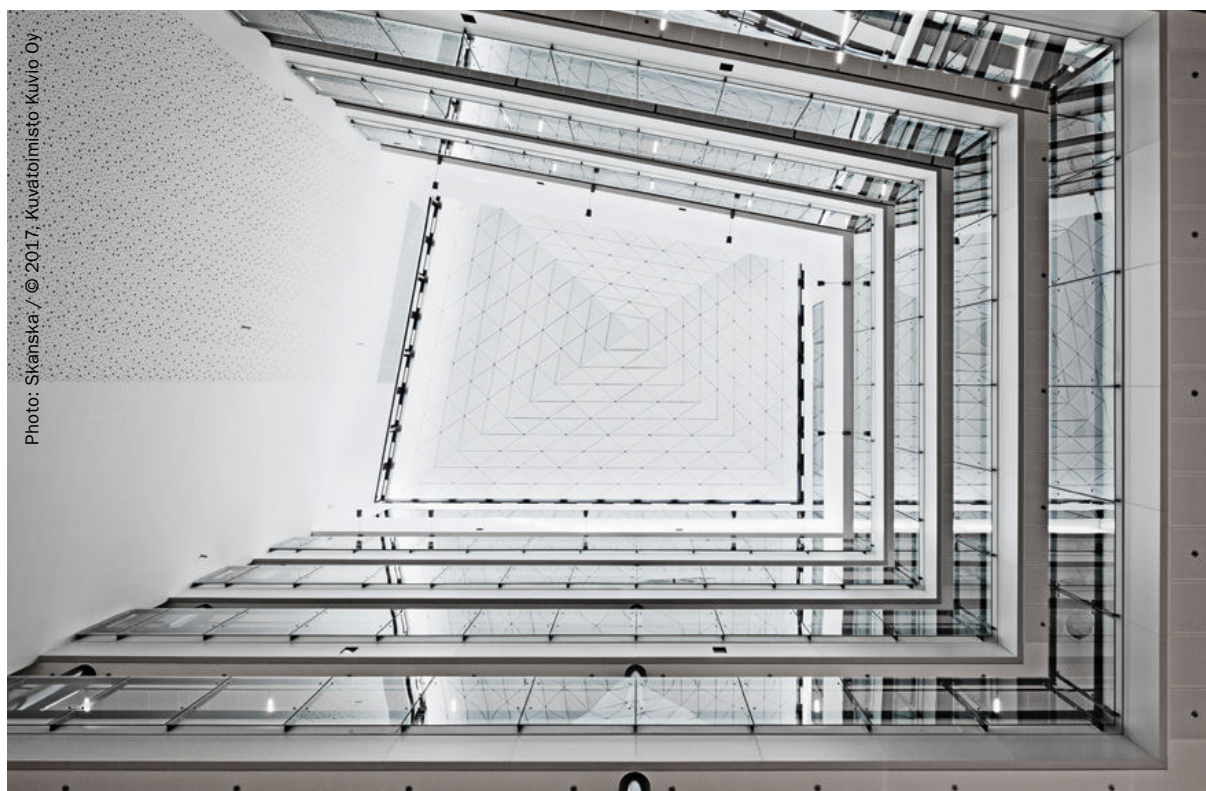
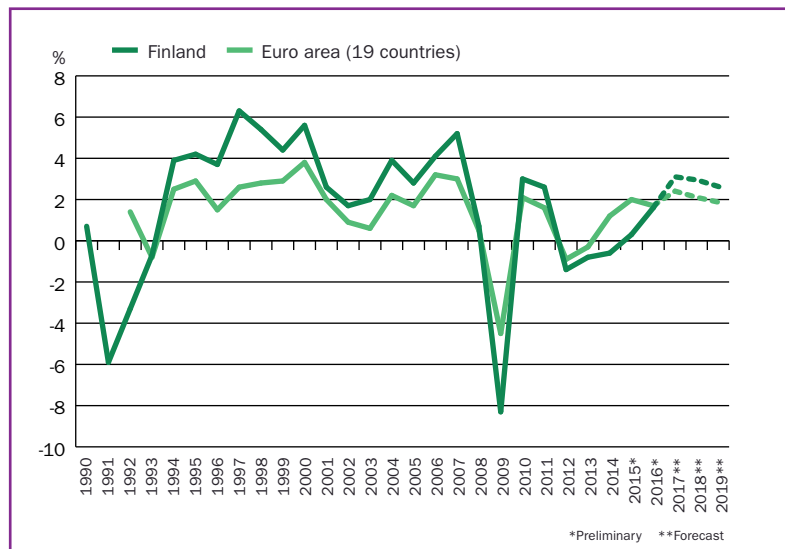


Photo: Skanska / © 2017; Kuvatoimisto Kuvio Oy

GDP growth in Finland and in the Euro area



Source: Eurostat, OECD, IMF, Ministry of Finance

Growth in construction investments was one of the main drivers for the promising economic development, which started in 2016. During 2017, the positive economic outlook enhanced investments also in other sectors, with total investment volume increasing by more than 10 per cent. The growth in investments is expected to continue also in 2018, with growth forecasts varying around 5 per cent. Investments are supported by both low interest rates as well as by strong investment demand.

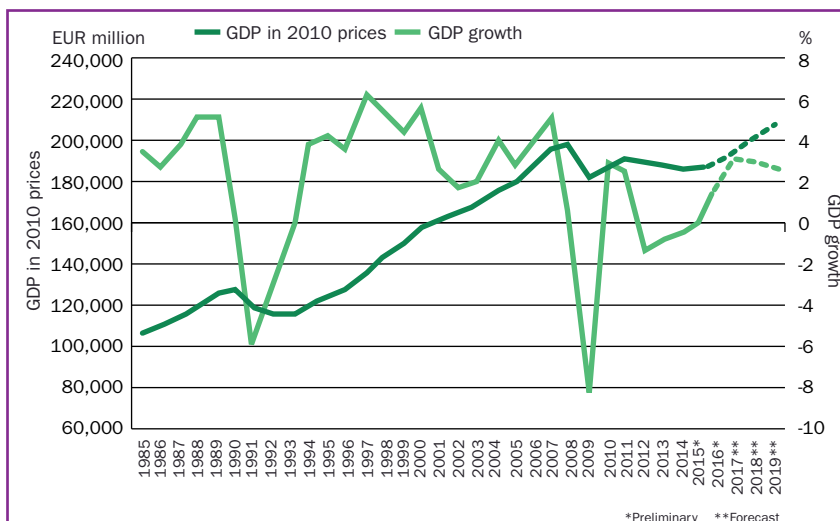
For 2018 and 2019, a stable growth is forecasted, with annual GDP growth figures varying between 2 and 3%. The growth will be based on a continuous but slowing increase in consumption, exports and investments.

"Improving employment critical for the sustainability of economic growth"

"Economic growth is broadly based with consumption, exports and investments all showing positive development"

Unemployment continued to decrease in 2017, with the unemployment rate ending up to some 8.5%. So far, unused capacity and improving productivity have enabled the growth in production, but in the future, improving economic conditions will also increase the demand for labour. Unemployment is expected to decrease to some 8% in 2018 and even further in 2019. However, the mismatch between the supply and demand for workforce makes a rapid

GDP in 2010 prices and GDP growth



Source: Statistics Finland, Bank of Finland, Nordea

decrease in unemployment unlikely. Demand for labour is targeted at skilled people in the largest cities, whereas unemployment is highest in rural areas and among the less educated workforce. The amount of so called structural unemployment is assessed to be as high as 7%.

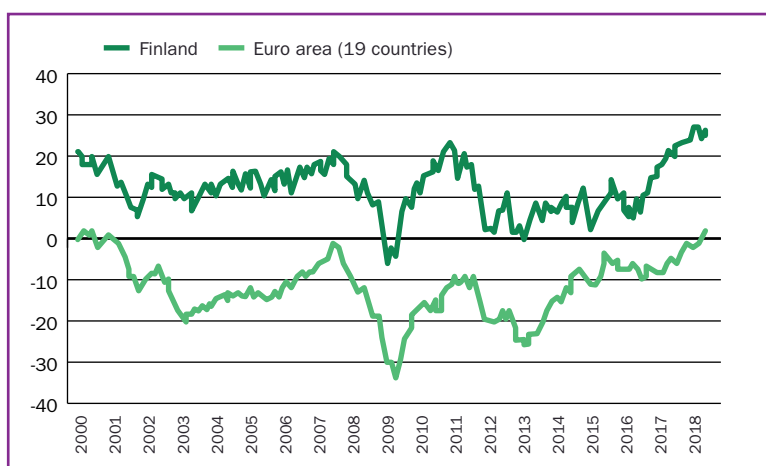
Inflation has remained very low in recent years. In 2017, consumer prices increased by some 0.7 per cent. In 2018, the inflation is expected to accelerate to some 1-1.5 per cent, mainly due to price increases in services.

1.3 Finnish public finances

Despite the more positive development and outlook for the economy, Finnish public finances continue to face challenges. The government budget has been in deficit since 2009 and is likely to remain negative until the end of this decade. This means that the absolute amount of general government debt continues to increase even though its relative share is expected to decrease thanks to the growth in GDP.

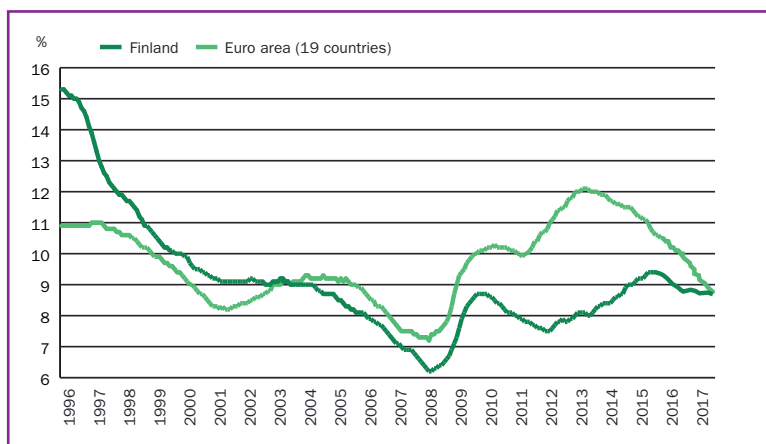
General government in Finland consists of the central government, local government, and social security funds. Of these three areas, the central government has shown the most

Consumer confidence indicator



Source: European Commission

Unemployment rate in Finland and in the Euro area



Source: Eurostat, Bank of Finland and Statistics Finland

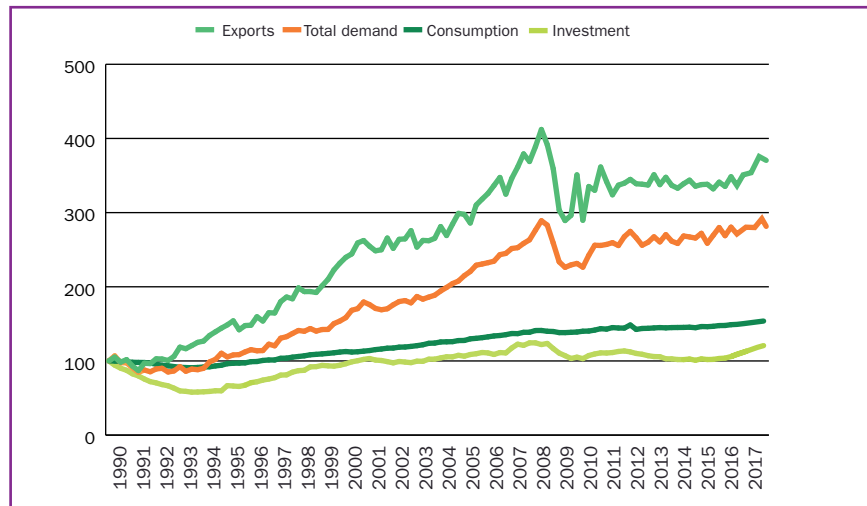
Key figures – Finnish economy

	2010	2011	2012	2013	2014	2015	2016	2017	2018**	2019**
GDP (change in vol), %	3.0	2.6	-1.4	-0.8	-0.6	0.1*	2.1*	3.2**	3.0	2.5
Change in exports, %	6.2	2.0	1.2	1.1	-2.7	0.9*	2.3*	8.4**	4.8	4.7
Inflation, %	1.2	3.4	2.8	1.5	1.0	-0.2	0.4	0.7	1.0	1.2
Unemployment rate, %	8.4	7.8	7.7	8.2	8.7	9.4	8.8	8.5	8.0	7.5
Private consumption, %	3.1	2.9	0.3	-0.5	0.6	1.9	1.9	1.9	2.9	2.8

*Estimate **Forecast

Source: Statistics Finland, Ministry of Finance, Nordea

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



Source: Statistics Finland

negative development in recent years due to its sensitivity to cyclical fluctuations in tax revenue. Local government balance has also turned negative and is expected to remain so until the end of the decade. Of the social security funds, pension related funds remain in a slight surplus thanks to their consistent revenue from both pension payments of the Finnish workforce and investment income.

Finland's general government deficit decreased to 1.1% in 2017 despite some increasing public costs included in the Competitiveness Pact. In 2018, the deficit is expected to decrease further to some 0.7%, supported by the economic growth and increasing tax revenues.

"General government deficit is decreasing due to enhancing economic growth"

The amount of government debt exceeded the threshold of 60% of the GDP in 2015, ending at some 63%. Thanks to the positive development of the economy, the ratio has decreased in 2016 and 2017, and ended up to some 62.5% at the end of 2017. The debt ratio is expected to continue decreasing in the coming years and to fall below 60% in 2019. However, as the nominal amount of debt continues to increase, the resilience of the economy will not be very high when the economic conditions potentially start weakening again in 2020's.

Strengthening the public economy requires some structural reforms. Public spending will be increased as the ageing of the population increases pension payments and healthcare expenses. The objective of the current government is to cut public expenses by increasing productivity or reducing service levels rather than increase taxes.

"General government debt expected to fall below 60% in 2019"

The Finnish 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 54% of total production.

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 the slight decrease in recent years, the tax rate in Finland is among the highest in the OECD countries, and stood at 44% of GDP in 2016. This was only exceeded by Denmark, France and Belgium. In 2017, the Finnish tax rate decreased to 43.2% and is expected to continue decreasing to some 42% in the coming years.

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, and 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.

"A major reform in regional government underway"



Photo: YIT

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 will 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 rescue services, environmental issues, regional development duties and tasks related to the promotion of business enterprise, planning and steering of the use of regions and promoting the identity and culture of the counties. The reform has been delayed due to various political and constitutional law challenges in legislative processes and is currently planned to come into force in the beginning of 2020, and the first county elections to be held in October 2018.

"Healthcare and social service reform to come into force in 2020"

The main objectives of the healthcare and social service reform include 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. The total targeted savings amounts to some €3 billion by 2029. This would require the growth rate of expenditure to decrease from its current level of 2.4% p.a. to 0.9%.

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. The renewed legislation concerning this is expected to be submitted to the Parliament in early 2018, and to come into force in the summer. In this case, the counties would start their operations in the beginning of 2019, and take responsibility of services in 2020. However, the clients' freedom of choice is planned to be extended in phases starting in 2020.

Together with the municipalities' willingness to reorganise their operations, the planned reform has already significantly increased the supply of private sector healthcare services. The private sector currently accounts for some 25% of healthcare and social services. The increase in private sector service provision also opens up new opportunities for property investors offering premises for these companies.

The reform will also impact the ownership and financing of public healthcare properties. Most of these properties are currently owned by the Finnish municipalities or municipal federations. A separate company, Maakuntien Tilakeskus Oy, has been established to own and manage the properties currently owned by municipal federations, comprising mainly large central hospitals. The company will also manage all lease agreements of the properties that municipalities have rented from private landlords.

"The service reform will have a significant impact on healthcare properties"

In addition, the counties will rent all the properties currently owned and operated by the municipalities for a transition period of three years. A major survey of the premises currently used by the municipalities is underway, and according to the current estimates, the counties will rent some 7000 premises comprising over 6 million square metres from the municipalities for this initial period. After this, the counties will define the premises needed for their service provision in the longer term. It is expected that a portion of the current properties will not be needed by the counties, and would thus be left vacant after the transition period. However, the amount of excess space and its impact on the municipalities' finances is yet to be defined.

1.4 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 overall welfare of citizens.

The long-term credit ratings for Finland remain strong, although they have deteriorated slightly recently. Standard & Poor's, Moody's, as well as Fitch have all rated Finland in the second best category, at AA+ / AA1, and all consider the outlook as "stable". 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 deteriorated the outlook in recent years. In current conditions, the Finnish government continues to be able to acquire funding at a very low cost.

"The credit ratings of the Finnish state remain strong"

In the latest *World Economic Forum's Global Competitiveness Report*, published in September 2017, Finland retained its tenth position among the 137 evaluated countries. Of the other Nordic countries, Sweden continued to outperform Finland, whereas Norway and Denmark followed Finland in 11th and 12th positions, respectively.

In the ranking, Finland was ranked first with regard to the functioning of the institutional framework, as well as in health and primary education. In the higher education and training pillar, Finland was in the second position, and with regard to the development of the financial market, Finland was ranked fourth. Of the assessed pillars, Finland performed worst with regard to market size, infrastructure and macroeconomic environment. Restrictive labor regulation was also identified as one problematic factor for doing business. In another WEF comparison, the Travel and Tourism Competitiveness report 2017, Finland was ranked first in Safety and Security subindex.

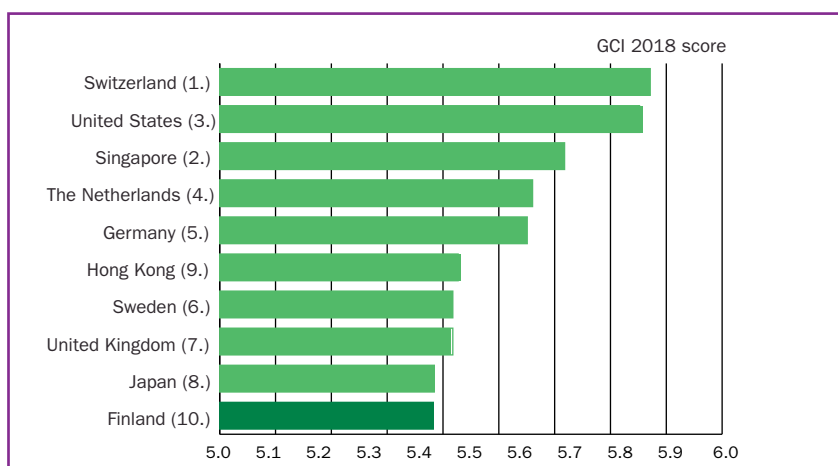
"Finland retained its 10th position in World Economic Forum's Global Competitiveness Index"

In IMD's World Competitiveness Ranking of 2017, Finland was upgraded to the 15th position after having been in the 20th place in 2016. In this ranking, Denmark (7), Sweden (9), and Norway (11) all outperform Finland. However, in IMD's separate ranking report on digital competitiveness, Finland was in the 4th position, showing an improvement of two places since 2016.

Finland is known as one of the least corrupt countries in the world. In Transparency International's *Global Corruption Perceptions Index* for 2016, Finland was ranked third among 176 countries, after Denmark and New Zealand. The report identified strong access to information systems, rules governing the behaviour of those in public positions and transparency of institutions as the factors differentiating the winners from other countries. In The Fund for Peace's *Fragile State Index 2017*, Finland was assessed to be the most stable country in the world.

Among the global capitals, Helsinki typically performs well with regard to its business environment as well as living conditions. For instance, The Financial Times ranks Helsinki 6th in its ranking of "Global cities of the future",

The most competitive national economies in 2018 (ranking in 2017)



Source: World Economic Forum

where the cities' ability to attract global innovation capital is assessed. In INSEAD's ranking of the cities' ability to attract and retain talented workforce (The Global City Talent Competitiveness Index GTCI), Helsinki was ranked 3rd among 46 cities.

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

Finland, together with other Nordic countries, typically performs well in international rankings assessing quality of living. In the Social Progress Index published in summer 2017, Finland ranked second after Denmark. Finland was the top performing nation in 16 out of the 50 indicators assessed in the index, including, for instance, personal freedom and choice, nutrition and basic medical care. The poorest rankings came from health and wellness due to a high suicide rate, and lower than expected life expectancy, as well as from poor gender parity in secondary school enrolment. In OECD's Better Life Index 2017, 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.

"Security, cleanliness and a high-quality education system are highly appreciated in international comparisons"

Also in Eurostat's comparisons of quality of life, Finland's overall life satisfaction was ranked in the top three among 28 EU countries. Other aspects where Finland performs well in this comparison include housing conditions, job satisfaction, education and environment.

Helsinki also ranks well in comparisons in liveability among the global cities. In Economist Intelligence Unit's Global Liveable Cities, Helsinki was ranked 9th among 140 cities. In this comparison, Helsinki received full scores (100) in stability and healthcare, and also performed well in infrastructure. InterNations ranks Helsinki in first place in its Family Life Index, which looks at the quality of life from the point of view of families moving to Finland from abroad. In The Telegraph's comparison of the cleanest capitals, Helsinki was ranked 8th.

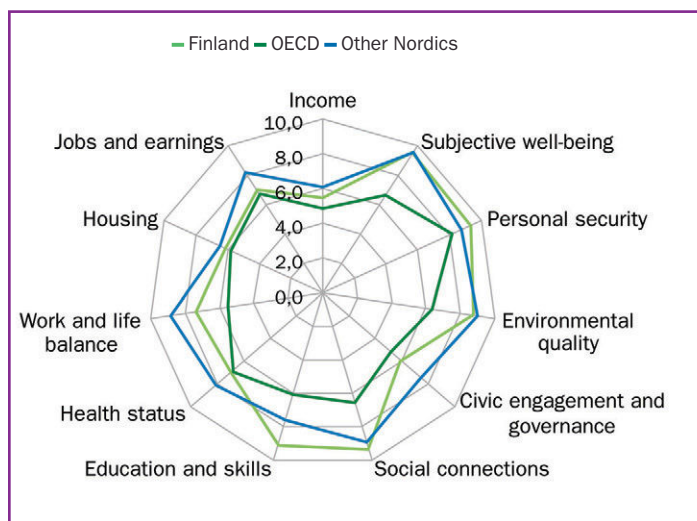
These rankings illustrate Finland's reputation as a respected Nordic welfare economy where political and economical stability, transparent regulatory framework and high-quality education and healthcare support business and living. The not-so-positive characteristics of Finland, from a business perspective 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.

"Helsinki ranks well in comparisons concerning liveability"

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 in the world. JLL's Global Real Estate Transparency Index of 2016 ranked Finland among the six "highly transparent" European markets.

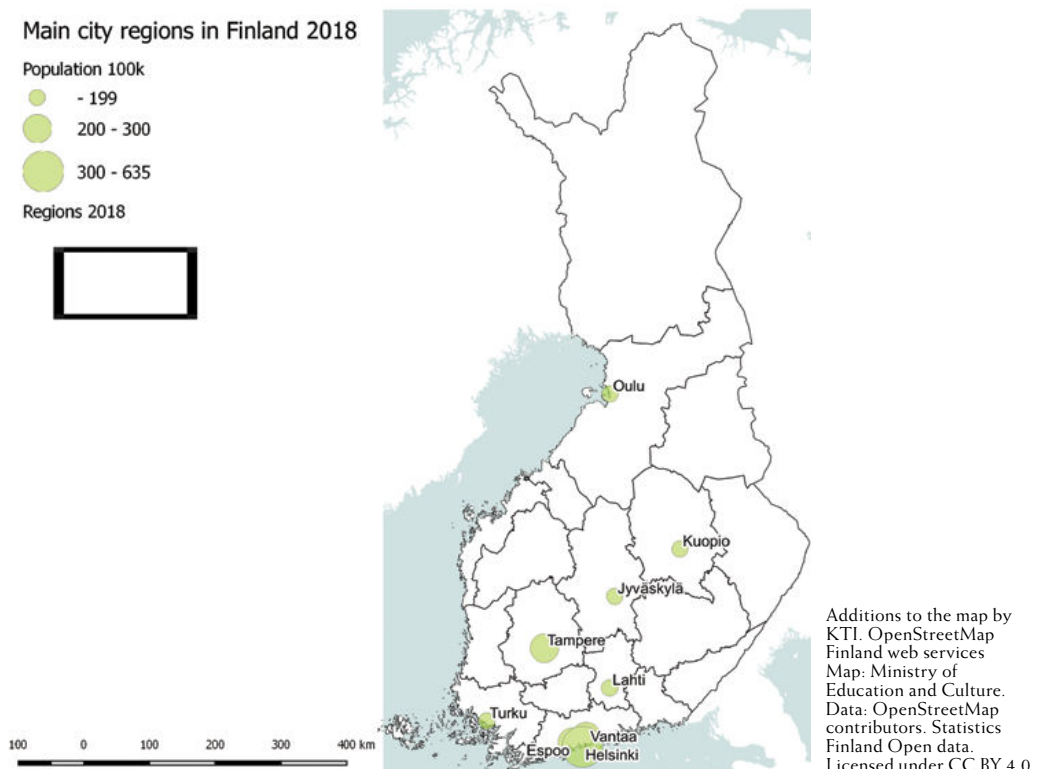
In Pricewaterhouse Cooper's and Urban Land Institute's report *Emerging Trends in Real Estate Europe 2018*, Helsinki retained its 18th place. The prospects for investment remain rather strong, whereas those for property development are regarded as "fair". In this report, both rents and capital values are expected to remain stable in 2018.

OECD Better Life Index 2017



Source: OECD Economic Survey of Finland 2016

Main city regions in Finland



1.5 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 2016, some 69% of the Finnish population lived in the 14 biggest city regions. By 2040, their share is expected to increase to at least 75%. These 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.

"The largest city regions show the strongest growth"

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 or about 100,000 inhabitants – include 10 regions: Lahti, Jyväskylä, Pori, Kuopio, Joensuu, Seinäjoki, Hämeenlinna, Vaasa, Kouvola and Lappeenranta. 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 1.4 million inhabitants. 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 17–19,000 inhabitants per annum, and, by 2050, the population is forecasted to increase to 1.7–1.8 million. The Helsinki region currently represents some 26%

Significance of 14 biggest city regions in Finland, % of total

	Helsinki region	The regions of Tampere, Turku and Oulu	14 biggest city regions
Population (2016)	27.6	17.6	68.6
Jobs (2015)	32.3	17.6	72.2
Private-sector jobs (2015)	35.2	18.1	74.6
GDP (2015)	37.0	16.6	74.3
Research and development expenditure (2016)	47.4	29.1	91.3
Completed dwellings (2010-2016)	34.6	21.8	80.2

Source: Statistics Finland

of Finland's total population, 36% of the country's total GDP and 31% of all jobs, even as the land area represents only 1.2% of the whole country.

In relative terms, growth is expected to be the strongest in the Oulu region, whose population is expected to grow by almost 14% – 35,000 people – between 2015 and 2030. In the same period, the Tampere region is expected to grow by some 11% and Turku region by some 8%.

Due to the increasing urbanization, the newly elected Mayor of Helsinki has started to promote co-operation and interaction between 21 largest cities in Finland. Cities in this so called C21 group are all regional centres across Finland. These cities comprise some 75% of the Finnish population, 78% of jobs and some 88% of value added.

Residential demand in the 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. Between 2010 and 2015, some 80% of new dwellings have been constructed in these city regions, and currently their share of new construction is as high as some 90%.

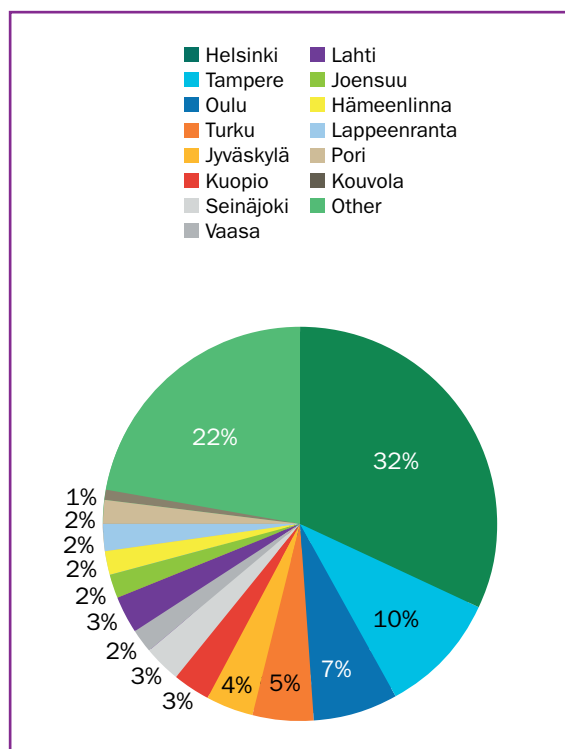
In its study on residential demand by 2040, published in 2015, the VTT Technical Research Centre of Finland based its forecasts on two different scenarios. In both scenarios, the Finnish population is estimated to grow to 5.8 million by 2040. In the "conservative" scenario, population growth estimates 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.

"Demand for housing is increasing in the main city regions"

In the latter scenario – which, according to VTT is more likely – the need for new dwellings would concentrate in 14 main city regions, where 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.

"The Helsinki region represents almost half of the increase in housing demand"

Housing construction in main city regions 2000-2016



Source: RT

Residential construction has increased markedly in recent years, especially in the largest cities. In 2017, residential construction starts continued increasing significantly and amounted to some 40,000 dwellings. This is some 9% more than in 2016, which had already broken many records. New development is concentrated on main cities, and on smaller apartments in apartment buildings. Helsinki region alone accounts for 46% of residential construction, and together with the other three main city regions, the share increases to 70%. New development is boosted by strong investment demand, which will result as increased supply of private rental housing in the main cities. Of the starts in 2017, some 15,000 dwellings are estimated to be built for private sector residential investment, and some 9,000 for subsidized rental housing markets.

Of all residential building permits in 2017, some 45% were applied in the Helsinki region. The other three main city regions – Tampere, Turku and Oulu – accounted for 9, 8 and 4% of building permits, respectively.

"Growth of the main cities boosts rental residential development"

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.

"Property ownership is commonly organised as mutual real estate companies"

The Housing Companies Act and Decree regulate mutual real estate companies that operate in the housing sector (*asunto-osakeyhtiö*). These regulations are always applied when more than 50% of the area of the building is designated for residential use. When establishing a mutual real estate company for commercial property, shareholders can choose either to apply the Housing Companies Act or the normal legislation for limited companies (*osakeyhtiölaki*) as the regulatory framework for the company. The 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 MRECs, rental agreements are made between the shareholder and the tenant"

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 (*rahoitusvastike*) to the mutual company, which then covers the loan to the original lender.

The other type of real estate company is a standard limited company (*kiinteistöosakeyhtiö*), founded for the purpose of owning a certain property or properties. In these companies, the shares are not connected to any specific premises. Rental agreements are made between the tenant and the company, and the company is responsible for maintenance and operating costs, which it covers with the rental income. The real estate company can pay out dividends to its shareholders.



Impact on market practices

Owning property through a mutual real estate company is a more flexible form of ownership, for example in cases where the ownership of a building is divided among several owners. The transfer tax rate is also lower: 2% 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.

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
concerning renting and
transactions is simple and
liberal"**

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. Before that, during the quiet years in 2009–2013, tailored approaches to identify the potential individual buyer were more common.

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

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.

**"New types of players acting
as co-investors for foreign
and institutional investors are
emerging"**

Market entry of international investors has brought about new approaches to due diligence processes, with typically several types of experts – legal, technical, financial and tax advisors – working together. This has resulted in an increased supply of these services in the market.

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.

**"Finnish rental agreements
are typically short and
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. Measured by total space area, the share of fixed-term lease agreements is larger, as fixed terms are often used in larger premises. Despite their flexibility, indefinite leases often last for long periods.

"Indefinite lease terms are common"

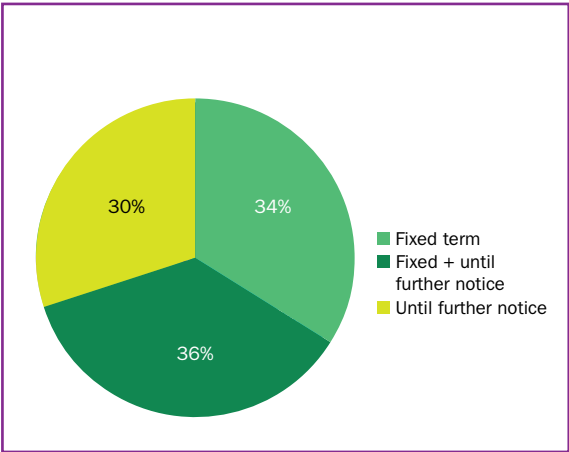
When fixed terms are used, the contract periods are typically quite short compared with many other countries. In multi-tenant office buildings, a typical fixed term is from three to five years.

For larger units, longer fixed-term agreements are commonly applied. For a purpose-built, single-tenant office building, a net lease of ten years or more is common. Agreements in large single-tenant buildings in, for example, sale-and-leaseback arrangements, often have lease terms of up to 20 years.

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 for savings in costs and hedges the landlord against the increases in operational costs, which in recent years have increased more than overall inflation.

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



Source: KTI Rental database

"A landlord can recharge maintenance costs separately to the tenant"

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.

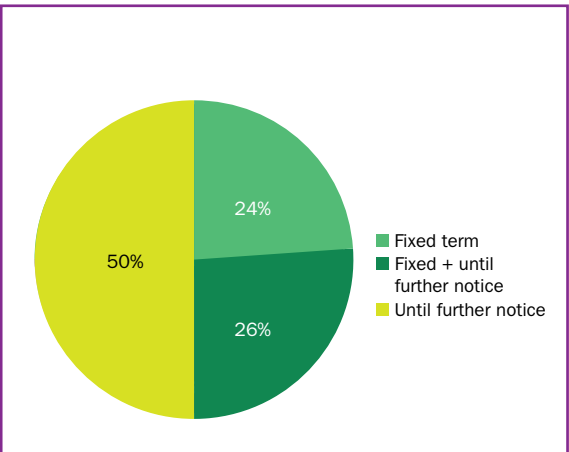
"When net rents are applied, the responsibility for taxes and insurances can be agreed freely"

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.

Some 20-25% of rental agreements in shopping centres are turnover-based. These usually consist of a minimum base rent supplemented by an agreed share of turnover. However, the turnover-based part of the rent is typically quite low, as the landlord wants to secure a stable base for their cash-flow. In some – but very few – cases the rent may be solely based on the tenant's turnover.

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 has been clearly seen, for instance, in the Helsinki metropolitan

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



Source: KTI Rental database

¹ Gross rents are where the land rent, insurance, property taxes and operational expenses are paid by the owner. This means that management and maintenance costs for both indoor and outdoor areas of the building are the owner's responsibility. This is also the case with heating, water and waste disposal. With regards to cleaning and electricity, the owner is typically responsible for the public areas of the building, and tenants have their own electricity and cleaning agreements regarding the space they use. The owner is responsible for repair and replacement costs if caused by normal wear and tear.

Typical leasing practices in Finland

Sector	Shopping centres	High street shops	Super-markets	Offices, multi-tenant	Offices, single-tenant	Industrial, logistics	Residential
Lease term	5-15	3-10 / until further notice	10-15	3-5 / until further notice	10-20	5-15	Until further notice
Basis for rent	Space area / turnover	Space area	Space area	Space area	Space area	Space area	Space area
Rental payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Indexation	Cost of living	Cost of living	Cost of living	Cost of living	Cost of living	Cost of living	Cost of living
Rent review	Annually	Annually	Annually	Annually	Annually	Annually	Annually
Internal repairs	Tenant / landlord	Tenant	Tenant	Tenant / landlord	Tenant	Tenant	Landlord
External repairs	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant	Landlord
Building insurance	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant	Landlord
Property taxes	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant	Landlord

The cost-of-living index 1951:10 = 100 is a long time series calculated from the latest consumer price index (currently consumer price index 2000 = 100) and its development, therefore, follows the consumer price index. Many rents, such as those on dwellings, business premises or land, are usually tied to the cost-of-living index. From the user's point, the cost-of-living index is the most usable one, because index revisions do not interrupt the series and the point figures of the cost-of-living index are published monthly at the same time as the consumer price index. (Statistics Finland)

area office markets in recent years, when an increase in supply has coincided with decreasing demand. 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, who, since the beginning of 2016, also have the powers to confirm the plan.

Regional plans and steering of land use is one of the tasks that will also be moved to the new 18 counties in 2020. 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.

“Regional reform will also impact land use and planning”

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 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.

In practice, municipalities compete with each other by using planning and land use issues to attract taxpayers – both companies and residents – and employers, which can sometimes impact planning decisions.

The current government is aiming to simplify the regulation concerning land use and planning and thereby speed up the planning and construction permit processes. First steps were taken in the beginning of 2016, when the authority for confirming regional plans was moved from the Ministry of the Environment to Regional Councils. Some other, mostly minor, changes came into force in 2017, whereby, for instance, permanent use of second homes was made easier, and the rules for exceeding building rights were changed. The complaint processes were also made faster, and rights for complaints will be limited. Business-wise, the most significant reform concerns 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” was increased to 4,000 sqm in 2017 for units 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 being planned"

The Ministry of the Environment started preparations for major reforms in the Land Use and Building Act in 2017. 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. In order to start preparing the reform, the Ministry set up a specialist group, which finalised its report in early 2018. The group recommended current planning procedures to be replaced by a two-level system, where a strategic general plan would be prepared and approved by counties and municipalities, and a more detailed development plan would be the municipalities' responsibility. Based on the report, the Ministry of the Environment will set up a parliamentary working committee to steer the reform. The legislation is expected to be completed some time during the next electoral period.

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 2016, the total tax revenues of the state and municipalities amounted to some €64 billion. Taxes based on income accounted for some 52% of the total tax revenue, while taxes based on consumption accounted for some 48%. In 2016, the share of taxes paid by households decreased slightly, due to the deductions made in tax rates. The shares of corporate taxes, as well as VAT and other taxes based on consumption increased, supported by the strengthening economy.

Individual taxpayer income is divided into two categories: earned income and capital income. Income tax is paid to the state at a progressive rate and to the municipalities at a flat tax rate. Capital income tax is levied on, for example, interests, rental income, dividend, and sales profits. The capital gains tax rate currently stands at 30%. For capital income exceeding 30,000 euros, the tax rate is 34%.

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



Photo: YIT

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

The state tax rate is progressive, and the highest rate was decreased from 31.50% to 31.25% of earned income for 2018. Income taxation was also decreased slightly by increasing the income thresholds in the progressive tax scale.

Municipalities decide their tax rates independently, and for 2018 municipal tax rates vary between 17% and 22.5%. On average, income taxes account for some 42% of municipalities' total revenues.

In addition to the actual taxes, there are some obligatory social security contributions that are paid by taxpayers, some of which are included as taxes in OECD's international tax comparison statistics. Social security contributions paid by Finnish employers include payments to a national health insurance scheme, national and occupational pension schemes as well as an unemployment scheme. The level of these contributions depend partly on the size and business sector of the employer.

The level of taxation in Finland is clearly above the average for OECD countries. The Finnish ratio of total taxes to GDP in 2016 was 44.1%. In the OECD, the average stands at 34.3%.

**"The Government policy
commits not to increase
taxation of labour"**

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 will 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. The minimum general property tax rate currently stands at 0.93% and maximum at 1.80% of the taxable value per annum, and is set at 1.06% on average. Tax rates for permanent residences can vary between 0.41% and 0.9%. The average rate is currently 0.49%.

A special tax rate may be levied on unbuilt lots. In the Helsinki metropolitan area, this tax rate is set to be at least 3.0 percentages higher than the general property tax rate.

Property taxes typically represent some 22% of the total annual operational costs of office properties, and some 7–8% of those of residential 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.

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% 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.³ The tax base covers the total transaction price, 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.

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

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.



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"**

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. Therefore, the tax authorities should be consulted when the fund structure is set up. However, Finnish partnership structures cannot 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; 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.

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

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	0.93-1.80% 0.41-0.90% (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

taxed according to the investor's tax status, provided that certain conditions are met. Taxation of limited companies depends, for instance, on the nature of the fund's business, and it is therefore recommended to negotiate the details with authorities before the establishment of the fund. Correspondingly, investment income from limited companies investing in property is subject to corporate taxation, and thus not favourable from an institution's perspective.

"Property funds targeted at institutional investors are often structured as limited partnerships"

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, together with the expansion of indirect property investment, the diversity of different structures and legal forms has increased.

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 investment

funds, for instance, with regard to diversification of risks, as well as requirements for fund valuation and pricing of fund units.

Special investment funds are open-ended structures managed by a separate fund management company. According to the legislation, the fund must take new investments and accept redemptions at least twice a year. Provisions for investments in and redemptions from the funds are stipulated in the fund rules. For instance, a fund may be open for subscriptions quarterly and for redemptions only twice a year. The maximum time limit for 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.

"Special investment funds
investing in property have
grown significantly in recent
years"

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 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.

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

- CapMan Real Estate: CapMan Nordic Property Income Fund (mainly office and retail properties in largest Nordic cities)
- Elite Asset Management: Elite Vuokratuotto (residential properties)
- eQ Fund Management Company: eQ Hoivakiinteistöt (care properties) and eQ Liikekiinteistöt (commercial properties)
- Fennia Varainhoito: Fennica I (commercial 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 High Yield Property (commercial properties)

- UB Fund Management Company: UB Nordic Property Fund (commercial properties in the Nordic countries)
- 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.

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 main list of the Nasdaq Helsinki exchange include Citycon, Technopolis, Investors House, Suomen Hoivatilat and Orava Asuntorahasto. The largest of the listed companies, Sponda, was delisted in 2017 due to the acquisition of the shares of the company by Polar Bidco, an investment fund managed by Blackstone.

A limited liability structure is also widely used in non-listed companies investing in real estate. There are, for example, major residential property investment companies that are organised as normal limited liability companies. 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.

"Institutional investors have
been active in establishing
new joint venture structures
in recent years"

The possibility for tax-exempt listed property companies, the 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, managed by Orava Funds plc, is currently the only company operating under this specific regulatory framework. The shares of Orava Residential REIT have been listed on the main list of the Helsinki Stock Exchange since 2013. In 2017, some speculation was targeted at the company's shares. In October, another property investment company, Investors House published that it had acquired some 25% of Orava Residential REIT's shares. After the acquisition, the newly appointed board informed that it is reconsidering the management structure of the company, as well as redefining the company's strategy.

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

3.1 Investment market in 2017

Property transactions volume amounted to €10.2 billion in 2017. This is the all-time record level, which exceeds the previous record from 2016 by 38%.

"Transaction volume reached new record in 2017"

The transactions volume in 2017 was boosted by some exceptionally large company and portfolio transactions. The acquisition of the Sponda portfolio by Polar Bidco, a fund managed by Blackstone, is the largest property transaction ever in Finland. Sponda's Finnish property portfolio amounted to some €3.7 billion in June 2017. Another large transaction boosting the total volume was the sales of the European logistics property company Logisor to China Investment Corporation and its partners. Of Logisor's property portfolio totalling over €12 billion, some 8% is located in Finland.

Office and retail properties were the most attractive property sector in the market. Offices accounted for some 40%, and retail properties for 26% of the total volume. The Sponda portfolio had a great impact on these volumes. The

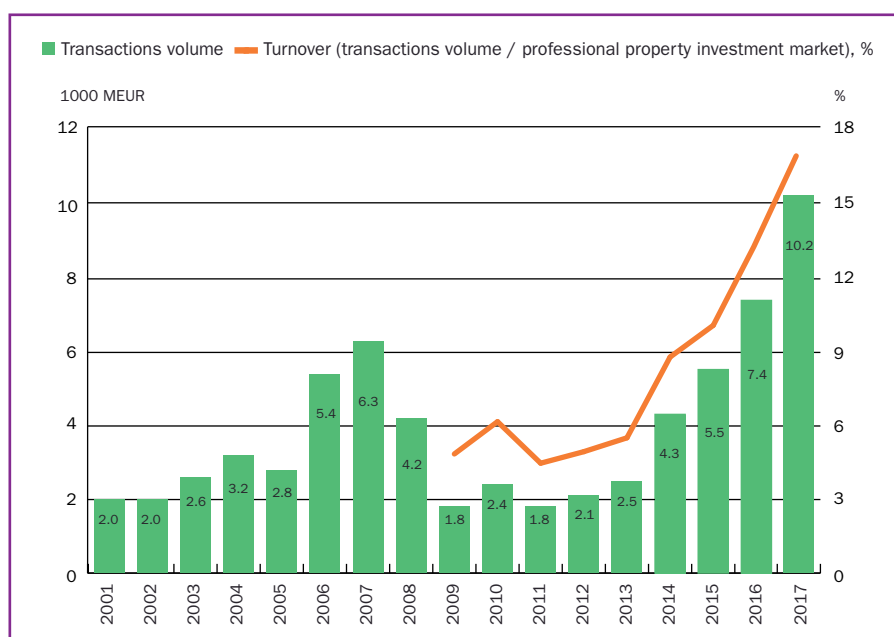
share of residential properties fell from the record level of 38% in 2016 to 10% in 2017. The absolute annual volume of residential property portfolio transactions was, however, the third highest ever, amounting to €1.1 billion.

Boosted by the large company transactions, the share of foreign investors increased to 68% of all transactions. In addition to the transactions of Sponda and Logisor, foreign investors were involved in almost ten acquisitions exceeding €100 million. Foreign investors were active in all property sectors, increasingly also in residential property investment.

"Foreign investors' share of transactions was higher than ever before"

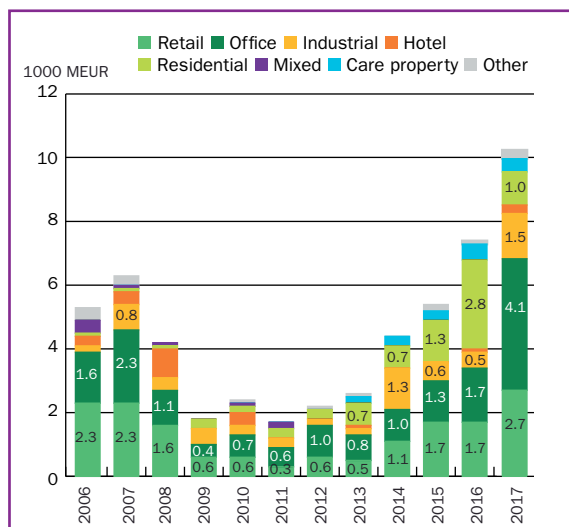
The increased activity in the transactions market contributed to the proportional turnover in the property markets. In relation to the total market size, transaction volume increased to some 16% of the invested property stock, which is the highest relative volume in the past couple of years.

Transactions volume and turnover in the Finnish property market



Source: KTI

Transactions volume by property sector 2006–2017



Source: KTI

21% (€12.3 billion) in 2016 to 29% (€18.4 billion) at the end of 2017. The growth is mainly based on the large amount of acquisitions in the transactions market: foreign investors' net investments amounted to some €4.9 billion in 2017.

Institutional investors have traditionally had a dominating role in the Finnish property investment market. In recent years, however, they have been active in restructuring their domestic portfolios and increasing their international property investments. In 2017, their absolute investments in Finland grew slightly, but their share of the total investment market continued to decrease and ended at some 25%. In the transactions market, institutional investors were net sellers in 2017 with their total sales amounting to some €700 million, and acquisitions to some €200 million. However, they continued investing in property development, and also capital growth contributed positively to their property portfolios.

"Foreign investors became the largest investor group in 2017"

3.2 Ownership structure

At the end of 2017, the size of the Finnish professional property investment market amounted to some €63.7 billion. Compared to the previous year, the market increased by 5.4 billion or 9%.

"The Finnish property investment market grew by 9% in 2017"

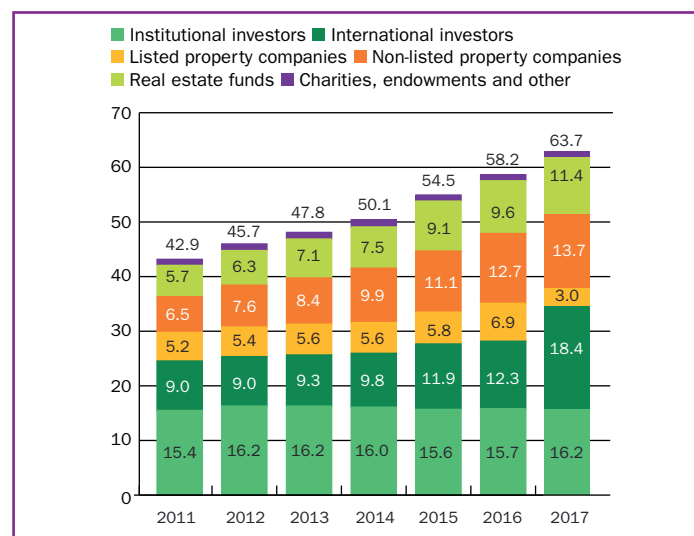
Foreign investors became the largest investor group in the Finnish property market in 2017. Their share increased from

The share of non-listed property companies remained stable at 21% in 2017. Due to Sponda's delisting as a consequence of Blackstone's acquisition of the company, the share of listed property companies decreased markedly, from 12% to 4.8% in 2017. In KTI's statistics, Sponda is currently categorised as a foreign investor, which contributes to the increasing share of international investors.

The list of the biggest property investors has changed markedly in the past years. Large residential companies Kojamo and SATO have established their positions in the top-3 list in recent years. The largest property funds have continued increasing their portfolios, which contributes to the rising positions of, for instance, OP Group, LocalTapiola, eQ and Fennia. At the same time, pension insurance

The structure of Finnish property investment market by investor group

Direct property investments in Finland 2011–2017, EUR billion



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

companies have restructured their portfolios, and they have fallen from the earlier top positions on the ranking of largest investors.

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 €198.9 billion at the end of the third quarter of 2017. Since the corresponding period in the previous year, the assets had increased by some €14.4 billion. The increase was a result of positive returns on all asset classes, especially equity investments.

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. Of the total amount of €26 billion of pensions paid out in 2016, some €22.4 billion was funded from annual contributions and €3.6 billion from existing funds. The increase in pension funds' investment assets is thus currently based on returns on existing investments.

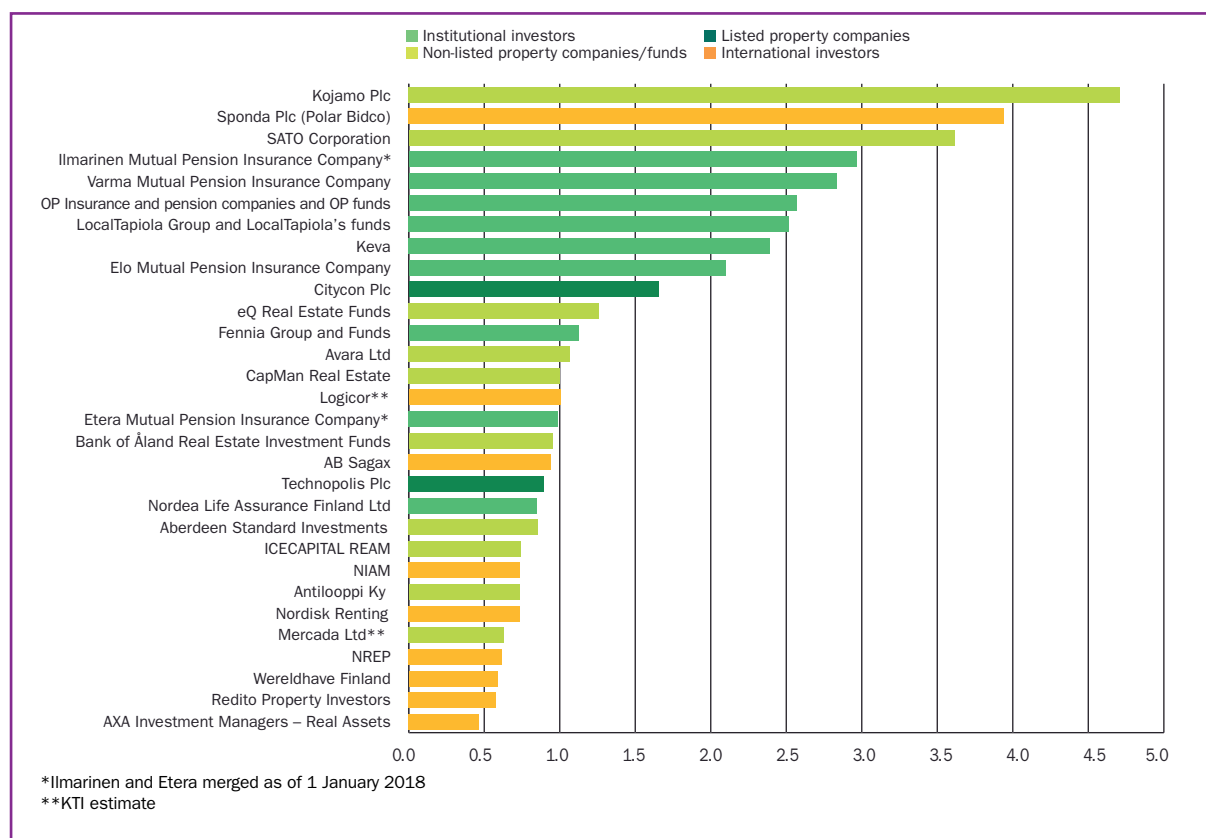
Calculations on the long-term pension money flows are based on the assumption of a 3.5% annual real return on investments. However, due to the challenging investment environment, the return expectations have been lowered to 3% until 2026, after which the expectation will be increased back to its original level. According to TELA, the real return on private sector pension institutions' investments has amounted to 4.4% per annum on average in the past 20 years. In the past ten years, the return has been clearly lower, at about 3.1%.

In the private pension sector, pension insurance companies are the biggest players. There are currently four major companies: Varma, Ilmarinen, Elo and Veritas. As of the beginning of 2018, Etera was merged with Ilmarinen, reducing the number of companies. In the public sector, there are two major pension funds, Keva and the State Pension Fund (Valtion Eläkerahasto / VER). 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

Direct property holdings of 30 biggest property investors in Finland

Property assets under management at the end of 2017, EUR billion



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

equities was 31.7%, while that of Keva was over 36% and VER 42% at the end of the third quarter of 2017.

At the end of the third quarter of 2017, 40.3% of the pension insurance companies' assets were invested in listed shares or other equity investments. Some 38.2% of the assets were invested in bonds and money market instruments. Property investments' share in pension insurance companies' portfolios amounted to 10.9%. In public sector pension institutions' portfolios, the share of property investments was significantly lower, 6.2% and 3.9% for Keva and VER, respectively.

"10.9% of pension insurance companies' assets were invested in property in 2017"

At the end of third quarter of 2017, the property investments of Finnish pension institutions amounted to €16.2 billion. The total amount increased by €0.8 billion from the end of 2016. The majority, some 77% of pension institutions' property investments, are invested in Finland.

After having decreased for several years, the absolute amount of domestic property investments increased by €0.6 billion, or 5%, in 2017. Direct domestic investments dominate the institutions' domestic property portfolios with the share of 70%. 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 kinds of structures have been established by, for instance, Ilmarinen (Antilooppi) and Elo (Agore Kiinteistöt).

Institutional investors' foreign property investments amounted to €3.8 billion at the end of the third quarter of 2017, representing a growth of some 5.5% since the end of 2016. The majority of foreign investments are invested

in indirect vehicles. Only in recent years the biggest institutions, such as Ilmarinen, Varma, Keva and Elo have made some direct investments, typically in large single assets, often together with their investment partners and managers.

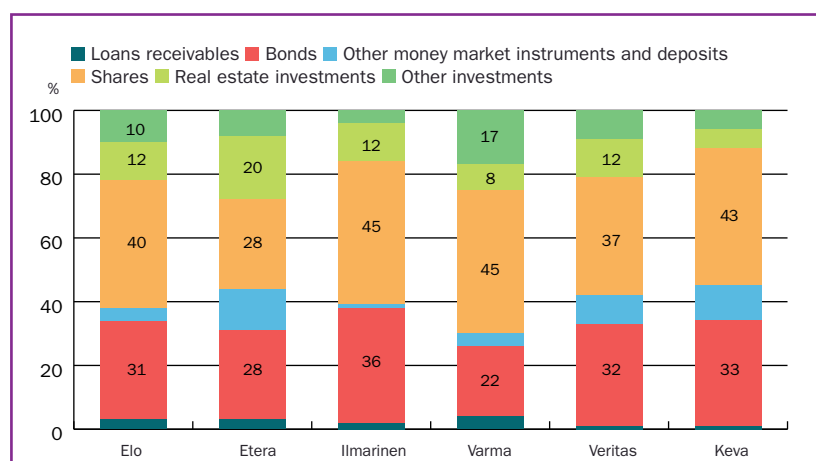
"The share of indirect investments is increasing in institutional property portfolios"

At the beginning of 2018, Etera was merged with Ilmarinen, which thereby became the largest private sector pension fund in Finland measured by the annual pension contribution or number of the insured. At the end of 2017, the combined market value of their investment portfolios totaled €45.9 billion, whereas that of Varma totals €45.4 billion.

Varma has been active in restructuring its property portfolio in recent years. At the end of 2017, Varma's direct domestic property portfolio amounted to €2.8 billion (€2.9 billion at the end of 2016). In 2017, Varma continued the sales of assets from its portfolio, by selling, for example, a portfolio of 53 industrial properties to Sagax, seven residential properties to an unnamed German investor, and three office properties to Nordika. Varma also acquired an office property in the Helsinki CBD, and continued investing in property development both in newly built and redevelopment projects. The total value of Varma's property portfolio amounted to €3.6 billion at the end of 2017. In early 2018, Varma outsourced the management and disposal of an office property portfolio to Catella with the aim to develop and sell the properties during the coming years.

"Pension insurance companies Ilmarinen and Etera merged in 2018"

Investment portfolios of pension insurance companies



Source: The Finnish Pension Alliance TELA

Ilmarinen has not been active in property transactions in Finland in the past two years. The company mainly concentrates its new domestic investments in residential construction and redevelopment of existing assets. Ilmarinen is also one of the investors in the REDI shopping centre, which is due for completion in late 2018. In 2017, Ilmarinen continued expanding its foreign property portfolio by entering joint venture structures investing in large office properties in Amsterdam, Berlin and Manchester. The company also made a partnership agreement with New York Life on co-operation in real estate investments in the US. Etera, which merged with Ilmarinen in 2018, is one of the investors in the Mall of Tripla project, which is scheduled for completion in 2019. Etera is also increasing its portfolio through investments in development projects both in residential and commercial properties. At the end of the third quarter of 2017, Ilmarinen's and Etera's property investments amounted to €4.5 and €1.2 billion, respectively. In early 2018, Ilmarinen published the sale of the head office property of KPMG in Helsinki CBD for a price of some €190 million. This property was formerly owned by Etera.

The third largest private sector pension insurance company is Elo with a total investment portfolio of €23.1 billion at the end of 2017. Of Elo's investment assets, some 12.3% were invested in property. One major event in Elo's portfolio in 2017 was the establishment of Agore Kiinteistöt Ky together with the Swedish AP1 and management company Trevian. Elo sold a €160 million property portfolio comprising 10 retail properties to the newly established company. Like other pension institutions, Elo has increased its residential property portfolio in recent years through both new development and property acquisitions.

In the public pension sector, Keva handles the pension matters of people employed in the local governments, the state and the Evangelical Lutheran Church of Finland. Keva is the biggest player in the pension sector; its investment portfolio amounted to €50.9 billion at the end of the third quarter of 2017. Of Keva's total assets, some 6.2% are invested in property, and at the end of 2017, the total value of Keva's property investments amounted to €3.3 billion. Some €2.4 billion of these are direct domestic investments. In 2017, Keva announced it will invest in the first Finnish Marriott hotel property, which will be built in Tampere. It is also

investor in the 20,000 sqm head office of Ramboll, which is due for completion in 2019. Of Keva's €0.8 billion foreign property holdings, the vast majority is invested in funds. In recent years, Keva has made some direct investments in retail properties in Sweden. In 2017, Keva acquired three smallish shopping centres in secondary Swedish cities.

The State Pension Fund VER was managing an investment portfolio of €19.1 billion at the end of the third quarter of 2017. VER focuses solely on indirect property investments, which at the end of the third quarter represented 3.9% of the total portfolio. The fund's statutes prevent them from making direct property investments.

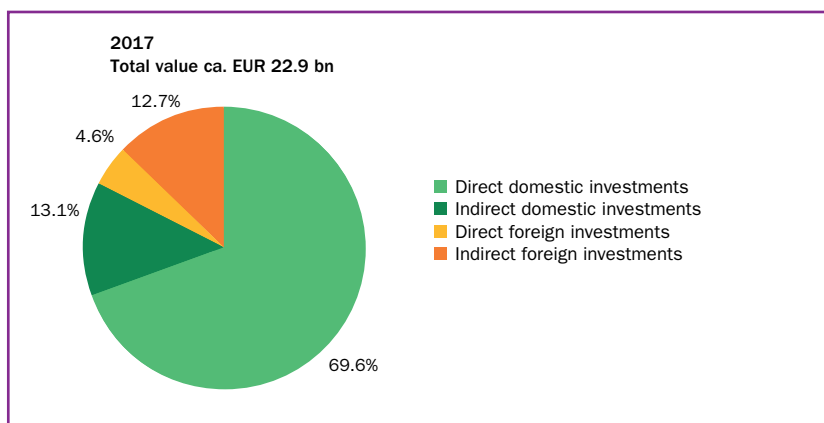
In addition to these major players, there are some smaller pension providers, which are specialized in managing the pension matters of one company or one industry sector. Examples of this kind of players include OP Bank Group Pension Fund, Valion Eläkekassa, Apteekkien Eläkekassa and the Seafarer's Pension 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 2016, the total amount of investments of life insurance companies amounted to €22 billion and that of insurance companies to €15 billion. Total property investments amounted to some €12 billion, according to the Federation of Finnish Financial Services FFI.

Real estate exposure of the Finnish institutions



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

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 life insurers investing in property include Fennia Life and Aktia Life insurance.

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

Listed property sector

The Finnish listed property sector decreased markedly in 2017 due to the delisting of the largest company Sponda following the acquisition of the company by Blackstone's Polar Bidco. At the end of 2017, the Finnish property holdings of the listed property companies stood at €3.0 billion, having amounted to some €6.9 billion at the end of 2016. Their combined market value in the Nasdaq Helsinki stock exchange stood at €2.9 billion (€4.1 billion at the end of 2016).

"The Finnish listed property sector decreased in 2017 through the delisting of Sponda"

Citycon and Technopolis are currently the two largest listed property companies with market values of €1.9 and €0.7 billion, respectively. Other smaller companies include Suomen Hoivatilat (market value €185 million at the end of 2017), Orava Residential REIT (€48 million) and Investors House (€46 million).

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 2017. In total, the company currently owns 49 shopping centres, of which 13 are located in Finland. The Finnish holdings represent some 37% of the value of Citycon's total portfolio. 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. In 2017, Citycon divested five non-core Finnish shopping centres for a total price of some €167 million to Cerberus Capital Management. 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 Finland, Sweden, Norway, Russia, Estonia and Lithuania. The company currently operates in 6 cities in Finland, after having disposed its holdings in Lappeenranta in 2016 and Jyväskylä in 2017. At the end of 2017, the fair value of Technopolis' property portfolio amounted to €1.5 billion (€1.6 billion at the end of 2016), and of these, some €891 million are located in Finland. In 2017, the company announced it will invest some €46 million in a new office campus in central Tampere. It also bought the minority share of Technopolis Fornebu campus in Oslo, formerly owned by Ilmarinen.

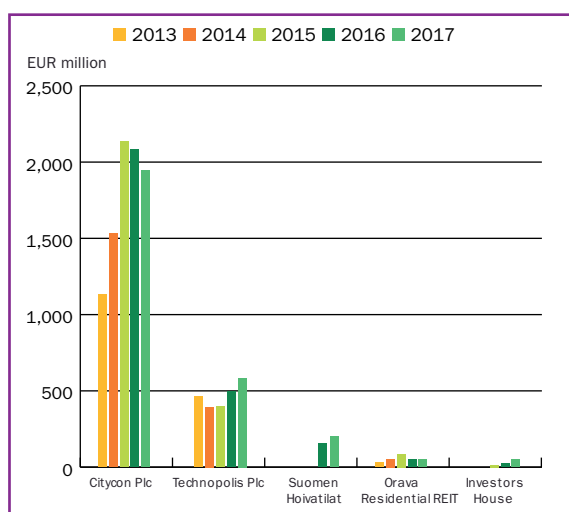
The OMX Real Estate Sector price index showed an increase of some 11% in 2017. This was very close to the overall share performance in the Nasdaq Helsinki stock exchange.

Orava Residential Real Estate Investment Trust is the only listed property fund operating under the Finnish property fund legislation, which provides tax transparency for listed real estate investment companies investing in rental residential properties. At the end of the third quarter of 2017, the fair value of the company's portfolio stood at €203 million (€211 million at the end of 2016). The company owns some 1,700 rental residential dwellings.



Market values of the Finnish listed property companies

Market values at the end of year



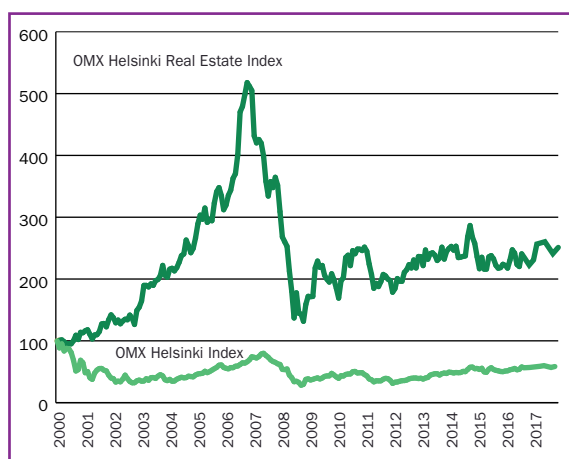
Source: NASDAQ OMX Helsinki

Suomen Hoivatilat is specialised in developing and leasing out care properties, including nursing homes, children's day care centres and more extensive service blocks. The company's tenants include both municipalities and private sector service operators. The company was listed in the First North marketplace in 2016 and in the main list of Nasdaq Helsinki stock exchange in 2017. At the end of 2017, the fair value of the company's property portfolio stood at some €250 million (€155 million in 2016).

Investors House invests in residential and commercial properties mainly outside the Helsinki metropolitan area. The total value of the company's property portfolio amounted to some €54 million at the end of the third quarter of 2017. In 2017, Investors House acquired 25.2% of the shares of Orava Residential Real Estate Investment Trust, and thus became the largest shareholder of the company.

Share performance of Finnish listed property companies

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



Source: Nasdaq OMX

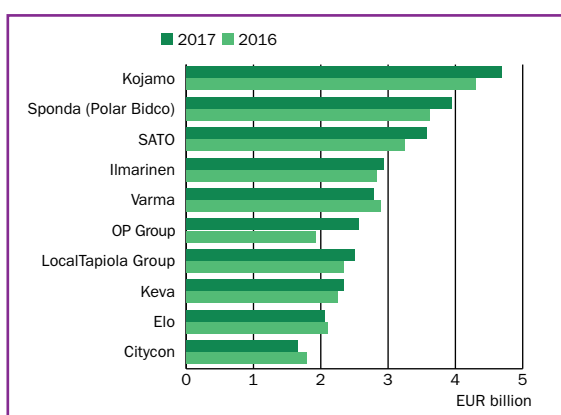
Non-listed property companies

There are three major non-listed property companies investing in residential properties: Kojamo (previously VVO), SATO and Avara, each of which have held significant subsidised residential portfolios in the past, but have recently focused their operations in market portfolios.

Kojamo Oyj is the biggest private sector rental residential company, which currently owns some 34,000 rental dwellings. Kojamo continued to expand its operations in 2017: after having made some major acquisitions in 2016, it has now concentrated on investments through property development. Kojamo is the largest property investor in Finland, and the fair value of its property portfolio amounted to €4.7 billion at the end of 2017 (€4.3 billion at the end of 2016). Kojamo's shareholders include Ilmarinen and Varma, as well as some major Finnish labour market organisations. The company currently focuses only on market-based dwellings under the housing brand Lumo. In early 2018, Kojamo announced that it will purchase a portfolio of 981 residential dwellings located in main Finnish cities from OP Group's funds.

Direct property holdings of 10 biggest property investors in Finland

Property assets under management, EUR billion



Source: KTI (query for investors)

SATO's current holdings comprise almost 26,000 apartments. At the end of 2017, the fair value of SATO's property portfolio stood at nearly €3.6 billion (€ 3.4 billion at the end of 2016). The majority of the portfolio is located in the Helsinki metropolitan area, 18% in other major cities in Finland and some 3% in St Petersburg, Russia. The company has announced that for the time being it will abstain from any new investments in Russia. The Swedish Balder owns the majority – almost 55% – of the company. Other major shareholders include the Dutch pension fund APG and Finnish pension insurance company Elo. In 2017, SATO's investments amounted to some €156 million. Unlike in 2016, the company did not make any major acquisitions. In early 2018, SATO sold its HotelHome concept, comprising 195 dwellings for short-term renting to Forenom Oy. Forenom rents the properties from SATO with a long-term lease.

"Residential property companies are increasing their portfolios"



The third large residential investor, Avara Oy, currently owns and manages some 7,900 rental apartments with a total worth of some €1 billion, mainly concentrated in the larger cities. Avara's shareholders are major Finnish institutions, with the pension insurance company Elo being the biggest shareholder in the company. 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.

Non-listed domestic property companies investing in commercial properties have expanded in recent years. The biggest companies in this segment include Antilooppi and Mercada. In addition, several smaller companies have been established in recent years. Many of these companies have been founded as a result of the restructurings of the pension funds' property portfolios.

Antilooppi Ky invests in office properties in the Helsinki metropolitan area. The company was established in 2015 and is owned by the Finnish pension insurer Ilmarinen and the Swedish AMF Pensionförsäkring. Since its foundation, the company has grown through several acquisitions, which it also continued in 2017. The total value of Antilooppi's property portfolio currently exceeds €700 million.

Ilmarinen and AMF are also major owners of Mercada Oy (formerly Ankkurikadun Kiinteistöt Oy). The company 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 Kiinteistöt is a newly founded joint venture between pension insurance company Elo, the Swedish pension insurer API and Trevian Asset Management. The company focuses

on city centre retail and office properties in major cities primarily outside the Helsinki area. Upon its foundation in summer 2017, Agore Kiinteistöt purchased a €160 million retail property portfolio from Elo.

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 started its operations in 2016, when it carried out several transactions and acquired one shopping centre, more than 3,000 residential apartments and an office portfolio. In all cases, the company brought new foreign investors to Finland as their investment partners.

Ahlström Capital, Lindström Invest and Onvest Oy are examples of the investment arms of traditional Finnish corporations. All these companies have a role in redeveloping the holdings of the corporations, but they are also all currently expanding their property investment portfolios.

"New property investment companies are being established"

Turku Technology Properties is a real estate company owning and managing 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 properties in Kupittaa, and in late 2017, the company completed the development of a multipurpose sports hall, also located in Kupittaa. The company's property portfolio comprises some 154,000 sqm.

Renor and HYY Real Estate are examples of other domestic specialised property investment companies.

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.

Since 2012, several special real estate investment funds have been launched under the semi-open-ended mutual fund structure. The first of these funds were mainly targeted at private investors through various banks' investment management teams. Currently some institutions, the smaller ones in particular, also invest in these funds.

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. LocalTapiola's current funds are limited partnership structures with varying strategies. OP Property Management manages both limited partnerships and open end special investment funds investing directly in the Finnish property market, as well as fund of fund structures investing in European property or debt funds. The total value of Finnish property assets under management for both OP and LocalTapiola amounted to some €2.5 billion at the end of 2017, including both the direct portfolios managed for their internal clients as well as property funds. Fennia's Fennica funds are both special investment funds. Fennica Toimitilat I invests in commercial properties and Fennica Tontit in building lots.

"Fund managers are expanding to co-investments and investment management services"

eQ Fund Management, 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. Both funds continued to grow through property acquisition in 2017, and at the end of the year, their total property portfolio value amounted to almost €1.3 billion.

CapMan, which manages one Nordic and three Finnish limited partnership structures investing in property, is originally a Finnish private equity company for whom property investment is one of the business areas. In 2017, CapMan launched its first special investment fund CapMan Nordic Property Income Fund. It also manages the German BVK's Nordic residential property investment mandate.

Aberdeen Standard Investments is one of the world's largest investment companies, which has launched three Finnish property funds, one of which was recently restructured and its management reorganized. Aberdeen also invests in Finland through its European property funds, which, in recent years, have been more active than its Finnish funds in expanding their portfolios. In addition, it executes alternative investment strategies on behalf of its clients. In total, Aberdeen Standard Investments' Finnish property assets under management amounted to some €800 million at the end of 2017.

"The variety of the Finnish property funds is increasing"

Specialised Finnish property management companies include, for instance ICECAPITAL, Trevian Asset Management, Sirius Capital Partners and Titanium. ICECAPITAL Real Estate Asset Management manages five active real estate funds, all investing only in residential properties, with total capitals varying from €45 to 400 million. In addition, the company manages one fund investing in residential properties in St Petersburg. This fund is now in its exit period.

Trevian is a specialized 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, as well as acts as investment partner or manager in joint venture structures. Trevian's recent activities include the involvement in establishing Agore Kiinteistöt, a joint venture of Trevian, Elo and API, as well as restructuring the ownership and management of Spektri Business Park. In 2017, Trevian also established a sister company, Trevian Funds AIFM, which launched their first open end fund Trevian High-Yield Property.

Sirius Capital Partners is a fund and investment management company that manages property funds and makes co-investments on a deal-by-deal basis. Sirius' two funds invest in grocery store and daily-goods properties. All the fund's investors are international institutional investors. During its first two years of operations, the company increased its property holdings to €800 million.

Titanium is a fund management company managing two special investment funds investing in property. The company is currently listed in Nasdaq Helsinki's First North list. Auratum and Taaleri are other examples of Finnish investment banking companies that currently offer property funds for their clients as an alternative asset class.

Northern Horizon is a company managing 4 property funds and 2 separate accounts. The company has 6 offices in Nordic

and Baltic countries as well as offices in St. Petersburg and 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 for €141 million.

Catella Asset Management, formerly known as Amplion Asset Management, is part of Catella Group. It is a boutique Nordic real estate investment and asset management company that manages some international investors' portfolios in Finland. In early 2018, the company took over the management of Varma's 110,000 sqm office portfolio with a mandate to dispose of the assets.

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 pension funds, and their fund has invested in office properties in the Helsinki metropolitan area. Exilion also manages a fund established to organise the ownership of the Hansa shopping centre in Turku. VVT is a joint venture of Varma, the State Pension Fund and Tradeka.

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 continued to increase their role in the Finnish property market in 2017, and, at the end of the year, the total holdings of foreign property investors amounted to some €18.5 billion, which represents a growth of some 50% compared to the previous year. Foreign investors increased their share to some 29% of the total Finnish property investment market.

The largest transaction ever in the Finnish property market, the acquisition by Blackstone's Polar Bidco of the formerly listed property company Sponda, made Polar Bidco the largest foreign property investor in Finland. Sponda's Finnish property assets amounted to almost €4 billion at the end of 2017, comprising mainly office and shopping centre properties in the central areas of Helsinki and Tampere. Sponda's most significant development project currently under construction is the 53,000 sqm Ratina Shopping Centre in Tampere, scheduled for completion in spring 2018.

"Foreign investors currently account for some 29% of the invested property market"

Another major change in the overall dynamic of the largest foreign property investors in Finland was caused by the acquisition of the European logistics property company Logisor by China Investment Corporation, together with its investment partners. The total transaction price in the deal amounted to over €12 billion. Measured by space area,

some 8% of Logisor's property assets are located in Finland. Also another Asian investor entered the Finnish market in 2017, when an unnamed Korean investor acquired a logistics property portfolio together with its investment partner and manager GLL Real Estate Partners.

Nordisk Renting used to be, for many years, the largest foreign property investor in Finland. The company specializes in sale-and-leaseback investments with long leases. In recent years, however, Nordisk Renting has not been active in increasing its portfolio.

"Many Swedish investors are active in Finland"

Many Swedish investors continue to be active in Finland. In addition to geographical vicinity and diversification opportunities, Swedish investors are attracted by higher yields offered by the Finnish market. Sagax, a Swedish listed property investment company, has actively increased its Finnish portfolio in recent years. In 2017, Sagax made several acquisitions of industrial and logistics properties across the largest Finnish cities. At the end of the year, the company's holdings in Finland amounted to €900 million.

Another Swedish-originated investor that has been active in Finland in recent years is Niam, who also continued to both dispose of and acquire properties in 2017. In the largest transaction, Niam sold a portfolio of nine office properties in Helsinki to Schroders Nordic Real Estate Fund, who thereby made their first acquisition in Finland in many years. Niam's assets in Finland amounted to over €700 million at the end of 2017. Also the Swedish-originated Redito, who manages two portfolios in Finland – Trophi, which is owned by AP3, as well as Serena Properties, currently owned by Varma and the Swedish Balder – has a Finnish portfolio worth more than €500 million. Other Swedish-originated investors in Finland include, for instance, Genesta, Alma Properties, Hemsö and Hemfosa.

In 2017, several other new Swedish investors entered the Finnish market. AREIM's fund purchased three office properties in Helsinki in two transactions. AREIM was also involved in the Sponda transaction as Blackstone's partner. Skandia Fastigheter made its first acquisitions in Finland by acquiring a major office property in Helsinki.

In late 2017, Brunswick Real Estate announced the formation of Kielo, a real estate company investing in commercial properties in the main Finnish cities. The company made its first acquisitions in 2017: firstly, it acquired a 40,000 sqm office property in Tampere from Aberdeen Standard Investment, and secondly, it bought nine office properties comprising some 49,000 sqm in Jyväskylä from Technopolis.

"Several new foreign investors entered the Finnish market in 2017"

In addition, several other new foreign investors entered the Finnish market in 2017. TH Real Estate's European Cities Fund acquired 50% of the Kamppi shopping centre from Barings for some €250 million. Another significant new player in the Finnish market is Cerberus Capital Partners, who acquired five shopping centres from Citycon for €167 million. Together with Hines, the French CNP Assurances acquired a major newly built office property in the Helsinki CBD – the first investment in Finland for both of these investors. M&G's fund also made its first acquisition in Finland.

"TH Real Estate, CNP Assurances and Cerberus Capital Partners made their first investments in Finland in 2017"

Foreign investors have been interested in the Finnish residential property market for some time, but only in 2016 were some significant transactions made by the German BVK, Danish NREP and also by some US investors. In 2017, a fund managed by AXA Investment Managers acquired more than 1100 residential dwellings in three transactions. Barings also brought an unnamed German investor to the Finnish residential market by acquiring some 300 dwellings.

Many German investors are major players in the Finnish market. The largest of these are Union Investment and Deka. In early 2018, Deka increased its Finnish portfolio by acquiring a €190 million office property in Helsinki CBD from Ilmarinen. Deutsche Asset Management also made an investment in Finland after some years by acquiring a large office property in Keilaniemi, Espoo, from Exilion for some €164 million. Also German fund management company TRIUVA made an acquisition in Helsinki in late 2017. TRIUVA was recently acquired by another German fund management company Patrizia, who also has an office in Finland.

In addition to Sponda and Logicor, large companies with significant foreign ownership include, for instance, SATO, Antilooppi and Mercada. Of the Finnish non-listed funds, for instance, CapMan's and Sirius' vehicles have mostly foreign investors.

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.

Largest direct property transactions of foreign players in Finland in 2017

ASSET / PORTFOLIO	DATE	PRICE (M€)	PURCHASER	SELLER
Sponda Oyj	2017Q3	3,700	Polar Bidco S.à r.l. (owned by funds advised by Blackstone Group)	Shareholders of Sponda Oyj
Shopping centre Kamppi (50 %)	2017Q1	> 250	European Cities Fund (managed by TH Real Estate)	Nordic Retail Fund (managed by Barings Real Estate Advisers)
Five Shopping centres (Espoontori, Tikkuri, Myllypuron Ostari, Martinlaakson Ostari and Jyväskylän Forum)	2017Q3	167	Cerberus Capital Management, L.P.	Citycon Oyj
Office property (Kiinteistö Oy Espoon Keilalahden ABCD-talot)	2017Q4	164	Fund managed by Deutsche Asset Management	Exilion Real Estate I Ky
Nine office properties	2017Q4	150	Schroder Nordic Real Estate Fund	NIAM
22 residential properties (909 rental apartments)	2017Q4	130	Fund managed by AXA IM – Real Assets	n/a
Nine office properties	2017Q4	105	Kielo AB	Technopolis Oyj
Other significant transactions where the price is not published (in time order)				
Shopping centre Skanssi	2017Q2	n/a	CBRE European Shopping Centre Fund II	CapMan RE II Ky
Office property, Kasarmikatu 21	2017Q3	n/a	CNP Assurances, Hines	YIT, Ahlström Capital, HGR Property Partners
5 logistics and postal centre properties	2017Q3	n/a	Unnamed Korean investors (GLL Real Estate Partners)	Ness, Risan & Partners
Logicor (77 properties in Finland)	2017Q4	n/a	China Investment Corporation	Real estate funds managed by Blackstone

Source: KTI

Public sector

Public sector entities are very important players in the Finnish property market. The Finnish state has concentrated most of its property holdings on a government-owned enterprise called Senate Properties, whose task is to develop, manage and let the state's property holdings. It also acts as an intermediary in lease agreements between state agencies and private sector property investors.

Senate Properties has a property portfolio of some €4.4 billion at year-end 2016. Its diversified 6.2 million sqm portfolio consists of offices used by state agencies and ministries, prisons and cultural buildings as well as properties used by the Finnish Army. It also manages the rental agreements of the premises rented for state agencies from the private markets. Senate Properties operates under the control of the Ministry of Finance and is currently implementing its strategy as the state's internal working environment expertise unit. The state has also 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 purpose is to develop and/or dispose of properties that are not needed by state agencies in the long term. In recent years, its annual sales have amounted to some €100 million.

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 currently manages 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 to the 10 universities across 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 is subsidised 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 at €68 billion. Of these, some €13 billion are residential properties and the rest are properties used for the 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 are currently developed by private investors, and they rent the premises to private sector service providers who sell their services to municipalities. Also new concepts like "school as a service" drive the municipalities for new practices in space usage and ownership.

Municipalities quite often organise their property ownership in a specific public enterprise structure, which enables them to separate the properties into a separate balance sheet. Properties might also be owned directly by the municipality. In recent years, normal limited liability company structures have become more common in the ownership of municipal property portfolios or parts of it.

"The reform in healthcare service provision has a major impact on municipalities' properties"

The reform in social and healthcare services will have a significant impact on property ownership issues. In total, municipalities and federations of municipalities own currently 9.5 million sqm of healthcare properties. Of these, the ownership of some 3.5 sqm of large hospital properties owned by federations of municipalities will be transferred to a newly established property company Maakuntien Tilakeskus Oy (the Counties' Service Centre for Facilities and Real Estate Management) in 2020. In the future, the company will be owned by the counties. The rest, some 6,600 premises will be rented by counties from municipalities. All premises will be rented for the minimum period of three years, after which the counties will define, which premises will be needed for service provision for a longer term. Some proportion of municipalities' properties currently used for healthcare services will probably be left vacant. The potential compensations for municipalities for the financial losses caused by increasing vacancy are yet to be defined.

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 over €10 billion. The City of Helsinki, for instance, is the largest single landlord in Finland through its residential property company Heka, which owns some 48,500 state-subsidised dwellings.

Corporations

The role of property occupiers in the property markets has changed markedly during the past years. Owner-occupation, which used to be very common in the past, 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 the Finnish industrial corporations.

"More than 80% of the Finnish office 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. In 2017, Kesko completed the first, 20,000 sqm phase of the Easton shopping centre in Helsinki. It also sold its former head office to be redeveloped mostly for residential use, and Varma is currently developing a new head office property for Kesko in the Kalasatama area. Of the co-operatives within S Group, HOK-Elanto in particular has been active in selling its properties to investors in recent years. The German retail chain Lidl typically owns its properties in Finland, with the exception of stores located in shopping centres. Lidl is currently developing a major logistics centre in Järvenpää, and in 2017 it completed a couple of stores as well as the redevelopment of an office property for its headquarter use in Espoo.

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 two largest companies servicing the large institutional and foreign investors are Realia Management and Newsec. The third major company Oventia was acquired by Colliers in early 2018 and currently operates under the brand 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, and through these acquisitions it aims at strengthening its position in commercial property management and among institutional investors.

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.

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. Housing management services are offered through Oventia Isännöinti Oy, which has expanded into the housing management sector through company acquisitions in recent years. Another affiliate company of Colliers International Finland is Realprojekti Oy, which 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 currently offers asset and property management services in Finland. The services were started when Aberdeen outsourced its property management, accounting and administration services in the Nordics to CBRE. 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.

Kiinteistömanagement J. Juhola Oy is an example of a traditional Finnish property management service company mainly working for domestic investors. 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. Caverion Oyj is a significant player in the property and technical management service market.

Advisory, valuation and transaction services

The advisory service market includes a colourful mixture of small domestic entrepreneurial firms and big global companies. Of the major management companies, Newsec, Catella and Realia Management also offer valuation, advisory and transaction services. Upon the acquisition of Oventia, Colliers International also announced that it will adapt new services for the Finnish market.

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.

"Global advisory firms are well represented in the Finnish market"

There are also a couple of smaller local transactions and valuation service firms servicing mainly domestic players. Of the local valuation firms, Peltola & Co serves some major investors. GEM Property is another 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 the Swedish-originated advisor Brunswick Real Estate (formerly Leimdörfer). 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 Nordea Bank, OP Group, Danske Bank and SEB. Of these banks, SEB has recently been the most active in financing major commercial property transactions or projects.

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 deals in Finland. They typically come to Finland together with their major international clients.

"Major international banks finance large transactions of foreign investors"

Solvency II framework has made it more attractive for institutional investors, for instance life funds, to 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.

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 a relatively good access to equity, the biggest Finnish property companies currently use corporate bonds for financing their balance sheets. Of the listed companies, Citycon has recently been most active in issuing bonds. Residential investment companies Kojamo and SATO also use bonds in their financing. Citycon and SATO have also acquired credit ratings in order to improve the availability and terms of bond financing. The majority of the bonds are currently unsecured. Of the major companies, Kojamo and Citycon issued new bonds in 2017. In 2017, a new player entered the bond market when shopping centre and retail property investor Mercada issued a €175 million secured bond to refinance its bank debt.

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.

"Sources for property finance are expanding"

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 commercial property development market is dominated by construction companies who typically have a separate arm that specialises in commercial property development. They are active players in new development, whereas the redevelopment of existing buildings is mostly handled by their owners. In recent years, some newly established players in the market also buy properties in order to redevelop them.

Finnish and Nordic construction companies involved in commercial property development include NCC, Skanska, YIT, Hartela, SRV and Peab. These companies have all been active in this field in recent years and have cooperated with both domestic and international investors. In February 2018, YIT and Lemminkäinen merged and the company currently stands as the largest Finnish and significant North European construction company. The new YIT employs 10,000 people in 11 countries. The company develops and builds both residential and commercial properties. The new company's Business Premises segment is responsible for commercial property construction and project management, and Partnerships properties unit is responsible for financing the major development projects and the ownership and subsequent realisation of plots and developed properties.

Bonds issued by the Finnish property investors

ISSUED BY	ISSUE DATE	MATURITY DATE	YEARS	EUR MILLION	ANNUAL INTEREST	OTHER INFORMATION
Citycon	1.10.2014	1.10.2024	10	350	2.50%	Unsecured
Orava Asuntorahasto	1.4.2015	1.4.2020	5	20	4.25%	Secured
Sponda	20.5.2015	20.5.2020	5	175	2.375%	Unsecured
Technopolis	28.5.2015	28.5.2020	5	150	3.75%	Unsecured
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

Source: Press releases

The largest project underway in this unit is the Tripla project in Pasila.

"YIT and Lemminkäinen merged in 2018"

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 the second phase of Aviabulevardi in Helsinki airport area. Skanska CDF is also about to start the construction of an office building leased to European Chemicals Agency ECHA in Telakkaranta area in Helsinki.

Skanska and NCC are also planning to start the first, 35,000 sqm phase of the Kivistö shopping centre in Vantaa. The City of Vantaa is planning to rent premises in the centre for its service provision. NCC Property Development is also currently developing the first phase of the Fredriksberg business park in Vallila.

The REDI shopping centre and other projects in Kalasatama are the largest of SRV's current projects. YIT is developing the major Tripla project in Pasila, Helsinki. Hartela's main projects currently include Ilmalan Asema in Pasila and Ramboll's new head office in Leppävaara. Peab Invest has just started the second phase of its Ultimes Business Garden in Pitäjänmäki.

"Property development is active in Helsinki metropolitan area"

All of these companies also develop residential properties and typically buy and hold a significant amount of plots. In recent years in particular, construction companies have been active in housing development projects, which they sell to investors, most often property funds. They also develop residential properties to be sold directly to homebuyers. In the residential property development sector, there are also numerous, typically smaller local players, who mostly develop apartments for homebuyers.

Some owner-occupiers – large retailers S Group and Kesko, in particular – are significant and professional property developers. Kesko just completed the first, 26,000 sqm phase of the Easton Helsinki shopping centre project in Itäkeskus. The centre is planned to be extended by a second phase, but the final investment decision hasn't been made yet. Kesko also has several smaller projects under construction outside the Helsinki metropolitan area. S Group's largest development project is the 193,000 sqm Freeway logistics centre in Sipoo, which is being developed in several phases in 2013–2018. 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. Also Lidl 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 REDI and Tripla, 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.

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.

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 pressures investors to look for new solutions.

"New players emerging for the redevelopment of existing properties"

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.

Finnish 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. The main ongoing development projects of these companies include Sponda's Ratina shopping centre project in Tampere and Technopolis' office project in Tampere. Large residential companies, Kojamo and SATO in particular, are also active property developers.

"Some niche players emerging in the property development market"

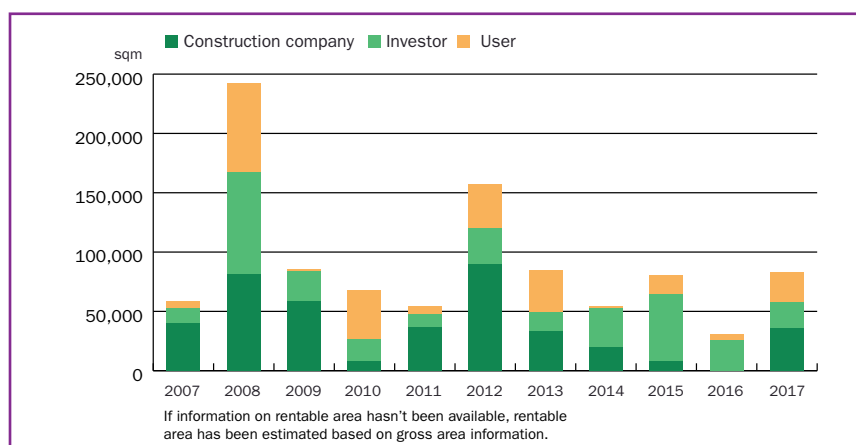
There are also some smaller non-listed property companies and funds active in property development in their niche markets. One example is Renor, which concentrates on redevelopment of old industrial premises. HGR Property Partners is another real estate investment company focusing on real estate development, mainly investing in existing buildings to be redeveloped for some other use. HGR recently completed, together with some investor partners, the development of a major office property in the Helsinki CBD. 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.

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.

"Foreign investors invest in redevelopment projects"

In recent years, also some international investors have invested in properties that are planned to redevelop 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. Also Barings Real Estate Advisers acquired an office property in Helsinki CBD and will redevelop it into hotel use.

Office development projects in Helsinki metropolitan area by developer type



Source: KTI, RPT Docu Ov

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.

In 2017, the invested residential property market continued to increase through both new development and growth in asset values. At the end of the year, the total value of residential properties in the invested market stood at €18.5 billion, which represents some 29% of the total market.

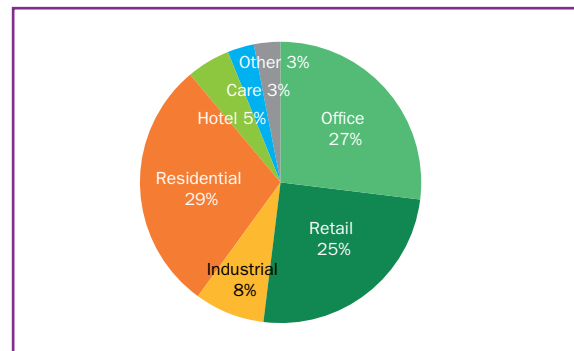
Of the commercial properties, offices' share currently stand at some 27%, and the total value of office properties in the investment market increased by €1.6 billion in 2017, to €17.2 billion. Retail properties' share of the total market stands at 25%. In recent years, the investment market has expanded to cover also some public use properties, including, for instance, healthcare and educational properties. At the end of 2017, the share of care properties amounted to 3% of the total invested property stock.

"The Finnish property market produced a total return of 6.6% in 2017"

According to the KTI Index, the total return on the Finnish property market amounted to 6.6% in 2017 (6.2% in 2016), consisting of a capital growth of 1.2% and a net income of 5.4%. Compared to 2016, the net income continued to decrease, mainly due to the increased weight of residential properties in the database, as well as continuous decline of the office properties' income return.

Capital growth increased slightly compared to the previous year, but there were significant differences in the performance of different property sectors. Of the main sectors, residential continued to perform well, but was slightly outperformed by offices, as their capital growth now turned positive after several years of sluggish development.

The structure of Finnish property investment market by sector, total size EUR 63.7 bn



Source: KTI

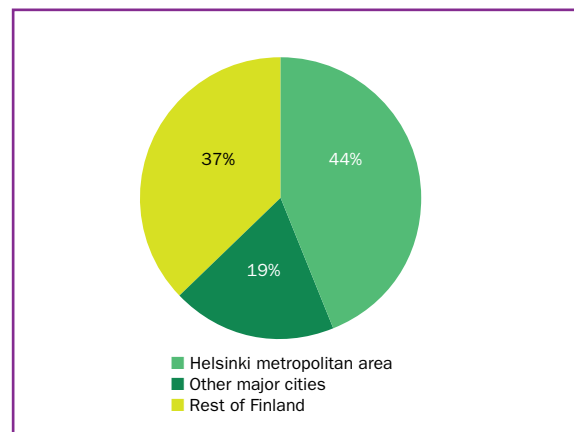
4.1 The office market

Stock

The total stock of office space in Finland is some 19.5 million square metres. The Helsinki metropolitan area dominates the office market in Finland, representing some 45% of the total stock. Another 19% of the stock is located in six other major cities: Tampere, Turku, Oulu, Jyväskylä, Lahti and Kuopio.

Within the past decade, annual completions of new office space have amounted to some 96,000 sqm on average in the Helsinki metropolitan area. During the same period, the annual average reduction through changes of use has been around 46,000 sqm.

Distribution of office stock by location, sqm



Source: Statistics Finland

Office construction remained active in the Helsinki metropolitan area in 2017, with some 87,000 sqm of office space being completed. The largest completed projects include, for instance, Kasarmikatu 21 in the Helsinki CBD, the A Grid project in Otaniemi, Ilmalan Asema in Pasila and OP Group's reconstruction project in Vallila. At the year-end, some 128,000 sqm of new office space was under construction. The ongoing projects are located in various parts of the Helsinki metropolitan area, including Kalasatama, Ruoholahti, Sörnäinen, Vallila and Leppävaara. There are also several major redevelopment projects under construction in various areas in the Helsinki metropolitan area.

Outside the Helsinki metropolitan area, office construction volumes remain low. In 2017, some 33,000 sqm of new office space was completed in the Tampere, Turku, Oulu, Jyväskylä, Kuopio and Lahti regions in total. At the year-end, only some 16,000 sqm was under construction. However, there are some significant projects about to be started in, for instance, Tampere, Oulu and Jyväskylä.

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 Keva, 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.

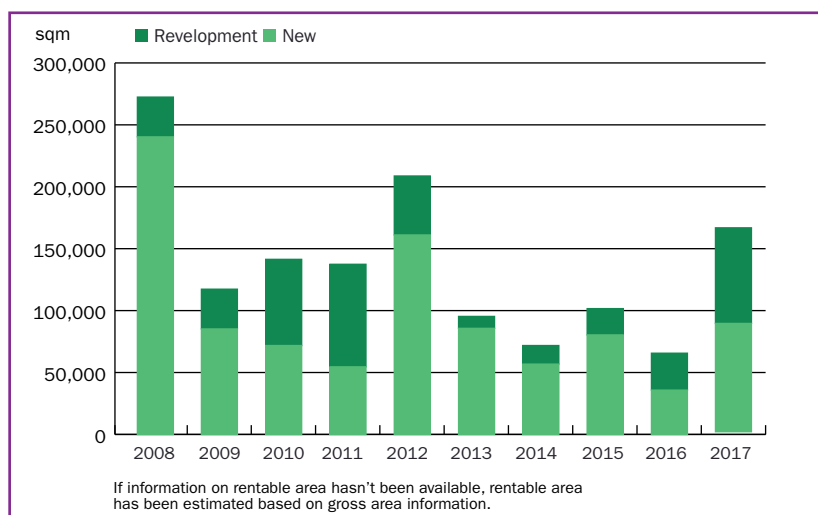
Offices were, after a couple of years, the largest sector in the transactions market in 2017, with total volume exceeding €4 billion. In this respect, the Sponda transaction played an important role, as Sponda is a major owner of office properties in the Helsinki metropolitan area. Several other significant office portfolio transactions, as well as transactions of some major single office properties were also made in 2017.

"Foreign investors increased their investments in Finnish offices in 2017"

Attracted by higher yields compared to many other European markets, many foreign investors increased their investments in the Finnish office property market in 2017. Major portfolio deals were conducted both in the Helsinki metropolitan area and elsewhere in Finland by, for instance, Schrodgers, who acquired nine office properties from Niam for its Nordic Real Estate Fund, as well as by Brunswick Real Estate's Kielo, who acquired 11 office buildings in Jyväskylä in two separate transactions. The Swedish AREIM's Fund III also entered the Finnish property market by acquiring three office buildings in Helsinki.

Large single asset office transactions in 2017 comprised the former Nokia headquarters in Keilalahti acquired by Deutsche Asset Management's fund, Kasarmikatu 21 building bought by CNP Assurances together with Hines, as well as an office property in Ruoholahti, which was Skandia Fastighet's first acquisition in Finland. Regenero acquired the so called Fortum Tower in Keilaniemi, and Kielo AB invested in Valtatie 30 office property in Tampere. The largest single asset office transaction in Finland ever was conducted in early 2018, when the German Deka Immobilien purchased the KPMG headquarters property in the Helsinki CBD from Ilmarinen (formerly owned by Etera) for €190 million.

Completions of offices in the Helsinki metropolitan area in 2008-2017



Source: KTI, RPT Docu Oy

"Large, high-quality office properties in prime locations attract investors"

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 co-working concepts is increasing"

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 and Varma. Their share of the total office stock is, however, still rather insignificant.

Rental market – offices

During the past years, the differences in the rental performance of prime and secondary office areas have increased. The best premises in prime areas continue attracting tenants, whereas in the secondary areas, vacancy rates remain high and rents are pressured.

"Office rental markets turned more positive in 2017"



Photo: Skanska / © 2017, Kuvatoimisto Kuvio Oy

The Helsinki CBD is the most appreciated office area in Finland, and has proven its resilience also in the challenging economic conditions during the past couple of years. In 2017, as the economic outlook turned more positive, the increase in office rents in the Helsinki CBD accelerated to some 3.5% per annum, according to the KTI rental index. Top rents in particular continued to increase, with the upper quartile reaching an all-time-high level of almost €35 per sqm per month (€31 per sqm in 2016). However, even in the Helsinki CBD, there is plenty of vacant office space, with the KTI occupancy rate standing at some 85% in September 2017.

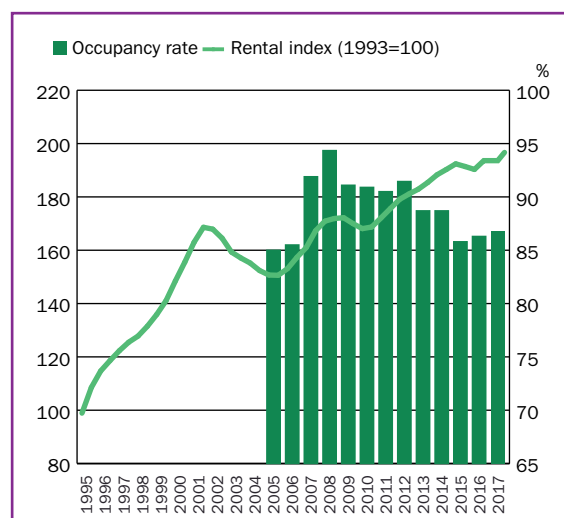
In most office areas, performance is dependent on the micro location and characteristics of the individual asset in question. The best areas with positive rental development include, for instance, Kalasatama in Helsinki and Keilaniemi in Espoo.

Despite a slight improvement in 2017, the vacancy rate of offices remains high in the Helsinki metropolitan area; there were some 1.15 million sqm of vacant office space at the end of 2017, representing a vacancy rate of some 13.4%, according to Catella. In the KTI rental database, the occupancy rates of large investors' portfolios stood at some 82%. Of the other main cities, the vacancy rate increased in Tampere in 2017, and is now even higher than in the Helsinki metropolitan area at 14.8%, according to Catella. In Turku, the volumes of new construction have been low, and as demand has increased, the vacancy rate has decreased within the past year. In Oulu, Lahti and Jyväskylä, office vacancy rates vary between 10 and 11%

Supported by the improving economic outlook, net take-up of offices was positive in 2017, and the total amount of occupied office space increased by some 42,000 sqm. Gross take-up remained stable at some 300,000 sqm.

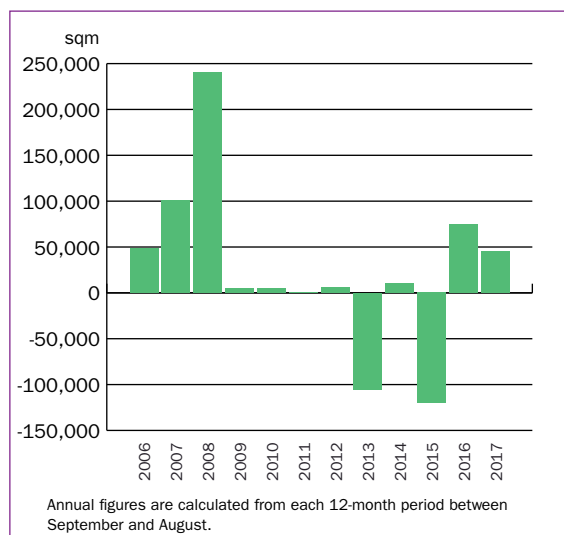
"Occupiers' space preferences are driven by efficiency and quality"

KTI office rent index and occupancy rate, Helsinki CBD



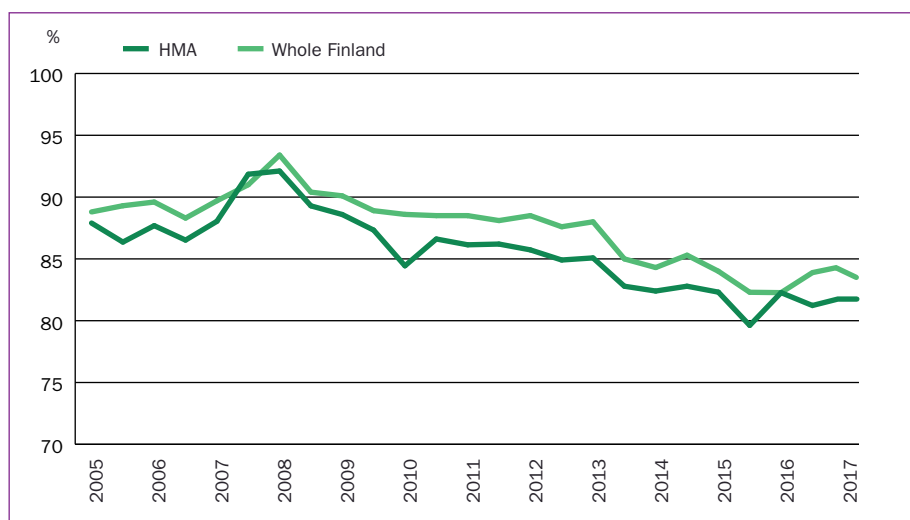
Source: KTI, Statistics Finland

Office net take-up, Helsinki metropolitan area



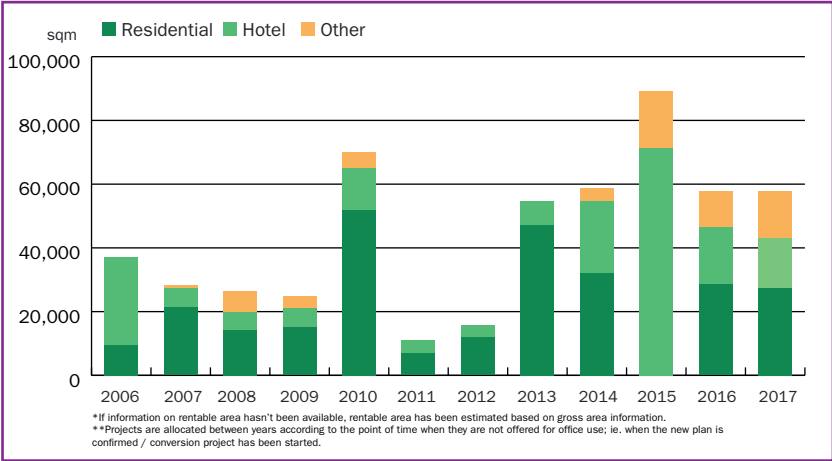
Source: KTI

Office occupancy rates in the Helsinki metropolitan area and whole Finland



Source: KTI Rental database

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



Source: KTI, RPT Docu Oy

Office space demand is currently driven by space quality, efficiency and good public traffic connections. A significant proportion of the vacant office space does not meet the needs of tenants in terms of space quality and / or location. Therefore, investors in these buildings are actively seeking redevelopment opportunities for obsolete office buildings. Within the past decade, some 463,000 sqm of office space has been converted to some other purpose, most often to residential or hotel use. In many cases, the old building is demolished and a new one is constructed. This solution is taken either because of the technical characteristics of the old building or because of the possibility to use the lot's building right more efficiently.

"Office properties' investment performance improved in 2017"

The investment performance of offices has, for many years, been weak, as the capital values have been written down in most years since 2008. In 2017, however, capital growth

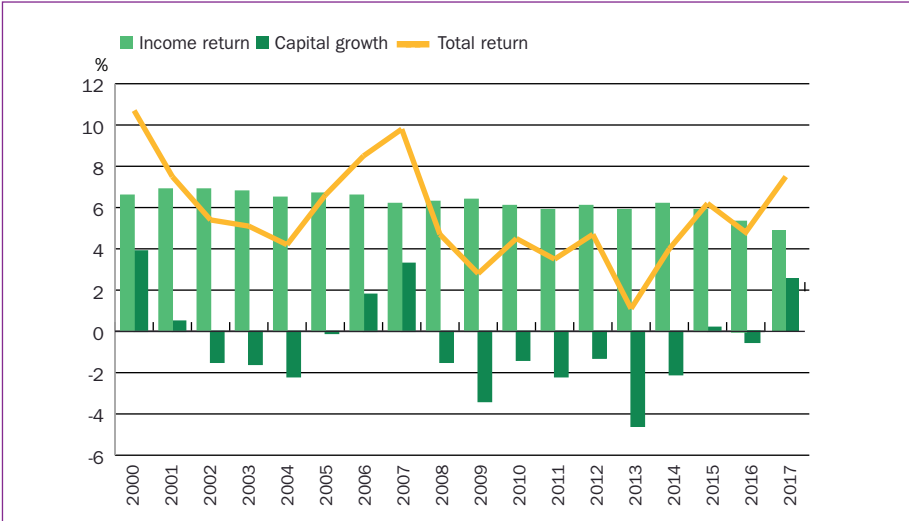
turned positive, supported by decreasing yields. Income return continued decreasing, pressured by both a decreasing occupancy rate and increasing capital values. With the total return of 7.7% for 2017, offices were the best performing property type among the main sectors for the first time since 2000.

Office rents and yields in Helsinki and other European capitals
Helsinki CBD offices have, for many years, clearly outperformed all other office submarkets. Capital growth in central Helsinki has been supported by both increasing rental values and decreasing yields.

In the latest RAKLI-KTI Property Barometer, carried out in October 2017, yields for prime office buildings in the Helsinki CBD stood at 4.2% on average (4.7% in 2016). For the best properties, yields are currently well below this. Despite the yield compression, Helsinki still offers a positive gap compared to many other European capitals.

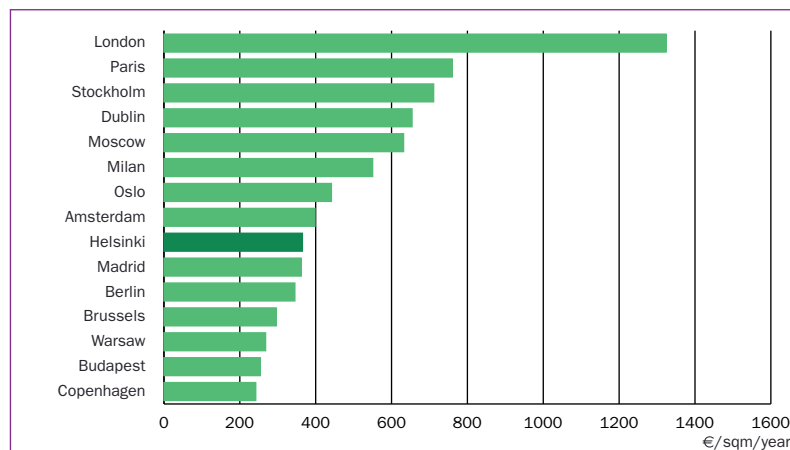
In 2017, yield compression also spread to other major cities, and yields decreased by more than 0.5 percentages. Many institutional and international investors are, however, mainly

Total returns on office investments, 2000-2017



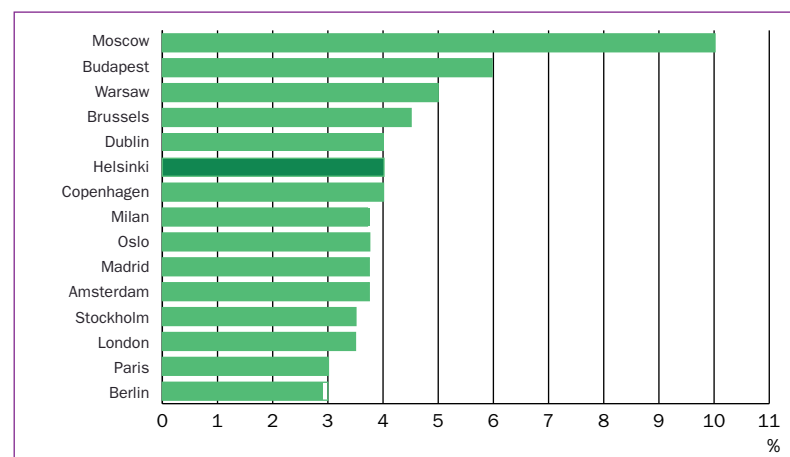
Source: KTI Index

Prime office rents in Helsinki and other European cities, Q4/2017



Source: JLL, KTI (Helsinki)

Prime office yields in Helsinki and other European cities, Q4/2017



Source: JLL, KTI (Helsinki)

targeting the Helsinki area, where yield compression has thus been the most pronounced. Therefore, yield gap between Helsinki and other main Finnish cities is now clearly wider than before the global financial crisis. Tampere, for instance, now offers a 250 bps gap compared to Helsinki, whereas in 2007, the gap stood at 140 bps. Higher yields are now attracting investors also to cities outside the Helsinki metropolitan area.

Also in terms of rental development, the Helsinki CBD has an undisputed position as the prime office area of Finland. Office rents have increased in the Helsinki CBD in most years, whereas in most other areas and cities, rental development was sluggish between 2009 and 2016. In 2017, however, rental outlook turned positive in all major cities. However, even in Helsinki, rental development is still slower and rents remain at a more moderate level than in many other European capitals.

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.

According to the Finnish Council for Shopping Centres, there were 99 shopping centres with a total leasable retail area of some 2.1million sqm in Finland at the end of 2016. Major new shopping centres that opened in 2017 include Easton in Helsinki, the second phase of Ainoa in Espoo, and Seppä in Jyväskylä. The biggest shopping centres are mainly located in the major city areas.

Retail properties' attractiveness has remained strong in the investment market. The retail property stock owned by professional investors has grown steadily in recent years, mostly due to both new development and some major sale-and-leaseback transactions.

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

"Retail property stock is increasing in the Helsinki metropolitan area"

Retail property stock in the Helsinki metropolitan area has increased markedly during the past decade, by some 25%. In 2017, some 102,000 sqm of new retail space was completed, and at the year-end, another 277,000 sqm was under construction.

New development is concentrated in large retail units with good public traffic connections, mainly in the vicinity of metro and railway stations. The main ongoing projects include REDI in Kalasatama, the Tripla Mall in Pasila and Lippulaiva in Espoo. The construction of Hertsi in Herttoniemi was started in January 2018, and the Kivistö city centre in Vantaa is expected to be started later in 2018.

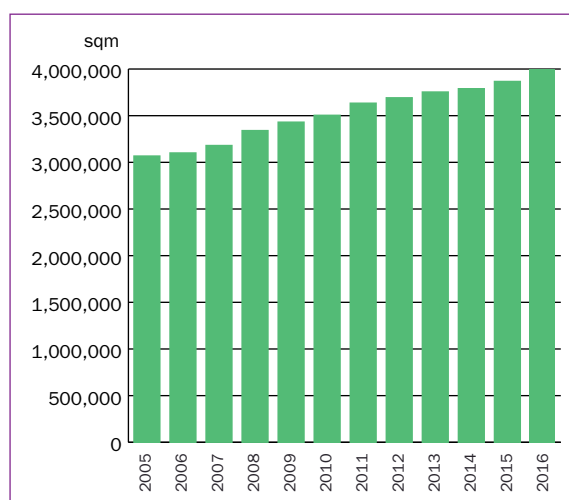
Outside the Helsinki region, the largest shopping centre project underway is the 53,000 sqm Ratina in Tampere, which is due for completion in the first half of 2018. In Vaalimaa, close to the Russian border, the first phase of the Zsar Outlet Village is under construction and scheduled for completion in late 2018. In Kotka, the Kotka Old Port project has started with the construction of an outlet and hotel property.

In 2018, the construction of a new 70,000 sqm Ideapark centre is expected to be started in Seinäjoki. Also some other major shopping centre project starts are being planned, but are still subject to sufficient pre-leasing rates.

Players

Retail properties account for some 25% of the total invested property universe. The investor base for retail properties is diverse, including domestic institutions, specialised retail

Development of retail property stock in the Helsinki metropolitan area 2005-2016

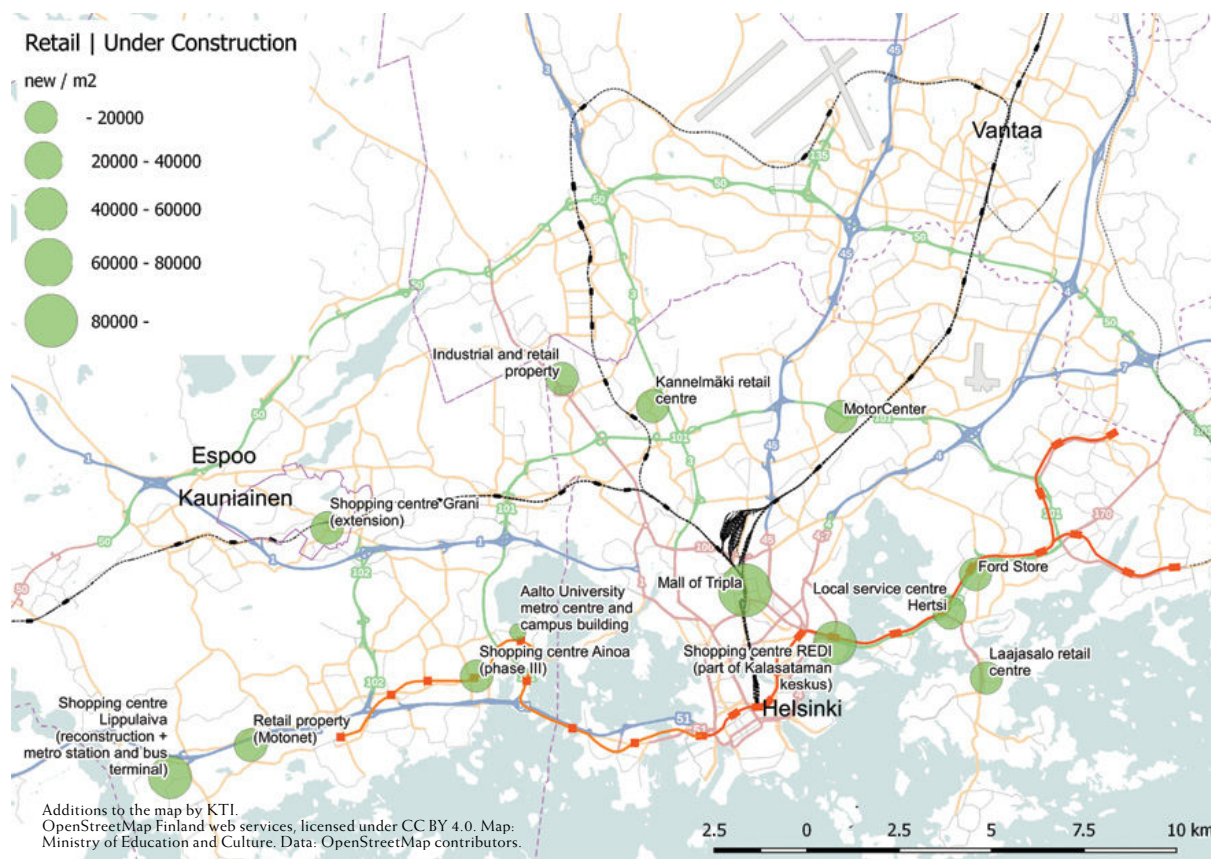


Source: Statistics Finland

investment companies and funds, international investors and main retailers.

The largest specialised retail investor in Finland is Citycon, which currently concentrates on shopping centres. Citycon currently owns and operates 13 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

Major retail development projects in the Helsinki metropolitan area



CBD, Elo near Tampere, Zeppelin in the Oulu region, as well as the Ratina centre in Tampere. 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.

Many Finnish pension institutions own whole, typically regional, shopping centres across Finland. Pension funds also often enter into joint investments with other investors in bigger centres. For example, the Sello shopping centre in Espoo is owned jointly by three pension institutions – Keva, Elo and Ilmarinen (Etera) – 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. Pension institutions also typically own hypermarket properties with long leases. Smaller retail units are owned by a diversified group of investors.

Domestic institutions have also invested in two major shopping centre development projects that are currently underway. The 60,000 sqm REDI project is being developed by a joint venture between SRV, Ilmarinen and OP Group's and LocalTapiola's funds. In YIT's Mall of Tripla project in Pasila, the co-investors are Ilmarinen (Etera), Fennia Mutual Insurance Company and the investment company Onvest.

The Finnish shopping centre market has also attracted some specialised foreign property companies and funds such as Wereldhave and Unibail-Rodamco, as well as retail funds managed by CBRE Global Investors and Barings Real Estate. The Kamppi shopping centre in the Helsinki CBD is currently jointly owned by Allianz and TH Real Estate's European Cities Fund. Also Cerberus Capital Partners entered the Finnish shopping centre market in 2017.

Several domestic property funds, such as those managed by LocalTapiola, eQ and OP, have also invested in shopping centres. The fund managed by Sirius Capital Partners invests in smaller retail units, and continued its growth through

several acquisitions in 2017. Another new domestic player is Agore Kiinteistöt, who acquired 10 retail properties from Elo as its seed portfolio. Retail chains Kesko and S Group are also developers and investors in shopping centres and other retail properties.

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 in Helsinki. In many regional cities, city centre high street shops typically compete for consumers with out-of-town shopping centres.

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 47% and 36% of total sales in 2016, respectively. They operate in all store categories – hypermarkets, supermarkets and smaller stores – under different brands. They have also both expanded through acquisitions in recent years: Kesko acquired the former Suomen Lähikauppa chain in 2016, and S Group took over the daily goods operations of Stockmann department store at the beginning of 2018. The German chain Lidl is the third largest player in the daily goods market with a share of some 9%. In 2016, the total sales of daily goods amounted to some €16.7 billion.

Opening hours of retail units are currently deregulated, and all shops can now be open without restrictions regardless of their location or size. This has resulted in longer opening hours and increased sales in large shopping centres and hypermarkets in particular. Another change in regulation is the liberation of the sales of some low-volume alcoholic drinks in the beginning of 2018.

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
Iso Omena	84,700	Citycon Finland	ESPOO
Itis	78,559	Wereldhave Finland	HELSINKI
Matkus	65,000	Ikano Retail Centres Kuopio	KUOPIO
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



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. Kesko and SGroup both have strong in-house property management organisations steering the management of their premises.

In shopping centres, anchor tenants often have leases of five to ten and even 15 years, with renewal options sometimes applied in shorter leases. These agreements are now, however, under pressure due to tenants' increased need for flexibility. Other tenants typically have shorter leases. The use of turnover leases is gradually increasing in shopping centres, but the share of turnover-based rent is typically rather small.

The retail market in 2018

Total retail sales increased by some 2% in 2017, according to Statistics Finland. The growth was supported by strong consumer confidence, slow inflation and decreasing

unemployment. Positive development is expected to continue in 2018, and the latest forecasts for private consumption growth vary between 2 and 3 per cent.

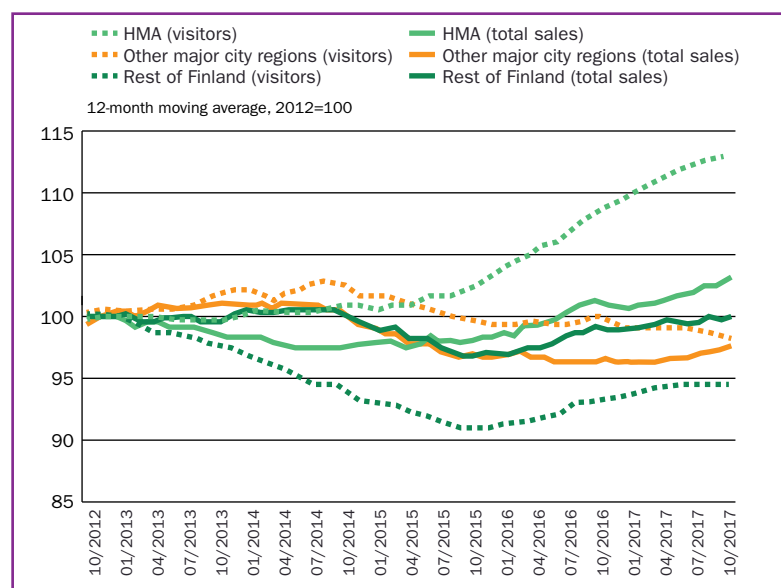
Total sales in shopping centres increased by 1.7% in the whole of Finland in 2017, when comparing like-for-like stock. The number of visitors increased by 2.2%, according to the indices produced by KTI and the Finnish Council of Shopping Centers.

The growth in sales was, again, stronger in the Helsinki metropolitan area than elsewhere in Finland. The growth in shopping centre stock in the Helsinki metropolitan area makes the increase in sales even more pronounced. In total, shopping centre sales increased by 5.2% in the whole of Finland. In the Helsinki metropolitan area, the growth amounted to 8.2%, whereas elsewhere in Finland, shopping centre sales increased by some 1%.

"The share of services of shopping centre sales is increasing"

The share of services of the total sales and space area of shopping centres continues to increase. For example, total sales of cafes and restaurants in shopping centres increased by almost 9% in 2017. Other retailer categories showing strong development are furnishing, home décor and supplies as well as health and beauty. On the other hand, the sales of fashion and grocery and department stores decreased

Sales and visitors in the Finnish shopping centres



Source: KTI and Finnish Council of Shopping Centers

slightly in 2017. The supply of various kinds of entertainment and leisure services in shopping centres is increasing. Their share of total retail space currently amounts to some 3.7%.

"Total sales of shopping centres increased by 5.2% in 2017"

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 Kluuvi, Forum, Kamppi, Citycenter and Galleria Esplanad.

In the Helsinki CBD and in the best shopping centres, the development of prime retail rents turned positive in 2017. According to the RAKLI-KTI Property Barometer, prime rents in the Helsinki CBD stood at some €114 per sqm per month on average, which shows a significant increase compared to the previous year. Respondents expect prime retail rents to continue increasing in the future.

The vacancy rate of retail space has remained low in most major cities. In 2017, the vacancy rate of retail space in the Helsinki metropolitan area fell further, and amounted to 3.3% at the year-end, according to Catella. Vacancy rates vary between 3 and 6% in other major cities.

With the large amount of retail space under construction in the Helsinki metropolitan area, there is currently some uncertainty with regard to the development of rents and vacancy rates in the future. Investors and managers have a strong confidence in large retail units in good locations, whereas the future of smaller units is regarded as more uncertain.

Total return on retail property investments remained stable at 3.6% in 2017 (3.7% in 2016). Shopping centres continued to outperform other retail properties with a total return of 4.0%. Again, there was a significant difference in the performance in the Helsinki metropolitan area and in the rest of Finland. Capital growth for retail properties was slightly positive, 2.2% in the Helsinki metropolitan area, whereas elsewhere in Finland, capital values continued to decline.

"Helsinki metropolitan area retail markets outperform rest of Finland"

Total volume of retail property transactions amounted to some €2.7 billion in 2017, showing an increase of almost 60% compared to 2016. Sponda is a major owner of shopping centres in the Helsinki metropolitan and Tampere areas, so the Sponda transaction had a significant impact on the volume also in the retail sector.

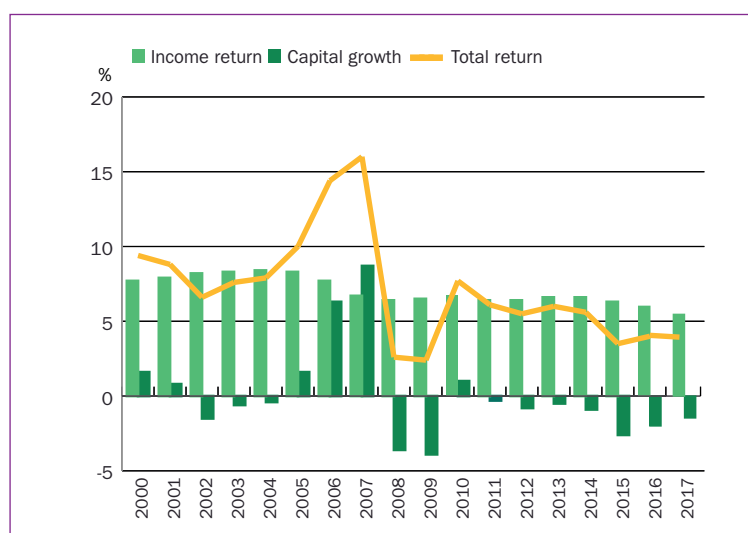
There were, however, also several other major shopping centre and retail property transactions in 2017. TH Real Estate's fund acquired 50% of the Kamppi shopping centre, eQ's fund invested in the Liila shopping centre in Espoo, and CBRE's fund invested in the Skanssi centre in Turku. Another major transaction was the acquisition of Citycon's five shopping centres by Cerberus Capital Partners. The €160 million retail property portfolio acquisition by the newly established Agore Kiinteistöt Ky also added to the total volume.

Prime retail rent in the Helsinki CBD



Source: RAKLI-KTI Property Barometer

Total return on retail investments, 2000-2017



Source: KTI Index

4.3 Rental residential sector

Stock

There are some 2.6 million occupied dwellings in Finland, comprising some 263 million sqm. Of these, about 40% are single-family homes. The share of dwellings in apartment buildings has increased in recent years and stands currently at 46%.

The average size of a Finnish household has been constantly decreasing. In 2016, some 76% of Finnish households consisted of one or two persons. In Helsinki, the share of single-person households is currently 48%. Therefore, the demand for smaller dwellings has increased steadily, especially in urban locations.

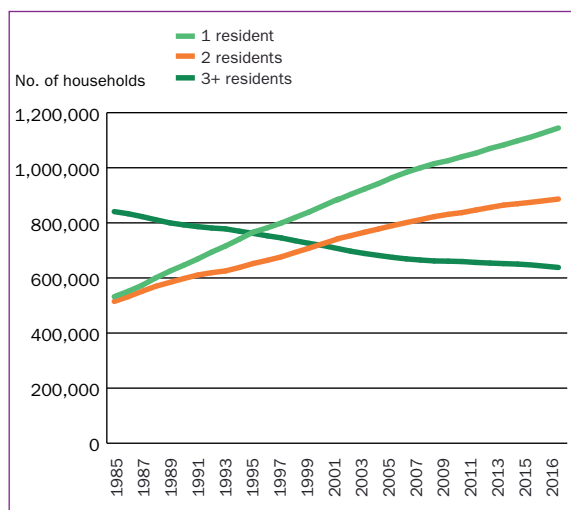
About 65% of Finnish households live in owner-occupied homes. Home ownership is widespread in all forms of housing, including apartments as well as detached and terraced houses and single-family houses.

The average size of a residential dwelling is currently 79.9 sqm. Owner-occupied dwellings are significantly larger than rented dwellings with average space areas of 97 sqm and 52 sqm, respectively.

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, and in Helsinki overall the share is even larger. In the whole country, the share of rented dwellings is some 32%.

At the end of 2016, there were some 854,000 rental apartments in Finland. Of these, some 375,000 have been provided with some kind of public subsidy, such as state-guaranteed loans or an interest subsidy for development of rental housing. The majority of subsidised dwellings are owned by municipalities' daughter companies. Other subsidised dwellings are owned by non-profit organisations offering rental housing for specific groups such as students or the disabled, as well as some organisations which have

Finnish households by size



Source: KTI

been granted a special public utility status. Y-Foundation, TA-Yhtymä and KAS Asunnot are examples of these kinds of companies. Of the major players in the residential market, Kojamo, SATO and Avara also hold this status for a limited part of their businesses, but they are all currently reducing the share of subsidised dwellings in their portfolios.

"Demand for rented dwellings continue to increase"

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. Subsidised housing is currently being developed mainly by municipal companies, as well as by foundations offering housing for specific groups. In total, the construction of some 8,560 subsidised dwellings was started in 2017. Of these, some 3,000 were so-called normal rental dwellings 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. By the end of 2017, the construction of some 840 dwellings has been started under this subsidy system.

Owner-occupied and rented dwellings in the Helsinki metropolitan area

Tenure status	Size of household-dwelling unit				Total
	1 person	2 persons	3 persons	4+ persons	
All owner-occupied dwellings	41%	55%	57%	65%	277,836
All rented dwellings	53%	39%	37%	29%	241,959
Right of occupancy dwellings and other or unknown tenure status	6%	5%	6%	6%	30,829



Photo: SATO

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.

Non-subsidised rental housing stock currently amounts to some 479,000 dwellings. The stock has increased markedly in recent years, mainly through new construction, and, to a lesser extent, through the termination of the restrictions of subsidised stock. Of the professional investors, all investor groups, institutions, property companies and funds as well as foreign investors have increased their residential investments. Finnish households have also increased their investments in rental dwellings in recent years, and the majority of the non-subsidised stock, some 300,000 dwellings, is owned by Finnish households or other private investors.

"Residential construction activity increasing in largest cities"

Residential construction continued to increase in 2017. According to the preliminary statistics of Statistics Finland, the construction of almost 45,000 new dwellings was started during the year, representing a growth of some 12% compared to 2016. The growth is weighted in the largest cities, in the Helsinki metropolitan area in particular, and some two thirds of the new dwellings are in apartment buildings. In Helsinki alone, there were some 6,900 dwellings under construction at the end of the year. According to the KTI follow-up, some 2,700 of these were in buildings only targeted at rental use.

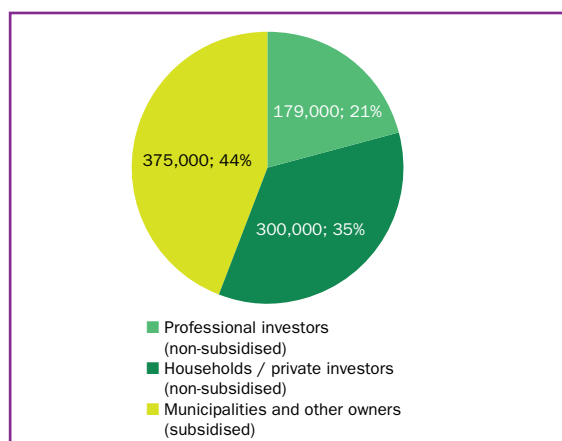
Players

The majority of the subsidised housing stock is owned by the Finnish municipalities. Heka Oy, a company owned by the city of Helsinki, is the biggest player in this segment with around 48,500 apartments.

In the non-subsidised rental residential market, the so-called professional investors have increased their holdings rapidly in recent years, currently comprising some 179,000

Ownership structure of rental apartments in Finland

Total 854,000 rental apartments



Source: ARA, Statistics Finland, Suomen Vuokranantajat, KTI

dwellings. The majority, some 300,000 apartments, is held by small investors, mainly private persons or households.

Kojamo, SATO and Avara are the biggest specialised residential property investment companies in Finland. Kojamo and SATO in particular have, in recent years, reduced their subsidised holdings, which currently only account for a small minority of their portfolios. Both companies have been active in increasing their non-subsidised portfolios, both through several major transactions and through their own development. Kojamo and SATO currently hold positions one and three in the ranking of the largest property investors in Finland. Their portfolios comprised some 34,400 and 25,800 dwellings at the end of 2017, respectively. In early 2018, Kojamo increased its portfolio further by acquiring almost 1,000 apartments from OP Group's funds. Kojamo has also announced it is investigating the possibilities for public listing in order to expand its shareholder base and to support the company's further growth.

"Investors are increasing their residential portfolios"

Residential construction activity

Started residential dwellings	2010	2011	2012	2013	2014	2015	2016	2017*	2018*
Apartment buildings	21,000	21,200	20,100	19,600	18,400	25,300	29,600	35,100	31,600
Non-subsidised	9,800	12,700	13,900	13,200	11,000	16,800	21,700	26,100	22,600
Subsidised	11,200	8,500	6,200	6,400	7,400	8,500	7,900	9,000	9,000
Single-family homes	12,500	11,600	9,800	8,100	6,700	6,500	6,800	7,500	8,000
Non-subsidised	12,500	11,000	9,800	8,100	6,700	6,500	6,800	7,500	8,000
Total	34,500	33,700	31,000	27,900	25,300	32,400	37,000	43,000	40,000
Non-subsidised	23,300	25,200	24,800	21,500	17,900	23,900	29,100	34,000	31,000
Subsidised	11,200	8,500	6,200	6,400	7,400	8,500	7,900	9,000	9,000

*Estimate

Source: Statistics Finland, ARA, RT



Many 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 plenty of capital. The largest residential funds 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 investors increase their investments in the Finnish residential sector"

Foreign investor interest in the Finnish residential market has increased markedly in the past couple of years. Examples of foreign investors present in the market include the German Bayerische Versorgungskammer (BVK), as well as the Nordic fund manager NREP. Also some US capital has been channeled in the Finnish residential market through Avant Capital Partners. In 2017, a fund managed by AXA Investment Managers, Real Assets acquired more than 1,100

apartments in three separate transactions. Also, Barings Real Estate Advisers purchased some 300 dwellings on behalf of an unnamed German fund.

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.

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.

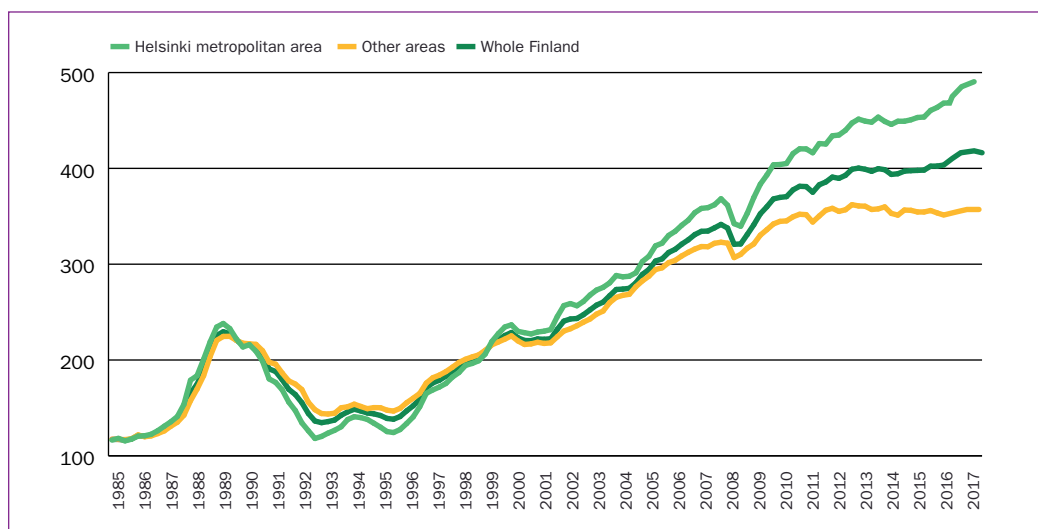
Rental agreements are typically made for an indefinite period. It is also possible to agree on a certain fixed period, such as a year, with the agreement continuing afterwards until further notice.

"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

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



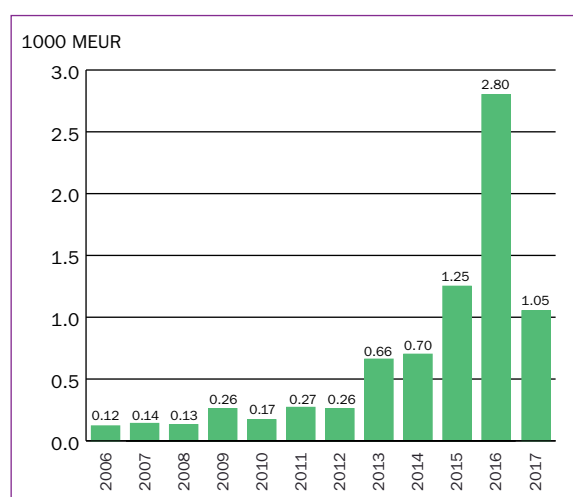
Source: Statistics Finland

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.

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 new 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.

Volume of residential portfolio transactions



Source: KTI

The residential market in 2018

According to the preliminary statistics of Statistics Finland, prices for old residential dwellings increased by some 1.5% in the whole country on average in 2017. In the Helsinki metropolitan area, prices increased by 2.8%, whereas elsewhere in the country they only increased by 0.4%.

Pellervo Economic Research PTT forecasts the increase in housing prices to accelerate slightly and amount to some 2.2% in 2018. The increase will continue to be strongest in largest cities, and in the Helsinki metropolitan area in particular. The high volume of new construction will help smoothen the pressure for an increase in prices.

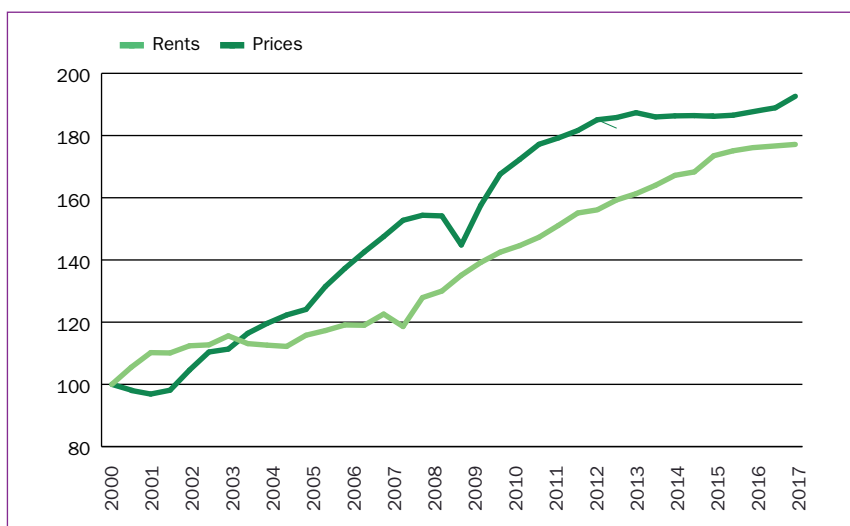
The volume of rental residential property portfolio transactions decreased markedly in 2017, by some 62% compared to the previous year, and amounted to some €1.1 billion. Unlike in 2016, no major portfolios were being sold, the volume consisted mainly of smaller transactions of some 100-300 apartments. AXA IMRA's acquisition of some 900 dwellings was the largest single transaction in 2017.

"Residential property transaction volume amounted to €1 billion in 2017"

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. However, as the supply of dwellings is now increasing rapidly, the increase in rents is expected to slow down compared to their development in recent years.

In 2017, KTI rental indices showed an annual increase of 1.5% for the Helsinki metropolitan area and 2.0% for other main cities on average in new rental agreements. The increase in rents accelerated slightly towards the end of the year. Also in the RAKLI Residential Barometer, the expectations for rental development turned more positive during the year, and the majority of the respondents expected the increase in rents to continue in all major cities. The positive outlook

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



Source: KTI and Statistics Finland

is supported by the strengthening economy, the growth of consumer confidence and a decrease in unemployment.

"Positive development of the economy supports rental growth in the residential market"

Occupancy rates of residential portfolios remain strong, at some 96% in large investors' portfolios on average.

Residential properties' investment performance has remained strong, which is the main driver supporting the sector's attractiveness in the investment market. Of the main property sectors, residential was the best performing sector in the

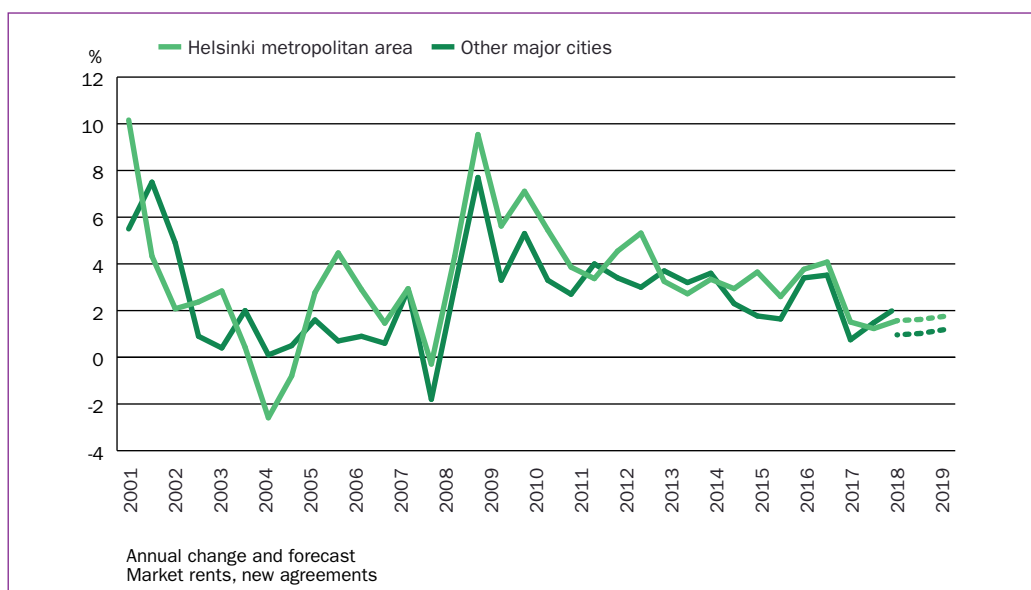
KTI Index every year between 2008 and 2016. However, in 2017, offices outperformed residential properties slightly, with total returns amounting to 7.7 and 7.5%, respectively. Capital growth on residential properties remained positive and stood at 2.3%. Income return increased slightly from 2016, mainly supported by an increase in rents.

4.4 Public use properties

Stock

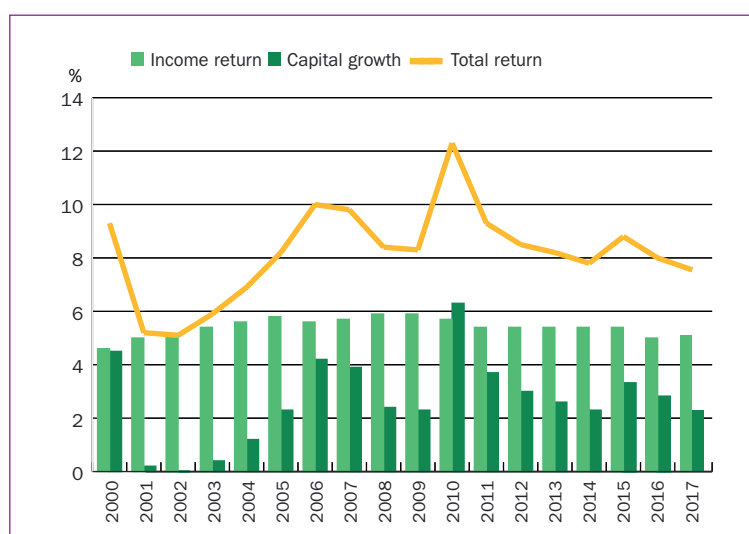
Properties used for the supply of different kinds of public services have increased their attractiveness in the investment market in recent years. Investor interest was first mainly targeted at healthcare properties, but during the past years, other kinds of public properties such as educational buildings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

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



Source: KTI

Total return on residential property investments, 2000-2017



Source: KTI Index

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. The market has just recently started to attract private investors, and 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 of this market segment is expected to increase markedly in the coming years.

"Public use properties continue to attract investors"

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 12.7 million sqm at the end of 2016. According to the KTI estimates, the market value of the healthcare properties owned by professional investors amounted to some €2.1 billion at the end of 2017, showing an increase of €0.5 billion 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. In investors' portfolios, there are some individual assets that are rented for public sector service providers. Private sector investors own, for instance, various educational and cultural buildings as well as sports facilities. 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 service providers and property investors.

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



Photo: YIT

largest property funds investing in healthcare properties are managed by eQ Bank, Northern Horizon, and Titanium Rahastoyhtiö. eQ's special mutual fund eQ Hoivakiinteistö has increased markedly in recent years and the current value of its property portfolio exceeds €700 million. Northern Horizon manages several funds investing in healthcare properties. In 2017, the company launched a new fund, Nordic Aged Care, which invests in healthcare properties across the Nordic region. Also Evli established a new fund, Evli Healthcare I, which acquired a portfolio from Northern Horizon's fund. Suomen Hoivatilat, a listed property company investing in care properties, currently has a portfolio worth almost €250 million. Also OP Group has recently established a special investment fund investing in various kinds of service properties.

"Care property investment market continues to increase"

The Swedish Hemsö is currently the largest foreign investor in the Finnish healthcare property sector. In the company's €370 million Finnish portfolio, there are also some educational properties. 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 new health and wellbeing centre that was recently completed in Kalasatama, Helsinki. Other foreign players in the Finnish care property market include Pioneer Property Group and AXA IMRA.

Market practices

Market practices in the public use property sector depend on the type of the 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 2018

The transaction volume of healthcare properties amounted to some €400 million in 2017 (€500 million in 2016). In addition, most investors continued investing in new development.

The majority of transactions in 2017 were rather small single asset transactions, and in many cases, the buyer was a service operator who bought the property from a municipality as a part of a service outsourcing agreement. Of the major investors, eQ's, Titanium's and OP's funds were the most active in increasing their portfolios through several acquisitions. In early 2018, Northern Horizon's Healthcare II fund divested a portfolio worth €140 million to Evli's newly established fund.

4.5 Industrial / logistics market

Stock

The Finnish industrial and logistics property stock amounts to some 70 million sqm, according to Statistics Finland. Of this, the Helsinki metropolitan area accounts for some 13%.

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 major players have dominated the market, and demand from other players has only emerged quite recently, resulting in the emergence of this sector in the investment markets recently as well. Increasing foreign trade, restructuring of retail sales and reorganisations of supply chains and logistics systems are increasing and reshaping the space demand towards modern efficient logistics space.

Players

Owner-occupation was, up until very recently, relatively common in the logistics and light manufacturing property market, but the situation has changed in recent years as occupiers have sold many of their properties to investors. The sector is attracting new investors including domestic institutions, property funds and foreign players. 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.

Logicor, currently owned by China Investment Corporation, together with its investment partners, is the largest specialised investor in the Finnish logistics / industrial property sector. Based on the information published on the Logicor transaction, the estimated value of the company's Finnish portfolio is close to €1 billion.

The Swedish listed company AB Sagax continued increasing its Finnish industrial and logistics property portfolio through six separate transactions in 2017. The value of the company's Finnish portfolio currently amounts to some €920 million. The Finnish logistics property market also attracted Asian capital in 2017: an unnamed Korean investor, together

with GLL Real Estate Partners, acquired a portfolio mainly rented to the Finnish Posti Group. Also Aberdeen's European Balanced Property Fund made a new investment in a logistics property close to the Helsinki-Vantaa Airport.

Logistics and industrial properties are also typically represented in institutional portfolios. Of the domestic funds, those managed by OP, eQ and Fennia, for example, invest in industrial and logistics properties. A new player in this segment is Trevian's new special investment fund Trevian High Yield Property fund, which made its two first investments in two smallish commercial / industrial assets in late 2017.

The Finnish property development and investment company Renor also owns some logistics and manufacturing properties, for instance in Lahti. Another significant 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 2018

The amount of vacant logistics and industrial space has remained stable in recent years in the Helsinki metropolitan area. According to Catella, vacancy rate decreased slightly in 2017, and stood at 5.9% at the year-end.

Industrial and logistics property rents have remained fairly stable in recent years. However, in 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. In the airport area in Vantaa, the rents are typically €2-3 per sqm higher.

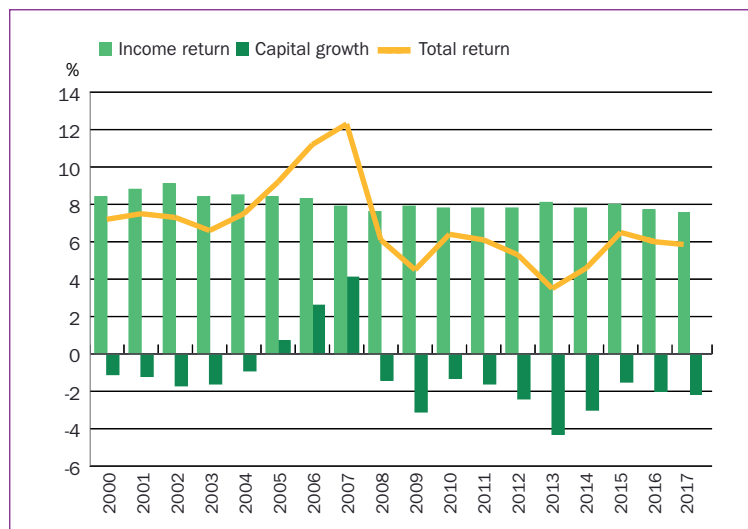
In 2017, the total transactions volume of logistics and industrial properties amounted to some €1.5 billion. In addition to the Logicor transaction, the largest transactions were carried out by Sagax and GLL Real Estate Partners. Also in the Sponda portfolio, there were some industrial assets.

"Industrial property transaction volume increased in 2017"

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 Vuosaari, MetsäFibre completed the development of a 28,000 sqm logistics property, which is related to the company's major industrial facility investment in Äänekoski, also completed in 2017. In the vicinity of the airport, Finnair completed a new cargo terminal in 2017, and YIT is currently building two logistics properties in the area. One of the properties was sold to Aberdeen's fund in 2017. Also in Vantaa, Logicor is currently developing a new central warehouse for Ruokakesko. In Helsinki, Sonera is developing a 30,000 sqm data centre property in Pitäjänmäki.

Major retailers typically develop their logistics facilities themselves. In Sipoo, north of Helsinki, S Group's 77,000 sqm first phase of the Freeway project was completed in 2016, and the second phase, comprising 112,000 sqm, is due for completion in late 2018. In Järvenpää, also north of Helsinki, Lidl is developing a 60,000 sqm logistics facility for its own use. This project is also scheduled to be completed in late 2018.

Total return on industrial property investments, 2000-2017



Source: KTI Index

The Finnish industrial / warehouse property sector produced a total return of 5.4% in 2017 (5.5% in 2016). Net income remained healthy, but capital values continued to decrease by some 2%. Other industrial properties outperformed logistics properties in 2017.

4.6 Hotels

Stock

According to Statistics Finland, there are 613 hotels in Finland, comprising some 51,000 rooms. Of these, 121 hotels with some 15,000 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 billion at the end of 2017.

Players

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

The main hotel operators in Finland include Scandic and S Group. Scandic became the largest hotel operator in 2017, when it acquired the hotel operations of Restel. Restel's 43 hotels that had operated under the brands Cumulus, Holiday Inn and Indigo, for instance, will be rebranded and operated by Scandic with the exception of three hotels that need to be divested as required by the Finnish Competition and Consumer Authority. Before the acquisition, Scandic operated 24 Scandic hotels and 3 Hilton hotels across Finland. S Group currently operates almost 50 hotels across the country.

Other hotel chains in Finland comprise Finlandia Hotels, which operates 17 hotels across Finland, followed by Best Western with 11 hotels. Kämp Collection Hotels is a growing hotel chain, currently operating 10 luxury and design hotels in the Helsinki metropolitan area. The group will open its newest hotel St. George in early 2018. The biggest privately owned hotel chain, Lapland Hotels, operates 17 hotels, mainly located in Lapland, but also one in Tampere and another in Oulu. Lapland Hotel Helsinki will be opened in summer 2018.

Finnish hotel property investors typically favour long, triple net rental agreements. The operator is responsible for all maintenance and operational costs. In some properties in city centres where there is a significant amount of other space, for example in retail use, responsibilities between the landlord and tenant might be allocated differently.

Hotels market in 2018

According to Statistics Finland, the occupancy rate of hotel rooms increased to 55.9% in 2017 in the whole country on average. In the Uusimaa region, the occupancy rate was clearly higher at 68.5%.

According to Statistics Finland, the number of nights spent in the Finnish hotels grew by some 5.3% in 2017 compared to the previous year. The growth was based on the increased number of foreign tourists, whose total number of nights spent in hotels grew by more than 14%. Swedish tourists were the biggest foreign tourist group in Finland in 2017. The number of Russian tourists increased by some 9%, and that of Germans by as much as 27% in 2017, compared to 2016. Growth exceeded 20% also for US, Chinese and British tourists.

The two main growth areas for tourism in Finland include Helsinki metropolitan area and Lapland. In 2017, the number of nights spent by foreign tourists in Helsinki increased by some 15% compared to 2016. The number of nights spent by Russian tourists increased the most, by 37%. Also in Lapland, the number of foreign tourists increased by two-digit numbers in 2017.

"Hotel stock is increasing in the Helsinki metropolitan area"

In 2017, no new hotels were opened in the Helsinki metropolitan area. Major extensions were completed in Hotel Haven in the CBD, and in the Radisson Blu Seaside in Ruoholahti. Hotel St George, also in the Helsinki CBD, will be opened in early 2018. At the end of the year, Lapland Hotel Bulevardi was the most significant project underway in the Helsinki CBD. In Vantaa, the Flamingo Hotel is being extended, and the new Scandic Helsinki Airport Hotel is under construction. Major hotel projects about to be started include the Tripla Hotel in Pasila, which was acquired by Exilion's fund in 2017, as well as the redevelopment of the former Kesko headquarters property by NREP. Exilion's €88 million acquisition of the Tripla Hotel was the largest transaction in the hotel property market in 2017. Exilion also acquired the former head office property of VR Group in the Helsinki CBD. The property will be converted into hotel use, and a new hotel operated by Scandic is planned to be opened in 2020. Outside the Helsinki metropolitan area, the largest project underway is the development of the Casino Tower Hotel in Savonlinna.

In late 2017, Marriott announced that it will open its first hotel in Finland in Tampere. Keva is the investor in the project, which will be started in the first half of 2018. In late 2017, Scandic Hotels announced that it will start operating the traditional Hamburger Börs Hotel in Turku, and the owner of the property LocalTapiola will redevelop and extend the property between 2019 and 2021.

According to the KTI Index, hotel properties continued their strong performance and delivered a total return of 8.7% in 2017 (12.4% in 2016). Both decreasing yields and rental growth supported the capital growth of hotel properties.

5 Property markets in different regions – outlook for 2018

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, about one third of commercial property stock is located in the Helsinki metropolitan area. Of the total stock of office properties, the Helsinki metropolitan area accommodates more than 60%.

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 domestic investors define the Helsinki area and these growth centres as target markets in their investment strategies. 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 2017, the attractiveness of these cities in the investment market was 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 domestic funds and companies also operate in smaller cities, especially in retail and residential markets. These investments are typically included in a wider portfolio context.

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 31% 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: 642,000
Espoo: 277,000
Vantaa: 222,000
Helsinki region: 1,472,000

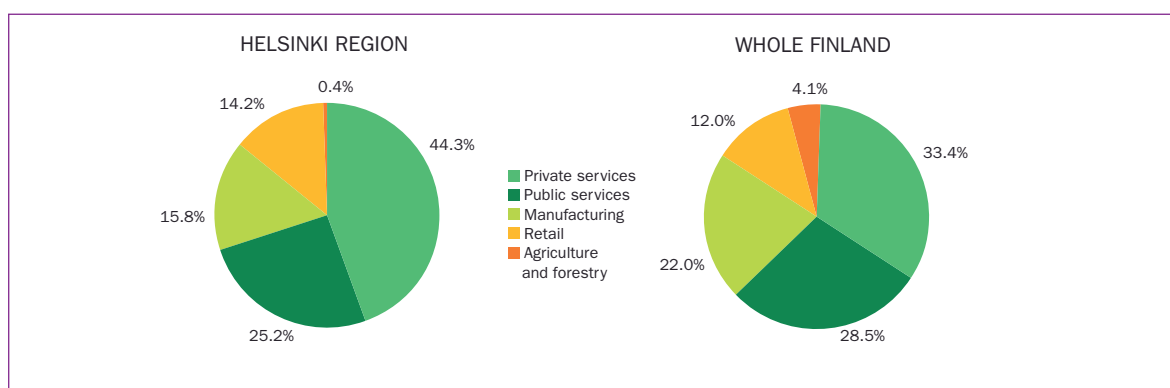
Economic base: Information industries, professional and financial services, wholesale trade, logistics, public sector services

In the Helsinki region, the proportion of jobs in the private service and retail trade sectors is significantly higher – 58% – 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.

"The economic growth of the Helsinki region is stronger than in the whole country"

The structure of the economy
Percentage of jobs, 2016



Source: Helsinki 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 2012 and 2017, the number of jobs increased by 3% in the Helsinki region, while in the whole country on average, a decrease of one per cent was recorded. In the same period, total production increased by 7%, compared to 3% in the whole of Finland. In 2017, construction, hospitality sector, logistics, professional services as well as retail trade were the best performing business sectors in the Helsinki region. However, in 2017 the growth of production and number of jobs in the Helsinki region did not outperform that of the whole country.

"The population of the Helsinki region is expected to grow to 1.7 million by 2030"

The Helsinki metropolitan area is one of the fastest growing city areas in Europe. By 2030, the population in the region is expected to grow to 1.7 million inhabitants, and by 2050, to some 1.9 million. The population of Helsinki is expected to exceed 700,000 by 2026, and to increase to some 775,000 by 2050. The population growth is based on both immigration and internal migration and also, although to a lesser extent, on positive natural population growth.

The region's growth fuels the economy and construction in the Helsinki metropolitan area. The growth of residential construction continued in 2017: already by the end of September, the amount of construction permits had exceeded that of the whole year in 2016, and was, in turn, the record year of the 2000's. Commercial and service property construction volumes also remain at a healthy level.

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 early 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.

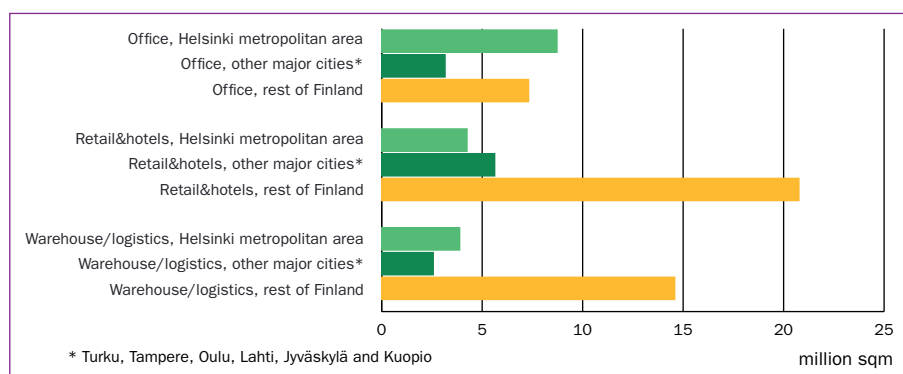
Other public transport development projects currently being planned include several developing tram lines, to, for example Jätkäsaari, and the construction of Kruunusillat, a light traffic and tram bridge connecting the inner city with Kalasatama, Laajasalo and Korkeasaari.

"New public traffic connections are boosting the property markets in the Helsinki metropolitan area"

Another major infrastructure project in planning is a 92-kilometer railway tunnel between Helsinki and Tallinn in Estonia in order to form a twin city with some 3 million inhabitants. The feasibility study of the tunnel was published in February 2018, and presented a total cost estimation of €13–20 billion. The tunnel would connect the Tallinn airport with the Helsinki-Vantaa airport with passenger stations in the city centres and also in Pasila in Helsinki. The tunnel is expected to have a positive impact on the economy and regional development in terms of agglomeration, labour mobility, productivity and land use. The tunnel would connect Finland to Rail Baltica and form a European Gateway, and would be used both for freight and passenger traffic. According to the study, the construction work could start in 2025 at the earliest and would take some 15 years. The project is still subject to financing from both private and public sectors, as well as from the EU.

"A rail tunnel connection is being planned between Helsinki and Tallinn"

Commercial property stock by region and property sector



Source: Statistic Finland 2016

Within the Helsinki metropolitan area property markets, the Helsinki central business district (CBD) has an undisputable position both as the prime office and 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), Leppävaara (Sello), Aviapolis (Jumbo), Tapiola (Ainoa) and Matinkylä (Iso Omena), as well as in the Helsinki CBD (Kamppi, Forum, Galleria Esplanad, Citycenter and Kluuvi). New major shopping centres are currently being developed in Kalasatama (REDI) and Pasila (Mall of Tripla).

Of around 8.7 million sqm total stock of offices in the Helsinki metropolitan area, some 5.9 million sqm is located in Helsinki. Espoo accommodates about 1.8 million sqm and Vantaa about 1 million sqm of offices. Retail space stock of the Helsinki metropolitan area amounts to about 4 million sqm. Of this, about 2 million sqm is located in Helsinki.

5.1.1 Helsinki

The city master plan of Helsinki approved in late 2016 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. In terms of traffic connections, the plan emphasises the most important rail hubs as well as improvements in pedestrian and cycling possibilities.

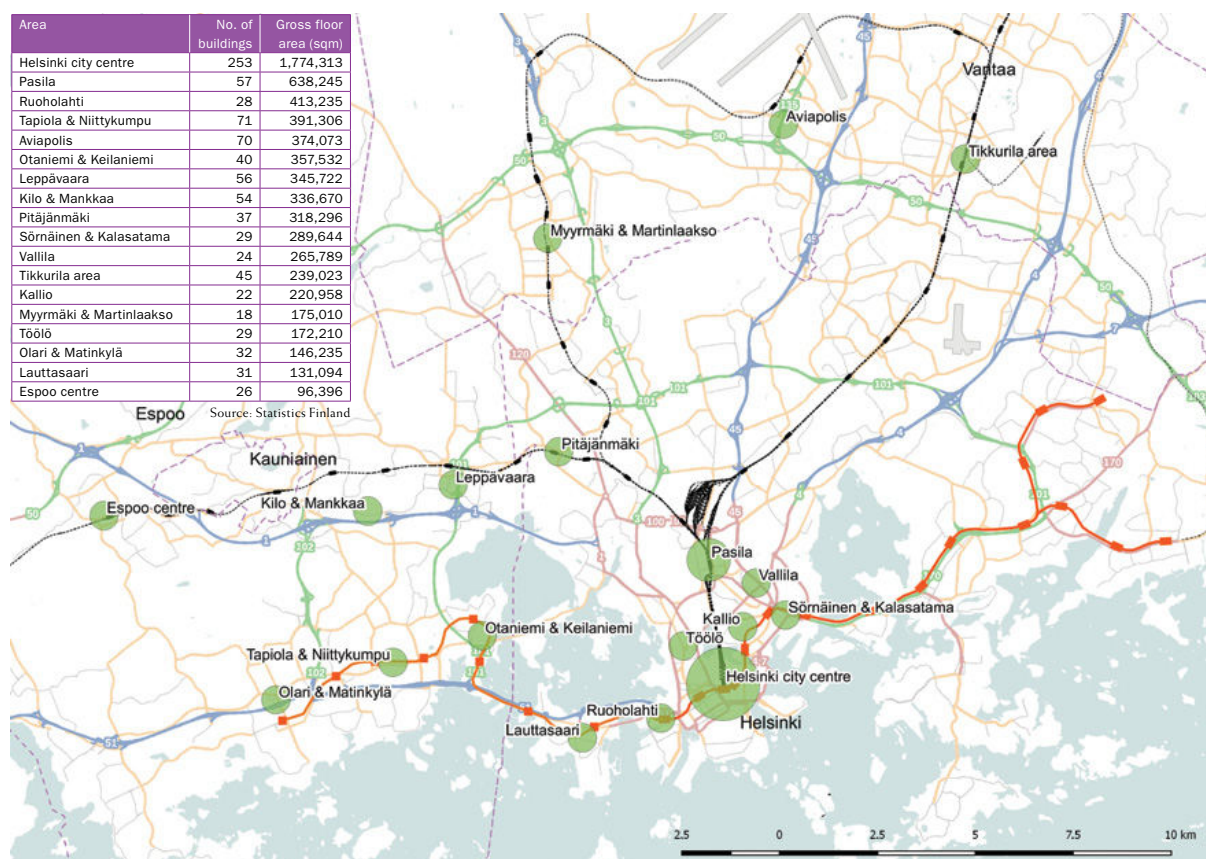
In order to enable residential construction, the plan includes the transformation of current incoming traffic routes into urban city boulevards with new mixed neighborhoods of housing and workplaces, as well as the zoning of new areas - for instance the Malmi airport area and parts of the central park - into residential use. The urban city boulevard plans caused serious debates already in the master plan process, and in early 2018, the plans met with a setback, as the administrative court denied four out of seven planned boulevards due to their negative impact on traffic. However, the City of Helsinki plans to make an appeal about the court's decision.

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.

Main office areas 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.

Office users in the city centre are mostly companies offering business-to-business services – such as business consultancies, law firms, financial service firms – together with some company headquarters and ministries' offices. The majority of the office stock in the Helsinki CBD was built in the late 1800s and early 1900s, but it is mostly well maintained and refurbished. Also during the challenging years in the economy, the Helsinki CBD proved its resilience and remains the most preferred office location in the region.

"Several office property transactions took place in the Helsinki CBD in 2017"

The Helsinki CBD office area has recently been extended towards the Töölönlahti area in the vicinity of the main railway station. In the area, there are also major cultural buildings such as the City Music Hall and Finlandia Hall, and it will also accommodate the new central library, the construction of which is due for completion in 2018. In early 2018, the largest single office transaction ever in Finland took place in the Töölönlahti area, when Dekka Immobilien acquired an almost 16,000 sqm office property from Ilmarinen for €190 million. KPMG is the main tenant in the property.

After many years, the Helsinki CBD office stock increased in late 2017, when a new 16,000 sqm building was completed by Kasarmitori. The building is mainly let to the law firm Roschier, and it was sold in the summer of 2017 to the French CNP Assurances, with Hines acting as its investment partner.

"Market liquidity and rental growth attract investors in the Helsinki CBD"

In response to occupier needs in office buildings, several major redevelopment projects are underway or just recently completed, for instance by the Northern and Southern Esplanades. One of these refurbished buildings was acquired by Varma in late 2017. In addition to these prime properties, several other office transactions on the fringes of the Helsinki CBD were also carried out in 2017.

The Helsinki CBD attracts investors by its liquidity and secure rental demand. Therefore, the yields for prime properties in the CBD have continued to decrease. In the RAKLI-KTI Property Barometer carried out in October 2017, the prime yield for an office property in the CBD stood at 4.2% on average, showing a decrease of 0.5 percentages since 2016. Transactions of the very best properties have been closed on levels well below this.

In addition to yield compression, the investment performance of Helsinki CBD offices is supported by positive rental growth. The KTI Rental index for new rental agreements for Helsinki CBD offices increased by some 3.5% in 2017. The upper quartile of new office rental agreements increased close to €34.50/sqm/month, and the average rent stood at some €30/sqm/month.

"Yield compression continued in the Helsinki CBD in 2017"

As a result of both decreasing yields and increasing rents, Helsinki CBD offices continued to outperform all other office submarkets. In the KTI Index, the total return of Helsinki CBD offices exceeded 14% in 2017. For the past five-year period, the annual total return on Helsinki CBD offices amounts to 9.0%, while offices in the whole Helsinki metropolitan area produced an annual average return of 4.6%.

However, despite the healthy rental demand, the vacancy rate of offices has remained quite high in recent years also in the CBD. In the KTI rental database, the occupancy rate of offices stood at some 86% in September 2017. According to Catella Property, the vacancy rate of offices in the city centre stood at 7.8% at the end of 2017.

Due to increasing demand for hotels, as well as oversupply of office space, several office buildings in the CBD have been converted to either hotel or residential use in recent years. In 2017, the extension of Hotel Haven on Unioninkatu was completed, and Hotel St. George in Kamppi is due for completion in early 2018. On Bulevardi, the Lapland Hotel project is scheduled to be completed during the first half of 2018.

In 2017, Barings Real Estate Advisers acquired an office property on Unioninkatu also to be converted to hotel use. VR Group's head office at the main railway station will be converted to a 500 room hotel. Exilion's fund has invested in the project. Another conversion project is underway in the vicinity of the CBD in Katajanokka, where the former headquarter of Kesko is being redeveloped into residential and hotel use.



Photo: City of Helsinki /Tero Pajukallio

Helsinki CBD



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

"Several office buildings in the Helsinki CBD have been converted into hotel use"

Main shopping centres in the Helsinki CBD include Kamppi and Forum in the Kamppi area, Galleria Esplanad and Kluuvi in the Kluuvi area, and Citycenter next to the main railway station. The largest retail property transaction in the CBD in 2017 was carried out by TH Real Estate, who acquired 50% of the Kamppi shopping centre from Barings Real Estate's fund. The transaction price was close to €250 million. The other half of the centre is owned by Allianz.

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 stood at 96% in late 2017. The upper quartile of new retail rental agreements stood at some €125 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 positive in 2017, and the average rent increased to some €115 per sqm.

The tenant base of retail premises in the Helsinki CBD has changed markedly during the past couple of years. On the one hand, many international luxury brands have entered the Finnish market by opening stores in the most expensive locations. On the other hand, shopping centres in the CBD have also attracted some users of large premises recently. Another trend is that restaurants, cafes and other consumer services have taken up more space in shopping centres.

"Restaurants and cafes take up more space in shopping centres"

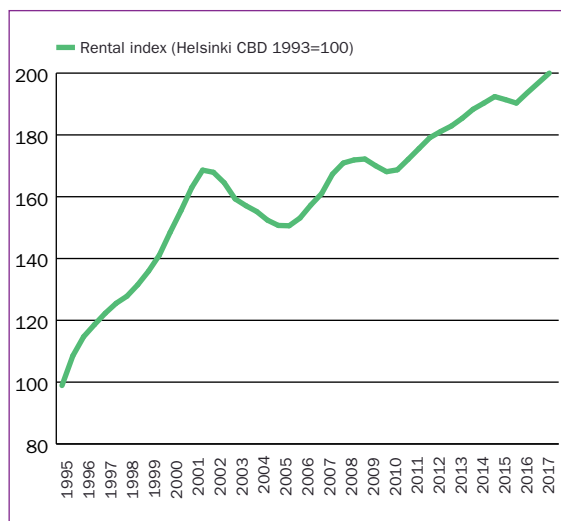
Ruoholahti – Salmisaari

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 per sqm per month on average. Modern and efficient office premises of the area attract tenants, but the occupancy rate remains quite low at 87% 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.

KTI Rental index, Helsinki CBD offices



Source: KTI and Statistics Finland

The largest transaction in Ruoholahti in 2017 was carried out by the Swedish Skandia Fastigheter, who acquired a 14,000 sqm office property from a fund managed by TRIUVA. This is Skandia's first investment in Finland. Also, Antilooppi invested in a €29 million office property in the area, and the Swedish Fastighets AB Balder acquired a hotel property in Ruoholahti for €39 million.

Technopolis is currently developing the third phase of its Ruoholahti Campus in Salmisaari. The project is due for completion in the latter half of 2018.

Next to Ruoholahti is the growing Jätkäsaari area, which was freed for development after the harbour moved its operations to Vuosaari. The West Harbour serving passenger ferries to Tallinn and St Petersburg is still located in Jätkäsaari, and a new passenger terminal was opened in 2017 in the area.

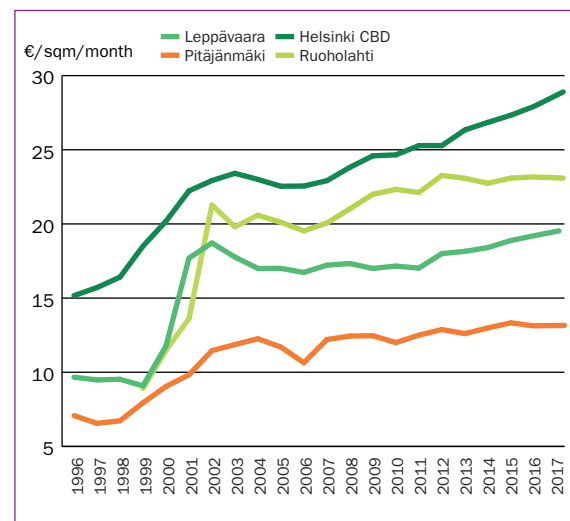
Residential development remains active in the Jätkäsaari / West Harbour Area, and in 2017, more than 1,100 new dwellings were completed. The area accommodates both subsidised and non-subsidised rental housing, as well as owner-occupied projects. The area is planned to accommodate some 18,000 inhabitants by 2030.

The development of SRV's Wood City block has started in the area with the construction of a residential property. The block will also comprise an office building, planned to be started in 2018, and a hotel building. The reconstruction of the so called Jätkäsaari bunker, the old warehouse building, also planned by SRV, has been postponed due to a complaint concerning the procurement process.

"The construction of the Telakkaranta area has been started"

The development of the old dock and industrial Telakkaranta land area, next to Jätkäsaari, was started in early 2018 by the construction of a 17,500 sqm office property, which is rented

Median office rents, all agreements



Source: KTI

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 in the sea shore 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, the 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 area will accommodate some 50,000 jobs and 30,000 residents, compared to current figures of 25,000 and 8,600 respectively. Pasila station is expected to become the busiest railway hub in Finland with some 47 million passengers per year.

"The three-block Tripla project is underway in Pasila"

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. Also a parking facility for 2,300 cars is under construction. The Mall of Tripla will be opened in late 2019, and currently some 70% of the retail premises have been rented. Pension insurance company Ilmarinen (Etera), insurance company Fennia and investment company Onvest are YIT's co-investors in the project. In 2017, Exilion's fund invested in the Tripla hotel property, which is due for completion in 2020.

Next to Tripla, an international design and construction competition under the title "Helsinki High-Rise" is currently underway as a joint project of the State and the City of Helsinki. In the competition, a plan to develop the Central Pasila Tower Area will be chosen. The area will include 150,000–200,000 sqm of residential, office and commercial space in at least 15-floor buildings. The competition also aims at finding an executor for a 40–50,000 sqm Start-Up Area, planned in the western part of the Tower Area. The four finalists were chosen in late 2017, and the decision will be made in the autumn of 2018. The finalists comprise projects of the major property developers Skanska, YIT and Bonava, as well as investment company Sponda. SATO is Skanska's partner in the project, and Fira and NREP are co-operating with Bonava.

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. Sponda is a major developer and investor in the area. Sponda's Ilmalanrinne project currently comprises three office buildings, and another three are being planned, and the company also has other projects in the area. In 2017, Hartela completed an 11,600 sqm office building in Ilmala. Hartela and Helsinki Region Environmental Services Authority HSY are the tenants in the building, which has been sold to HANSAINVEST. Hartela also plans to construct a second phase for the project.

"Occupancy rate of offices increased in Pasila in 2017"

The amount of vacant office space continued to decrease in Pasila in 2017. 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 €18–20 per sqm in 2017, and the occupancy rate was 93%.

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, head offices of banks and telecommunications companies. OP Group's headquarter complex comprises some 130,000 sqm, and in 2017, the group completed another 17,000 sqm office project, which is rented to the Finnish Tax Administration. Also in this area NCC is currently developing the first phase of their Fredriksberg project, comprising some 8,700 sqm of lettable office space, and scheduled to be completed in the first half of 2018.

Major transactions in the Vallila area in 2017 were carried out by AREIM, who bought two office properties in Elimäenkatu, as well as by Antilooppi, who acquired one office building in Vallila and another in Sörnäinen from OP Group.

Next to Vallila is Sörnäinen, a traditional industrial and harbour area, which currently accommodates many refurbished office buildings. In Sörnäinen, Skanska CDF is currently developing the 12,000 sqm K6 office project.

Rents vary markedly between older and modern office stock in Vallila and Sörnäinen. In the older buildings, rents are around €15 per sqm per month, whereas in the modern stock, they are clearly above €20 per sqm per month. Occupancy rates in Vallila and Sörnäinen have decreased recently, and stand at slightly above 80%.

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.

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.

In Kalasatama, SRV is currently constructing the REDI centre, which will comprise a 60,000 sqm shopping centre, seven residential towers and one office/retail/residential tower. In addition to SRV, investors in the REDI shopping centre include pension fund Ilmarinen, OP Group's funds and LocalTapiola's insurance and life funds. The centre will be opened in the autumn of 2018.

"New offices being developed in Kalasatama"

Commercial property construction is also active elsewhere in Kalasatama. The City of Helsinki's 20,000 sqm health and well-being centre in Kalasatama was completed in late 2017. Deka Immobilien is the investor in the project. Lindström Invest completed the second phase of its Rantatie business park in 2017, and plans to start the third phase in early 2018. Varma is developing a 35,000 sqm office property where Kesko will be the main user. Also, the City of Helsinki is about to start a major new office building for its newly established Urban Environment Division in Kalasatama.

Ruskeasuo

Next to Pasila, by Mannerheimintie is the developing Ruskeasuo office area with mostly modern space supply. The area currently accommodates, for example, the first two phases of Skanska's ManskunRasti project, as well as the two buildings of NCC's Aitio Business Park. OP-Rental Yield fund invested in the Aitio Business Park buildings in 2017. Office rents in Ruskeasuo vary below and above €20 per sqm per month.

North of eastern Pasila is the traditional residential area Kämpylä. The surroundings of the Kämpylä railway station accommodate a relatively modern office stock where a couple of company headquarters are located.

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, occupancy rate stood at only some 60% in late 2017. Due to low demand, investors are looking for change of use opportunities.

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.

Peab Invest started the construction of the second phase of Ultimes Business Garden in the area, comprising some 8,000 sqm of lettable space. AREIM's fund invested in a 26,000 sqm office property in the area.

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.

The office vacancy rate has remained high for several years, although the total stock of offices is rather small in the area. YIT and Hartela have just started the construction of the 20,000 sqm Hertsi centre by the metro station, which will be connected with the existing Megahertsi centre. The centre will accommodate, for instance a Prisma hypermarket, service facilities of the City of Helsinki, several cafes and restaurants, and some serviced apartments. Fennia and Aktia life insurance companies and Yleisradio Pension Fund acquired the new property in late 2017, and eQ's fund is the investor in the existing part. Hartela and YIT will also develop some residential buildings in the vicinity of the centre.

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. The Itis shopping centre is one of the largest shopping centres in northern Europe with a gross leasable area of 115,000 square metres. Kesko completed the first, 20,000 sqm phase of the shopping centre Easton in late 2017. An investment decision for the second, 36,000 sqm phase has not yet been made.

Vuosaari, the new harbour area, is another area that has been developing rapidly in recent years. The harbor currently accommodates about 2,000 jobs as well as an extensive logistics property stock. Logicor is one of the main owners of the logistics space in the area. MetsäFibre completed a terminal building in Vuosaari in 2017. Next to the Vuosaari metro station is the 21,000 sqm shopping centre Columbus. Vuosaari and the adjacent Rastila areas are also rapidly developing residential areas.

5.1.2 Espoo

Espoo, Finland's second biggest city, has property stock scattered within five regional centres: 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 2022 at the earliest. The city'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.

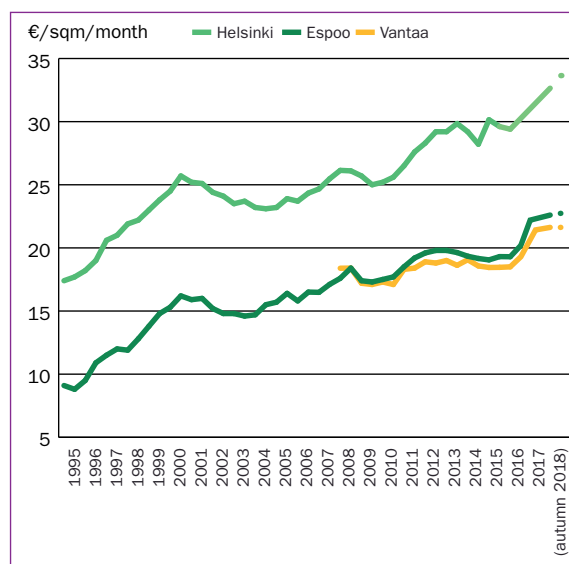
High office vacancy rates have been a problem for many areas in Espoo for the past few years. Areas suffering from high vacancies include, for instance, the Kilo-Mankkaa and Olari-Niittykumpu areas. Also in Leppävaara, vacancy rate remains rather high. Areas with healthier occupancy rates include Keilaniemi and Tapiola by the new metro line.

"The new western metro line started operations in 2017"

In the KTI rental database, only some 78% of Espoo's office premises owned by large investors were rented in late 2017. In 2017, two office projects were completed in Espoo: the phase E of the Alberga Business Park in Leppävaara, as well as the A Grid conversion project in Otaniemi by Aalto University Properties. At the end of the year, the head office of construction planning and consultancy firm Ramboll Finland was under construction in Leppävaara. Keva has invested in the project.

The construction of the new western metro line has been boosting the property markets in the vicinity of the new stations in Espoo. The new metro line was opened in late 2017, and the extension to Kivenlahti is currently being constructed.

Prime office rents in Helsinki, Espoo and Vantaa



Source: RAKLI-KTI Property Barometer

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. Average rental levels are slightly lower than in Ruoholahti. 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.

"Keilaniemi accommodates several major corporate head offices"

The completion of the western metro line has boosted office demand in Keilaniemi recently, and there have been some major lettings, many of which have been driven by increased space efficiency. At the end of 2017, the Keilaniemi vacancy rate stood at some 8%, according to Catella.

The largest transaction in Keilaniemi in 2017 was the acquisition of two office buildings comprising 31,000 sqm by Deutsche Asset Management for €164 million. The property was originally known as the head office of Nokia Corporation, and it currently accommodates the head offices of Tieto, Microsoft Mobile, and, most recently also Fortum.

"Keilaniemi offices attracted both tenants and investors in 2017"

The move of Fortum released the company's old head office building, the so called Fortum Tower in the vicinity. The property was acquired by the property development firm Regenero, who will redevelop it and also exploit the unused building right on the plot. The existing building will remain

in office use and the main tenant will be the accounting firm Accountor. The Swedish Alma Property Partners also invested in four office properties in Keilaniemi in 2017.

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 expected to be completed in 2018.

The Otaniemi area is located next to Keilaniemi. Aalto University is located in Otaniemi, and it is currently centralising its main campus in the area. The centralisation includes both redevelopment of existing buildings and development of new premises. In 2017, the redevelopment of the A Grid building was completed. In the project, the former 25,000 sqm educational building was converted to office premises targeted at startup companies. The 33,000 sqm Aalto University metro centre and campus building is currently under construction and scheduled to be completed in the first half of 2018. The centre will include some 6,000 sqm of retail space. The Otaniemi area also accommodates several research institutes as well as business parks targeted at high-tech companies, including Technopolis's Innopoli campus.

"The second phase of Ainoa shopping centre was completed in Tapiola in 2017"

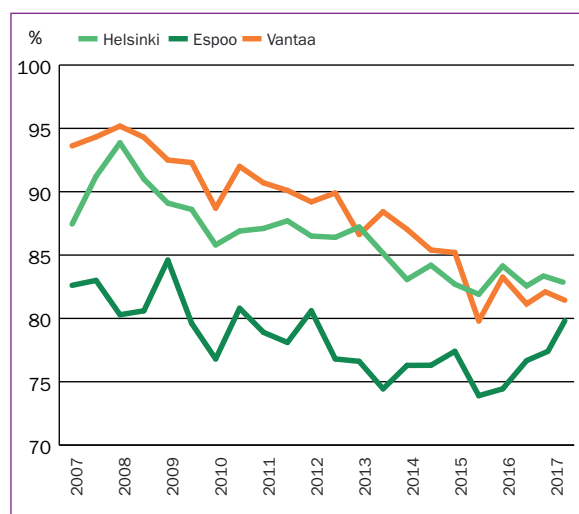
Tapiola is a traditional retail, office and residential area, which is currently undergoing major redevelopment. The project includes major investments in both transportation infrastructure and existing and new property stock. The second phase of the Ainoa shopping centre, comprising some 20,000 sqm of retail space, was completed in 2017. Following the move of Stockmann to these new premises, the former Stockmann department store building has been demolished, and the third phase of the shopping centre is now under construction. When completed in 2019, the centre will comprise some 50,000 sqm of retail space.

The Tapiola area also accommodates a diversified office stock, a large part of which has been redeveloped. Residential development also remains active in the Tapiola area.



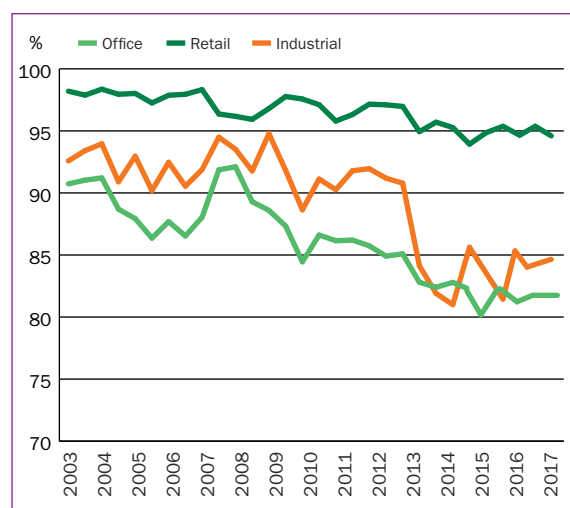
Photo: City of Espoo

Office occupancy rates in Helsinki, Espoo and Vantaa



Source: KTI Rental database

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



Source: KTI Rental database

The next two stations after Tapiola are Urheilupuisto and Niittykumpu. The Urheilupuisto station is located next to the Tapiola sports park, accommodating several sports facilities. In the Niittykumpu station, the 7,000 sqm retail centre Niitty was opened in 2017. OP-Rental Yield fund is the investor in the project.

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 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. The centre accommodates, for instance a 6,000 sqm service centre of the City of Espoo, a restaurant area with almost 40 restaurants and cafes, as well as an extensive entertainment service supply.

"Iso Omena currently comprises over 100,000 sqm of lettable space"

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 the hotel property. 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. The 23,000 sqm Liila shopping centre was acquired by eQ's fund in 2017.

"Major development projects underway in the Espoonlahti area"

Further west, along the planned 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 2020. The project also comprises a metro station, bus terminal and some 550 residential apartments.

Leppävaara

North of Otaniemi, along Ring Road I, Turku motorway and 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.

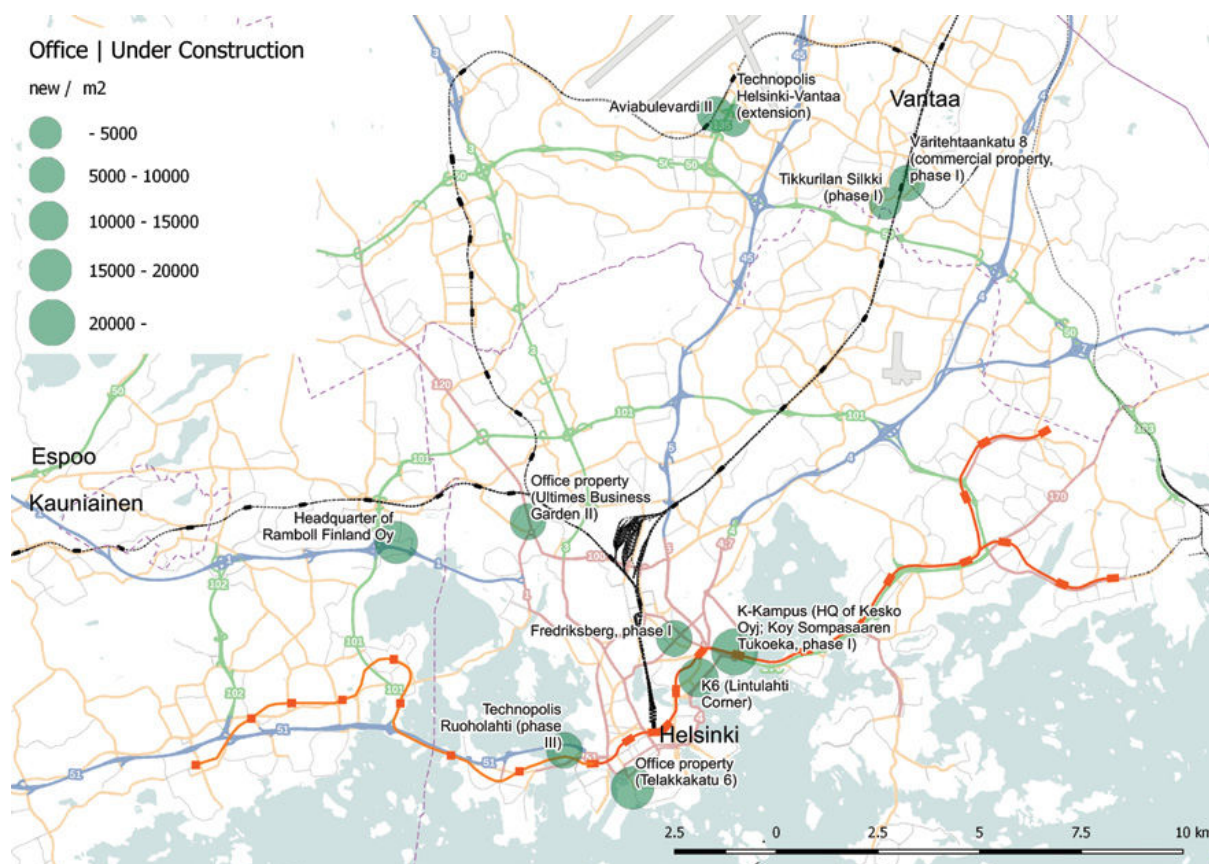
The Leppävaara area is characterised by business park complexes with several buildings including NCC's Alberga, NCC's and Lemminkäinen's joint project Polaris, Hartela's Quartetto and SRV's Derby Business Park. The Alberga Business Park completed its fifth and final phase in late 2017.

In 2017, only one office property transaction was carried out in Leppävaara: an unnamed investor bought the Quartetto Cello property. The new office building of the technical planning and consultancy firm Ramboll Finland is currently underway and scheduled for completion in early 2019. Hartela is developing the property, which has been bought by Keva. Another construction project in the pipeline is the planned 10,000 sqm extension of the Sello shopping centre.

"Office vacancy rate remains high in Leppävaara"

The office vacancy rate in Leppävaara remains high, at some 17%, according to Catella. Prime rents for offices in Leppävaara stand at some €20 per sqm per month.

Office projects under construction 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.

Residential construction activity remains high in Leppävaara and in the adjacent Perkkää area.

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. Barings acquired the Entresse shopping centre in 2017 for €30 million.

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 110,000 sqm 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. 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. 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 and its daughter company LAK Real Estate, all major property developers and several property companies. 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 development has been active in the area in recent years. In 2017, Finnair's new 35,000 sqm cargo terminal was completed in the airport area. A 25,000 sqm logistics property for Wihuri Logistics is under construction in Viinikkala; Aberdeen's fund acquired the project in 2017. Also in the area, a new terminal building of the same size is underway for Posti Group.

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 is currently developing the second phase of the Aviabulevardi project, and Technopolis is extending the Helsinki-Vantaa Campus with another building. Both projects are due for completion in late 2018. In the vicinity, in Vantaankoski area located in the junction of Ring Road III and Hämeenlinnanväylä and

by the Ring Rail, SRV is about to start the construction of a new office building Pressi.

Office demand strengthened in Aviapolis in 2017, and the vacancy rate decreased markedly, to some 8%, according to Catella. Office rents stand at some €17–19/sqm/month.

"Office demand increased in Aviapolis area in 2017"

Aviapolis offices continue to attract investors. In 2018, Niam invested in the 9,000 sqm Aviabulevardi I property, and eQ's fund acquired two business park properties in the area. eQ also invested in Vantaanportti Retail Park close to the airport, as well as in Fresko retail park property further west along the Ring Road III.

In late 2017, the Nordic fund manager NREP and Finnish investment company Pontos Oy acquired shares of LAK Real Estate with Finavia remaining as owner of the company with a 49% share. According to Finavia, the extension of the shareholder base will improve the company's prerequisites for developing the land areas around the airport in order to further build Aviapolis as an internationally competitive urban centre.

Hotel supply is increasing in the Aviapolis area. In early 2017, the construction of the Scandic Helsinki Airport Hotel was started. An old office building, just some 100 metres from the terminal, will be reconstructed into hotel use by LAK Real Estate. 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 is currently extending the hotel in the centre by 230 new rooms. When completed in late 2018, it will become the largest hotel in Finland comprising 540 rooms.

The Koivuhaka area, just east of Aviapolis, accommodates large retail units, some logistics and office properties, and is also an increasing residential area. 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.

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 Etera are investors, was completed in early 2017. Dixi also accommodates the Tikkurila train station and bus terminal. In the vicinity, the Tikkuri shopping centre was part of the portfolio Citycon sold to Cerberus Capital Management in 2017. Sponda is developing an almost 10,000 sqm multi-use property comprising office, retail and hotel premises, and plans to continue the project with another phase later. Renor is carrying out the first phase of an old industrial property conversion project in Tikkurilan Silkki, whereby some 5,000 sqm of office space will be completed in late 2018. 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. In 2017, HUB Logistics completed a 20,000 sqm office and logistics property, and Logicor completed the extension of the Ruokakesko warehouse in the area.

Kivistö

Vantaa's biggest development area is in Kivistö, close to Ring Road III and the Hämeenlinna motorway alongside the Ring Rail Line. Some 30,000 new inhabitants and nearly as many jobs are being planned to be accommodated in the area.

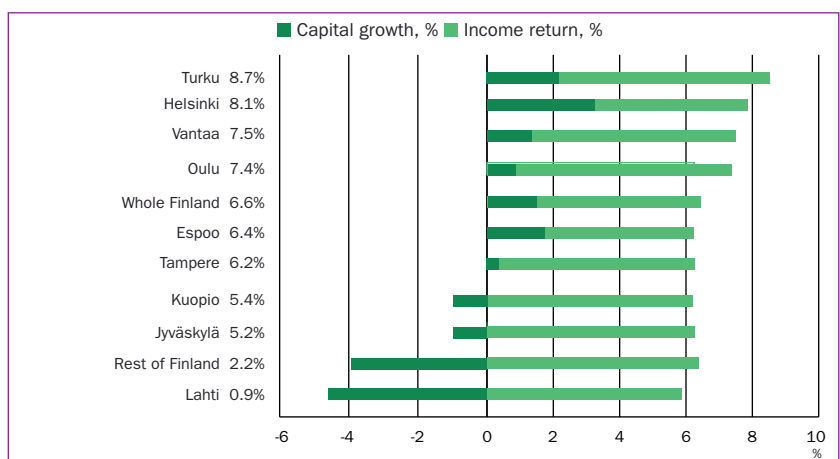
The biggest individual project planned in the area is a 110,000 sqm shopping centre close to the new Kivistö station; this is a joint project between Skanska, NCC, HOK-Elanto and Kesko. The start of the project has been postponed, but the first 35,000 sqm phase is now planned to be started in 2018, and is estimated to be completed by the end of 2020. The City of Vantaa has committed to rent some space for its services in the centre. The shopping centre will be a part of the 150,000 sqm Kivistö centre, which will also accommodate a bus terminal. Also in Kivistö, abundant rental residential development is underway.

Myyrmäki

Myyrmäki is a regional centre in western Vantaa by the Ring Rail Line. The growing area currently accommodates some 15,000 inhabitants. 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.



Total returns in Finnish cities 2017, all property



Source: KTI Index

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: 230,000
 Tampere region in total: 380,000

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 is a university city, where the Tampere University, Tampere Technical University and Tampere University of Applied Sciences are planned to be merged in the beginning of 2019. The new university will have 35,000 students and some 5,000 employees.

Tampere region consists of eight municipalities pursuing active cooperation in developing the business environment in the area. In recent years, the region has suffered from relatively high unemployment, which, however, decreased in 2017, and stands currently at some 14.3%.

The transportation network is developing in Tampere. Finland's longest road tunnel – 2.3 kilometres – was opened on the northern side of the city centre in late 2016. The tunnel lightens the traffic in the city centre and enables residential development in the vicinity. 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 Pyyrikintori. 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.

"Developing infrastructure enables more intensified land use in Tampere centre"

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 a major Deck and Arena (Kansi ja Areena) project was started with the deck construction work in late 2017. 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. City of Tampere is also involved in the multi-use Arena project.

Tampere office stock amounted to some 1.1 million sqm at the end of 2016. 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.

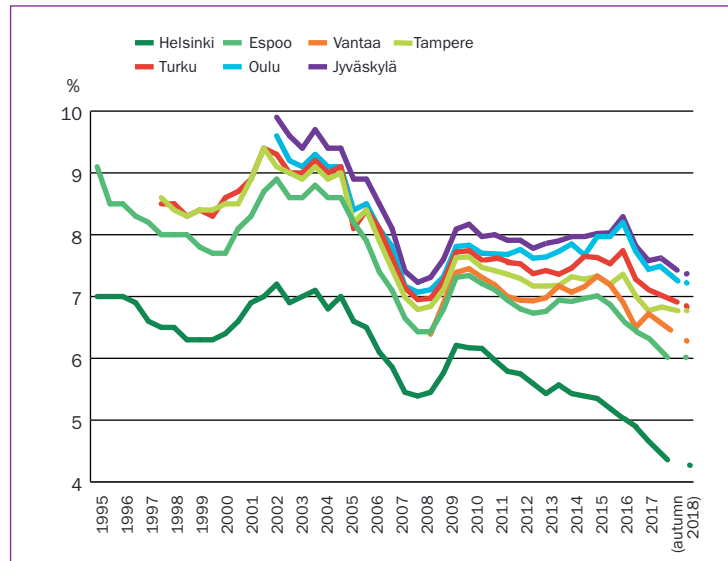
Unlike in other major cities, the vacancy rate has recently increased significantly in Tampere. According to Catella, there were some 130,000 sqm of vacant office space, at the end of 2017, corresponding almost 15% of the total stock.

In 2017, Varma completed a development project in the Finlayson area, where a 7,500 sqm office, retail and care property was completed at the end of the year. Technopolis is about to start the construction of a 13,000 sqm office property next to the railway station.

"The office vacancy rate remains high in Tampere"

The most expensive retail space in Tampere is situated along the main street, Hämeenkatu, and in the Koskikeskus shopping centre next to Hämeenkatu. Retail property construction is currently active in Tampere with some 85,000 sqm under construction at the end of 2018. In

Prime office yields in major Finnish cities



Source: RAKLI-KTI Property Barometer

the Ratina area, next to Koskikeskus, Sponda is about to complete the 53,000 sqm Ratina shopping centre. Kesko is developing the Westeri retail centre in Tesoma, west of the city centre. In Lempäälä, south of Tampere, a 15,000 sqm extension for the Ideapark shopping centre is underway, as well as a hypermarket project in Nokia. All these projects are projected to be completed during the first half of 2018.

"Some 85,000 sqm of retail space is under construction in Tampere region"

In recent years, industrial property construction has been concentrated mostly in Pirkkala, south of Tampere and close to the airport. Hotel stock in Tampere has increased markedly, for instance, due to the completion of the Torni hotel. In late 2017, Marriott published that it will open its first hotel in Finland in Tampere, close to Tampere Hall. Keva is the investor in the project. The Deck and Arena project will also increase the supply of hotel rooms.

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.

The transaction volume increased significantly in Tampere in 2017, reaching a record volume of €850 million. The volume was boosted by large portfolio deals that included assets in Tampere. For instance, Sponda has significant holdings in Tampere, and as a part of the establishment of Agore Kiinteistöt, the Tullintori shopping centre was acquired to the portfolio. AXA Investment Management - Real Assets acquired a residential portfolio, which also included assets in Tampere.

"Large portfolio deals boosted the transaction volume in Tampere"

Large single asset transactions carried out in 2017 included, for instance the acquisitions of an office property in Hatanpää by the newly established Kielo AB, and the Ratinankaari office property by VVT. Technopolis sold the Finnmedi Campus properties to eQ's fund in autumn.

Oulu

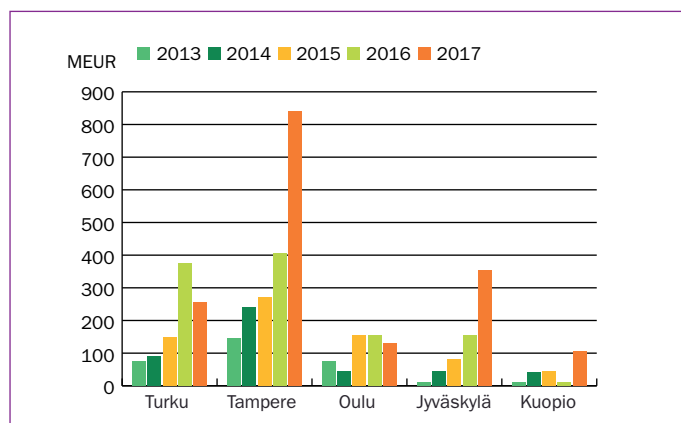
Location: 600 km north of Helsinki
Population: Oulu: 201,000
Oulu region in total: 247,000

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, social and health services as well as education are regarded as specialities of the region. The share of industrial jobs is lower than in the whole country on average, standing currently at about 13% of all jobs.

Oulu is specialized in electrotechnical manufacturing, and the services supporting it: for example, engineering, software and information services. The region has suffered from the restructurings in this sector, and the total volume of exports of the region is currently significantly lower than in the early years of 2010s. Unemployment remains high in Oulu, and currently stands at some 14.2%. However, the economic situation has recently improved, and in 2017, the number of employed increased for instance, in construction, many

Transaction volume in cities outside the Helsinki metropolitan area



Source: KTI

service sectors as well as in manufacturing. The growth in information and communication services exceeded the average of whole country.

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 640,000 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. In 2017, three office properties, totaling some 14,000 sqm, were completed: one in Limingantulli, one in Linnanmaa and one in the Taka-Lyötty area just south of the city centre. At the moment, there are no office construction projects underway.

Office demand is currently strengthening, mainly due to the increase in jobs in the IT sector. However, vacancy rate

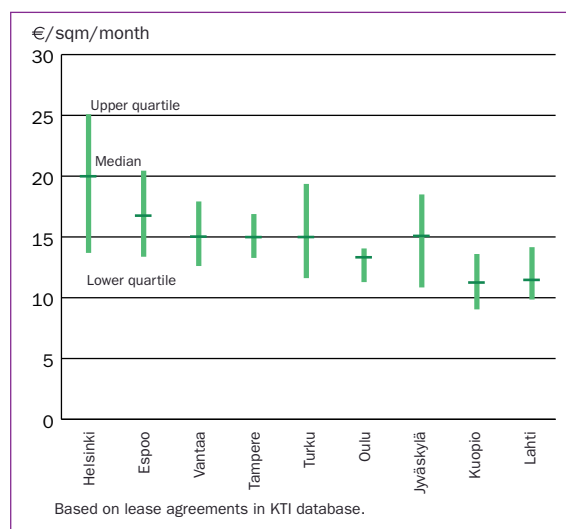
remains over 10%. Office rents stand at some €15 per sqm per month in the city centre, Peltola and Limingantulli areas, and are slightly lower in Limingantulli.

"The letting market picking up in Oulu"

The Oulu city centre has suffered from oversupply of retail premises due to both abundant new construction and the closings of some major department stores. Demand for premises has recently picked up, and many of the vacant premises have been rented. There are also some renovation projects of retail premises underway, which decreases supply temporarily. Prime retail rents stand at above €50 per sqm per month for small premises, and at some €30 per sqm per month for larger premises. Retail construction has now slowed down, and only some smallish owner-occupied projects outside the city centre were completed in 2017.

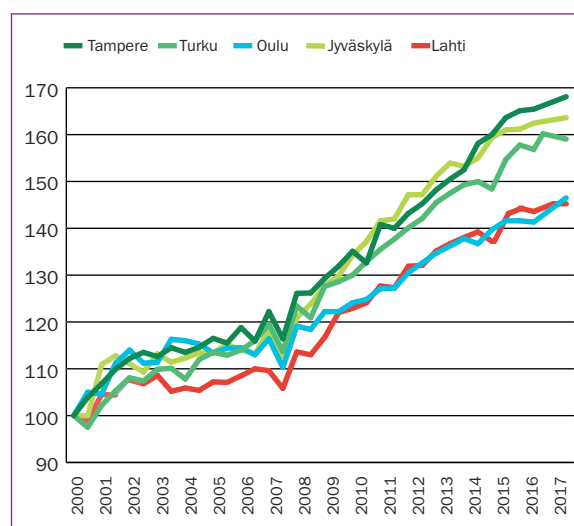
The rental residential market in Oulu has, in recent years, performed less favorably compared with other major cities,

Prevailing office rents in major Finnish cities, autumn 2017



Source: KTI Rental database

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



Source: KTI Rental database

due to both the cities expansive planning policy, as well as the struggling economic development. In 2017, however, the KTI residential rent index for new rental agreements increased by 3.7% in Oulu, which significantly exceeds the growth in other main cities. Also, the occupancy rate improved to some 97%, and total returns outperformed those of the whole country on average. Residential construction activity also remains high in Oulu.

"The Oulu rental residential market outperformed the other main cities in 2017"

Property transaction volume amounted to some €130 million in 2017, which is slightly less than in the two previous years. As in many other main cities, major portfolio transactions contributed to the volume: in the Oulu region, Polar Bidco acquired the Zeppelin shopping centre as part of the Sponda transaction, and in the city centre, the newly established Agore Kiinteistöt owns one asset. The largest office transaction was carried out by a joint venture of Pharmacy Pension Fund and Yleisradio Pension foundation, who invested in the newly built 11,000 sqm property in Limingantulli.

Turku

Location: 160 km west of Helsinki;
in south-western corner of Finland
Population: Turku: 189,000
Turku region in total: 325,000

The Turku region consists of eleven municipalities in the south-western corner of Finland. Turku is a strong traditional university city, accommodating, for example, the main Swedish-language university in Finland.

The region's current competence areas include businesses around the sea cluster 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, together with its contractors, currently employs some 6,000-7,000 people in the region. Half of the Finnish medical industry is accommodated in the Turku area, and bio industries employ some 4,000 people in the area. Also, Valmet Automotive's growth in Uusikaupunki, some 60 kilometres north of Turku, contributes to the strong economic development in the Turku region. The company employs some 4,000 people.

"Sea cluster and medical industries are showing strong growth in the Turku region"

Thanks to the positive development in several industry sectors, unemployment has decreased significantly, and stood at some 13.9% at the end of 2017, having been at 16.8% in 2016. 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.

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.

"Strong economic development supports the Turku property markets"

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.

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 completed a 9,500 sqm indoor sports / multipurpose arena and a 1,200 sqm meeting and event centre in the area in late 2017. It is currently developing a new 28,000 sqm campus building for the Turku University of Applied Sciences.

In the vicinity, the construction of a new University hospital building, a new medical school building as well as OP Group's Pohjola hospital building are underway.

"Property development is active in the Kupittaa area in Turku"

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 currently stands at some 8.0%, according to Catella. The healthy occupancy rate

is supported by the low amount of new 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. New retail property development in recent years has been limited to purpose-built supermarket and owner-occupied premises.

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. 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 and plans to develop a centre for some 100 companies and 10,000 jobs between 2019 and 2030. The business plan for the area is currently in progress.

Other major property development projects currently underway include the development of the former Kakola prison area close to the city centre, as well as the redevelopment of the Forum block in the city centre. 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.

"Foreign investors were active in Turku in 2017"

The property transaction volume in Turku amounted to €260 million in 2017, which is some 30% less than in the previous year. Foreign investors were more active than in recent years, and the largest transaction was carried out by CBRE European Shopping Centre Fund II, which invested in the Skanssi shopping centre. Schroder Nordic Real Estate Fund acquired the Sampotalo office and retail property in the city centre, and AXA Investment Managers and Barings, together with an unnamed German fund, invested in the Turku residential rental markets.

Jyväskylä

Location: 270 km north of Helsinki, in the centre of Finland
Population: Jyväskylä: 139,000
Jyväskylä region in total: 183,000

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 improved significantly also in Jyväskylä in 2017, and, according to the Ministry of Economic Affairs and Employment, the unemployment rate stood at some 14% at the end of 2017.

The largest investment of the Finnish forest industry sector ever, the bioproduct mill of Metsä Fibre, was completed in Äänekoski close to Jyväskylä in late 2017. This €1.2 billion, 142,000 sqm plant creates 2,500 jobs in the whole value chain, of which 1,500 are new jobs.

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 vacancy rate of offices remains at some 11%, according to Catella. Modern offices, in particular, have continued attracting tenants. In prime properties, rental levels are slightly lower than in Turku.

New office development has been scarce in recent years, but in late 2017, the municipal development company Jyväskylä announced that it will start the development of a 7,000 sqm office property in the old Kangas paper mill area north of the city centre. Also Peab's 15,000 sqm Business Garden is being planned in the area. Another 6,000 sqm office building is also being planned to be started in the centre in 2018.

Hippos area south of the city is another significant area under development in Jyväskylä. An €300 million development project is planned in the area comprising a multi-purpose hall, sports facilities as well as retail and hotel properties. The decision on the development is expected to be made in the city council in the first half of 2018.

"Office property development picking up in Jyväskylä"

In the retail property market, the Seppälä area north of the city is, alongside with the city centre, the most significant retail area in the Jyväskylä region. In Seppälä, the new 24,000 sqm Seppä shopping centre was opened in late 2017. The centre is owned by LocalTapiola's fund. Two other retail property projects were completed in the area in 2017, and another one was underway at the year-end. As in other major cities, the retail property vacancy rate remains low in Jyväskylä.

In recent years, the Jyväskylä region has attracted both domestic and foreign investors. In 2017, the transaction volume reached a new record level of €360 million. The largest transactions were carried out by Brunswick Real

Estate's Kielo AB, who acquired nine office properties from Technopolis and also invested in a large office property in Mattilanniemi. In the retail property transaction markets, both Cerberus Capital Management's and Agore Kiinteistöt's portfolios also included assets in Jyväskylä. Sagax invested in a €30 million industrial property portfolio that was disposed by Jykia.

"The transaction volume hit new record level in Jyväskylä in 2017"

Residential construction activity is high in Jyväskylä, and the construction of some 2,000 new dwellings was started in 2017. The Jyväskylä rental residential market is also attracting investors; for instance, AXA's funds invested in Jyväskylä. Residential rents continue increasing, although at a slightly slower pace than in previous years.

Lahti

Location: 104 km north-east of Helsinki
Population: Lahti: 119,000
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 currently stands at 15.9%.

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. Hypermarket and supermarket property development has been relatively active recently in the Renkomäki area south of the city. Two projects were completed in 2017 and several others are being planned.

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 courthouse moved into the area in 2017.

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

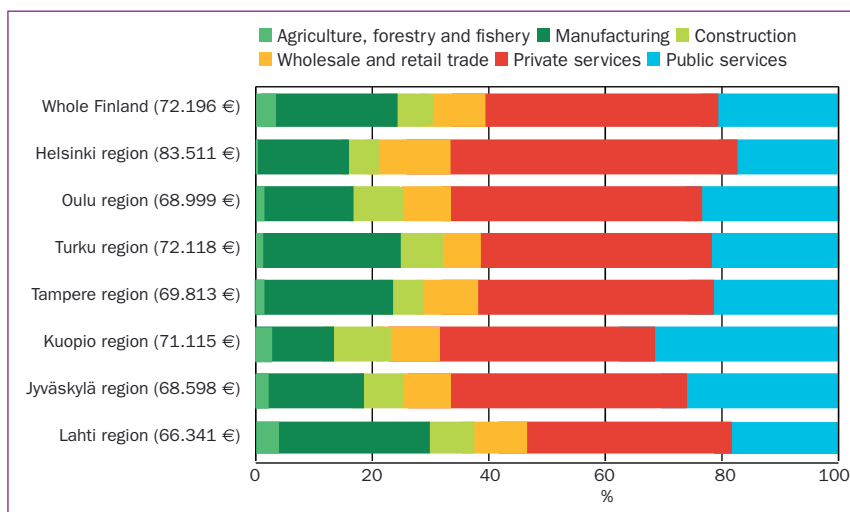
In the Mukkula-Niemi campus area, the old Isku furniture manufacturing premises are being redeveloped, and Lahti University of Applied Sciences is moving to the premises in 2018. Isku is also investing in the redevelopment of its manufacturing plant in the area.

Industrial and logistics property development has been rather active in Lahti in recent years. However, at the end of 2017, no new development projects were underway. In early 2018, the construction of a water bottling plant is planned to be started south of Lahti.

Retail and residential properties and local investors dominated the Lahti transaction market in 2017. The French Corum AM invested in the old bus station property, which has been redeveloped into retail use by a local developer. Of the domestic investors, Aberdeen's and VVT's funds both invested in one retail property in Lahti.

Value added by sector and region 2015

Value added by employee (€) in parenthesis



Source: Statistics Finland

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.

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 decreased 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 11.9%.

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. Technopolis is planning to extend its Viestikatu campus by one new building, the construction of which has, however, been postponed.

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 planning to start the construction of a 47,000 sqm Kuopion Portti centre in spring 2018. The centre will comprise residential, office, retail and service premises.

Unlike the other main cities, Kuopio did not attract any international investors in 2017, and the transactions market remained rather slow. OP-Rental Yield fund invested in one residential and one care property in Kuopio in 2017. The properties are due for completion in the second half of 2018. Also, eQ's fund acquired a retail and hotel property in the city centre.

The sponsors of this publication



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. www.helsinki-finland.fi.



Colliers International Finland is the leading provider of asset, property and facility management services in Finland. The company is responsible for the maintenance of 18 shopping centres and 1,500 business premises, and the administration of over 50,000 apartments. All services are provided in accordance with the ISO 9001 certification for property management. Colliers International Finland employs over 500 property professionals in 26 locations.

Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIG) is a global leader in commercial real estate services with 15,000 professionals operating from 396 offices in 68 countries. With an enterprising culture and significant inside ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include lease brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, customized research and thought leadership. www.colliers.com



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. www.lahitapiola.fi/kiinteistovarainhoito



KIINKO Real Estate Education is Finland's leading training company, offering a wide range of higher professional education and training services for middle management and executive-level leaders operating in the real estate and construction industries.

The company's unique concept brings together all players in the industry – end-users, developers, service providers, investors and financiers. This gives KIINKO Real Estate Education excellent insight into the needs of its customers and their businesses.

RE Finland is one of the main events organized by KIINKO Real Estate Education. With over 600 participants, combining both seminars and extensive networking it is The Finnish Real Estate Summit gathering executive and expert level representatives from real estate related businesses in Finland. www.kiinko.fi and www.refinland.fi

NEWSEC

Newsec offers a wide range of integrated professional advisory services, 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 has over 300 employees in Finland, with offices in Helsinki, Tampere, Turku, Jyväskylä, Hämeenlinna, Kuopio, Oulu, Kokkola, Imatra and Vaasa. Its clients are among the leading real estate investors and corporations, both Finnish and international. In a survey carried out in 2017 by the Great Place to Work Institute® Finland, Newsec Finland was nominated for the tenth time among the top workplaces in Finland, and also the best workplace within the real estate industry. www.newsec.fi

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. Newsec was founded in 1994 and is today a partner-owned company with some 1,700 co-workers spread across the seven Nordic and Baltic markets. Newsec has approx. €39 billion under management and annually signs lease agreements of some 760,000 square meters, manages transactions of some €3 billion and does real estate valuations of underlying property worth almost €180 billion. Thanks to large volumes, local presence combined with in-depth understanding of a range of businesses, Newsec has a unique expertise of the real estate market in northern Europe. The market report Newsec Property Outlook has been published since 2001. Download the latest issue at www.newsec.com/

RAKLI

Space for Life

The Finnish Association of Building Owners and Construction Clients is an interest group and trade association representing the most prominent real estate, residential building and infrastructure owners, investors and management service providers in Finland. The members represent both the private and the public sector, and member organisations number over 200 in total. The association brings together real estate and construction professionals.

RAKLI's activities are divided into three branches and three committees. The branches are Housing, Commercial and Public Properties, and Urban Development and Infrastructure. The committees coordinate Real Estate Investment and Finance, Property and Facility Management and Procurement. For more information, visit: 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. At year-end 2017, SATO owned around 25,800 apartments in Finland's largest growth centres and in St 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.

SATO provides its 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. By introducing service managers who are familiar with the residents' everyday lives, we took a leap in 2017 in line with our mission towards offering more than just walls.

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

S|E|B

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 350 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. sebgroupp.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.

An exceptional track record in the Finnish real estate investment market, coupled with experience in working together with leading global investors, makes Sirius a unique investment manager. Sirius' partners have extensive experience in real estate investments and in principal positions in leading industry firms over the past 15-20 years.

The firm advises Sirius Fund I Grocery and Sirius Fund II. Both funds are fully invested with €235 million in equity in total. 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 41,000 employees. Skanska's sales in 2017 totaled €16.7 billion.

Skanska's operations in Finland cover construction services, residential and commercial project development and public-private partnerships. Construction services include building construction, building services, and civil and environmental construction. Skanska Oy employed 2,086 people in Finland at the end of the year 2017.

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, 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 financing the development phases of major development projects and the ownership and subsequent realisation of plots and developed properties at the right moment. Partially owned projects include the Mall of Tripla, Tietotie 6 and the Hamina-Vaalimaa E18 motorway project.

The new YIT was born when the over 100-year-old YIT Corporation and Lemminkäinen Corporation merged on February 1, 2018. The new YIT is the developer of better homes and more functional business premises, the builder of increasingly demanding infrastructures and the provider of professional paving services. Together with our customers our 10,000 professionals are creating more attractive and sustainable cities and environments. We work in 11 countries: Finland, Russia, Scandinavia, the Baltic States, the Czech Republic, Slovakia and Poland. Our combined annual revenue for 2017 was over €3.8 billion. YIT Corporation's share is listed on Nasdaq Helsinki Oy. www.yitgroup.com



Publisher

KTI Finland
Eerikinkatu 28, 7th floor
00180 Helsinki | FINLAND
Tel. +358 20 7430 130
www.kti.fi

Photos: Sponsor companies' archives





KTI Finland in co-operation with:
The City of Helsinki, Colliers International Finland, KIINKO Real Estate Education,
LocalTapiola, Newsec, RAKLI, SATO, SEB Group, Sirius Capital Partners, Skanska and YIT.