



KTI

The Finnish Property Market | 2020

THE FINNISH PROPERTY MARKET 2020

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Preface

The past few years have witnessed historically high transaction volumes in the Finnish property market. The total size of the invested market has grown, supported by new players and properties entering the investment market, as well as by the increase in asset values. At the same time, the landscape for property investment has expanded through the increase in diversity of property sectors and the introduction of new investment vehicles.

The Finnish Property Market 2020 discusses the structure, players, market practices and conditions in the Finnish property investment market. The report aims to satisfy the information needs of both domestic and international players interested in the Finnish property market.

This publication is produced in partnership with 8 companies and organisations representing the Finnish property investment, development, management, finance and advisory sectors. KTI wishes to thank our partners: The City of Helsinki, KIINKO Real Estate Education, Kojamo, Newsec, RAKLI, SEB Group, Sirius Capital Partners and Skanska.

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 email, please subscribe to it at www.kti.fi.

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

Hanna Kaleva
KTI Finland

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

Basic facts about Finland

GEOGRAPHY	
Total area	338,000 square kilometres
Distances	1,160 km north to south 540 km east to west
PEOPLE	
Population	5.53 million Density: 18 inhabitants per square kilometre Helsinki 3,052 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 87.6% Swedish, spoken by 5.2% Foreign languages spoken by 7.1%
Capital city	Helsinki, 654,000 inhabitants Helsinki region, 1.5 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo, 289,000 Tampere, 238,000 Vantaa, 233,000 Oulu, 205,000 Turku, 193,000 Jyväskylä, 142,000 Lahti, 120,000 Kuopio, 119,000
ECONOMY	
GDP per capita	€42,504 (2018)
Economic structure	Private services 50.3% Public services 18.1% Construction 7.3% Industrial production 21.4% Primary production 2.9%
Exporting industries	Chemical industry products, 19.3% of total exports in 2018 Pulp and paper industry products 16.1% Metal and engineering products 15.5% Machinery and equipment 12.8% Electronics and electrotechnical goods 11.7%
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 2019. Biggest parties: The Social Democratic Party (40 seats), The Finns Party (39), The National Coalition Party (38), The Centre Party (31), The Greens (20)
Government	19 ministers 5 parties: The Social Democratic Party, The Centre Party, The Greens, The Left Alliance and The Swedish People's Party of Finland Prime Minister, Sanna Marin (since 2019)

1 The Finnish economy

1.1 The structure of the economy

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

Growth of industrial production has had a great impact on the development of the Finnish economy during the past decades. However, during the past years, the share of industrial production has decreased, while that of services has increased. In 2000, industrial production accounted for more than 30% of the Finnish GDP, while in 2018, its share fell to some 21%. In 2018, metal industries accounted for almost 43% of the Finnish industrial production, machinery and equipment being the largest category within this industry sector. Other large industry sectors include chemical industries and forest industries, which account for 21% and 19% of total industrial production, respectively.

Services currently account for more than two thirds of the Finnish GDP. Private services make up some 75% of all services, the most important sectors being information and communication, administration and support, trade, transportation, as well as hospitality services.

"Exports account for almost 40% of the Finnish GDP"

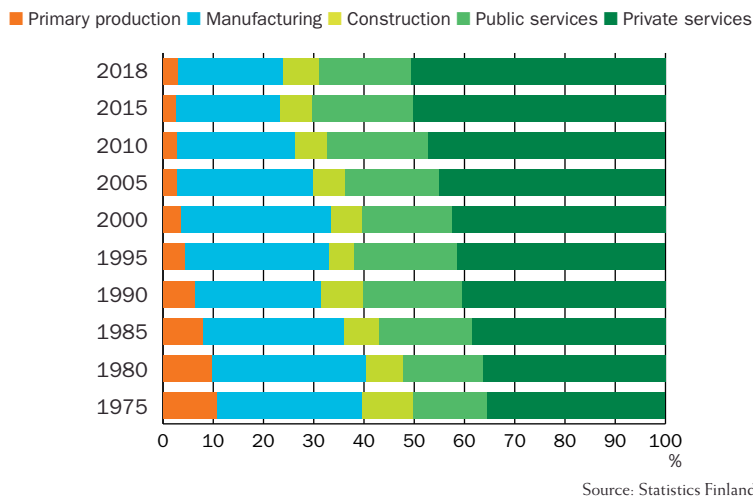
Finland is an open, export driven economy, and changes in exports have a profound impact on the economic development. At its highest in 2008, exports accounted for some 45% of the Finnish gross domestic product. In 2018, the total value of the Finnish exports increased by 5.5% compared to 2017, and amounted to €91 billion, thus representing 39% of the total GDP. The share of services of the total exports has increased in recent years and amounted to some 30% in 2018.

"Services represent almost one third of the total exports"

The diversity of the Finnish exports of goods has increased in recent years. Traditionally, forest industry products dominated the Finnish exports, but their share of the total exports currently stands at some 20%. The significance of electric and electronics industry products increased markedly during the first decade of the 2000s, but their share has now fallen to some 12%. Exporting industries that have increased their importance in recent years include chemical industries and metal industries. In 2018, the combined share of metal and metal products, machinery and equipment and vehicle industries amounted to 37% of total exports.

The share of investment goods amounted to 25% of total exports in 2018, while that of raw materials and intermediate goods was almost 50%. Due to this, Finnish exports are

Finnish economic structure



exposed to the demand of the manufacturing industries in target countries.

The share of services of total exports has increased steadily in recent years. The biggest exporting sector in services is IT services. Other significant exporting service industries include business to business services like research, engineering or marketing services, as well as installation and maintenance services related to Finnish machinery and equipment deliveries.

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

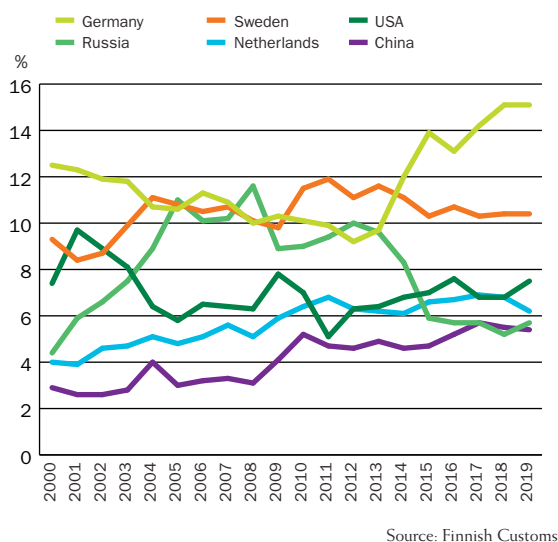
The share of other EU countries in the exports of services amounted to over 50% in 2018. Sweden is Finland's most important target country in the foreign trade of services.

1.2 Outlook for the Finnish economy

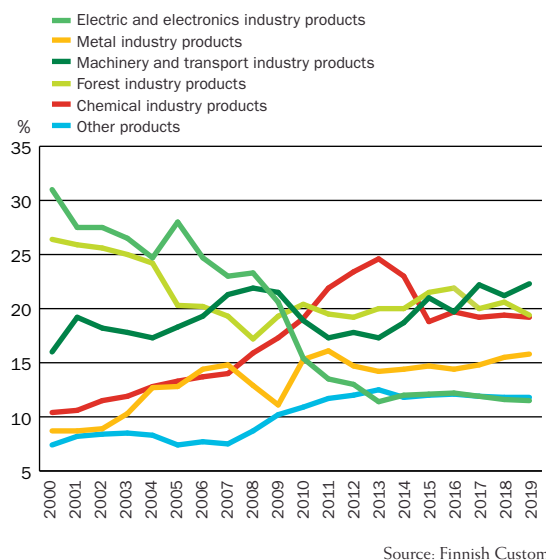
The Finnish economy is currently exposed to two structural challenges: the ageing population and the change in the structure of the economy, which started from the economic setbacks in 2007, and from which the economy has not yet fully recovered. These challenges, together with the deteriorating outlook for the global economy, pressure the expectations for Finnish GDP growth in the coming years.

Finnish GDP growth remained sluggish for almost a whole decade following the global financial crisis. The impacts of global economic downturn were boosted by the coinciding collapse of the competitiveness of electrotechnical industries,

Finnish foreign trade by target area



Finnish exports by industry sector



challenges in the exports to Russia and the increase in labour costs, which decreased the international competitiveness of Finnish exporting industries.

Only in the last few years, the Finnish economy has shown healthy growth, supported by the growth of the world economy. In 2016 and 2017, Finnish GDP grew by 2.5 and 2.8 per cent, respectively. The absolute volume of production finally reached and exceeded the previous peak level of 2008 in 2018. However, together with the slowing growth in the global economy, the Finnish GDP growth only amounted to some 1.7% in 2018. For 2019, the latest estimate for GDP growth stands at 1.6%.

"The Finnish GDP grew by
1.6% in 2019"

In recent years, the Finnish exports have been supported by strengthening competitiveness of the exporting industries, thanks to more moderate labour cost development than that of the key competitive countries, as well as an increase in productivity. In 2019, the economic growth was supported by exports and domestic consumption, which, according to the latest estimates, increased by 4 and 1.5 per cent, respectively. The growth in investments slowed down markedly compared to the previous year and amounted to 0.3 per cent.

In the coming years, the growth of Finnish exports is expected to slow down due to the slowing growth in the global economy as well as the uncertainty caused by trade disputes. In 2020-2022, exports are expected to grow by some 2% annually. The outlook is mitigated by the deteriorating

economies of the most important target countries for the Finnish exports, Germany and Sweden in particular. The weakening outlook of the industrial sector began to present itself already in late 2019: new orders decreased markedly from their 2018 levels, while the volume of production still continued to increase. The growth in exports of services is expected to outperform that of industrial goods.

"Private consumption is
expected to support economic
growth"

Private consumption will continue to be supported by increasing earnings, improving employment and low inflation. Private consumption is expected to grow by 1.5-1.7 per cent in 2020 and 2021. Public consumption will also continue to grow, due to increasing earnings of public sector workforce, as well as to increasing demand for services by the ageing population.

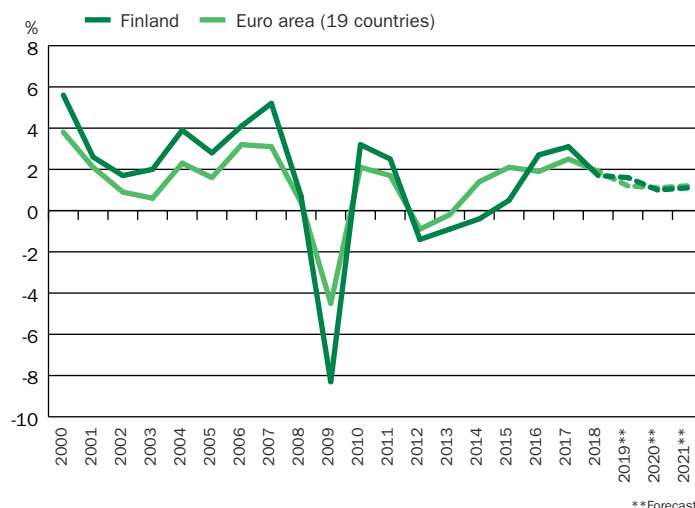
Construction investments increased by 5-6 per cent per annum in 2016-2018, and were one of the main drivers of the positive economic development. In 2019, however, the growth in construction investments turned negative by -1.1 per cent, and in 2020, the decrease is expected to accelerate to 3.5-4 per cent. Despite this decline, housing construction volumes will still remain at relatively high levels, while commercial property construction is expected to slow down.

"New construction volumes
are expected to decrease"



Photo: Skanska

GDP growth in Finland and in the Euro area



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

In other investment sectors, moderate growth is expected to continue in 2020. Investments in machinery and equipment is expected to increase by some 1.5 per cent, and in research and development by almost 5 per cent in 2020. In 2020, public investments are expected to grow more than in the private sector, due to the increasing need for care and other service properties, as well as for new infrastructure.

"The Finnish GDP growth is expected to slow down to some 1%"

In 2020, the Finnish GDP is expected to increase by 1.0%. In 2021, the growth is forecasted to slow down below 1 per cent.

The strengthening economy has supported the decrease in unemployment in recent years. At the end of 2019, the unemployment rate was some 6.7%, having stood at 7.4% in the previous year. The positive development is expected to continue in 2020, although at a slower pace. The demand for workforce will decrease due to, for instance, declining construction volumes as well as the deteriorating demand in the exporting industry sectors. According to the forecast of the Ministry of Finance, the unemployment rate will decrease to some 6.5% by the end of 2020.

"Increasing employment rate is crucial for financing of public services"

GDP in 2010 prices and GDP growth

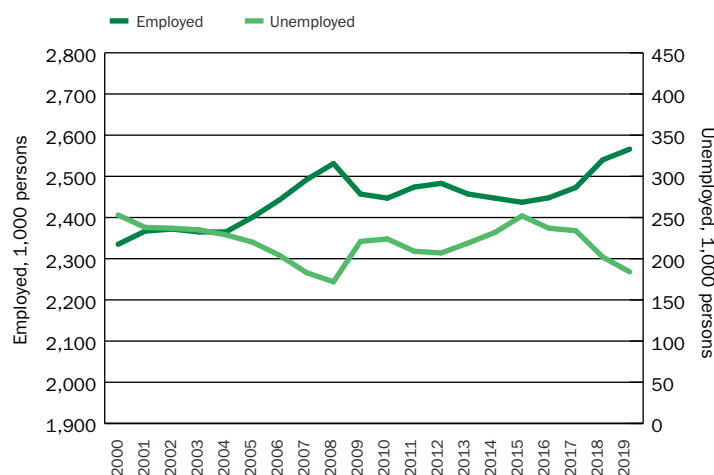


Source: Statistics Finland, Ministry of Finance

One of the key objectives of the current government is to increase the employment rate by creating some 60,000 new jobs, which is crucial with regard to the financing of the public services. The forecasted economic growth does not seem to be sufficient to reach the government's ambitious target of 75%, which would require determined structural reforms

with regard to, for instance, unemployment benefits and other actions to boost employment. The current employment rate stands at some 72.6%, and is expected to increase to 73.6% by 2022, supported by improving employment but also by a decreasing working-age population.

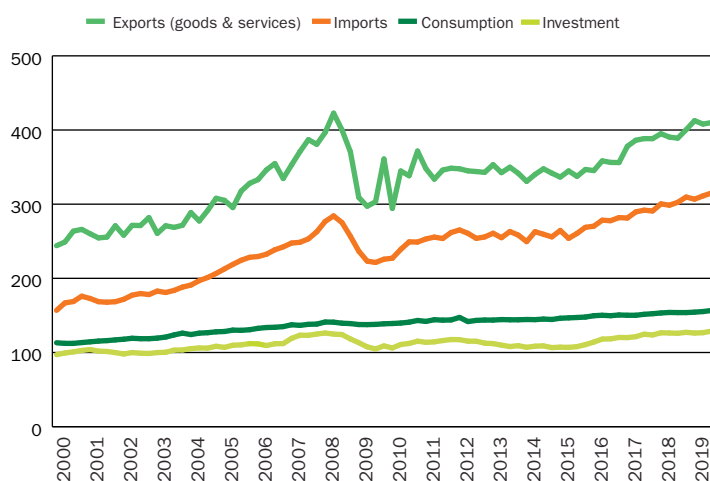
Employment and unemployment in Finland



Source: Statistics Finland

Main components of demand

Volume index 1990=100, seasonally adjusted



Source: Statistics Finland

Key figures – Finnish economy

	2013	2014	2015	2016	2017	2018	2019	2020**	2021**	2022**
GDP (change in vol), %	-0.9	-0.4	0.5	2.7*	3.1*	1.7*	1.6*	1.0	1.1	1.2
Change in exports, %	0.6	-2.0	0.4	3.7*	8.8*	2.2*	4.0**	1.9	1.9	2.0
Inflation, %	1.5	1.0	-0.2	0.4	0.7	1.1	1.0	1.3	1.6	1.6
Unemployment rate, %	8.2	8.7	9.4	8.8	8.6	7.4	6.7	6.5	6.4	6.4
Private consumption, %	-0.5	0.6	1.7	2.0	1.0	1.8	1.4**	1.5	1.7	1.5

*Estimate **Forecast

Source: Statistics Finland, Ministry of Finance, Nordea



1.3 Finnish public finances

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

Finland's general government finances have remained on deficit ever since the global financial crisis. In 2018 and 2019, the deficit decreased to some 0.7 and 0.8 per cent of the GDP. In 2020, the deficit is expected to increase to 1.4 per cent, due to the current government's increases in public spending.

The absolute amount of general government debt has continued to increase in recent years. Thanks to the positive economic development, the relative share of general government debt fell below the 60% threshold in 2018, and decreased to 58.5% in 2019. However, due to the government's expansive budget, together with the increasing social, health and pension expenditures, the deficit in public finances will turn back into a growth path, and general government debt is expected to start increasing again in 2021.

"General government debt continued to decrease in 2019"

The ageing of the population will continue to increase the demand for social and health care services, and, at the same time, the working-age population will decrease. The Finnish social welfare society is largely based on a comprehensive supply of public services, including, for instance, free education and healthcare, social support for families in the forms of child allowances for all families and municipal day-care provision, which is widely used in all

income categories. Therefore, the Finnish public finances continue to face challenges, and strengthening the public economy requires some structural reforms.

Extensive public responsibility and tax funding are the cornerstones of the Finnish social welfare society. As a result, government expenditure currently accounts for some 53% of the GDP.

Funding of the welfare society is largely based on a high level of taxation. The previous government was determined to decrease the income tax rate, but, despite a slight decrease in recent years, the tax rate in Finland is among the highest in the OECD countries, and stood at 42.3% of GDP in 2019. In 2017, the Finnish tax rate stood at 43.3%, and was only exceeded by France, Denmark, Belgium and Sweden.

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

There are currently 310 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.

One of the most significant reforms, which has been pursued by several governments already, but which still is underway, is the restructuring of the provision of social and healthcare services. Due to the small average size of Finnish municipalities, the reform also includes profound development of the regional government structure in order to enlarge the scale for service provision.

The reform has been delayed several times due to various political and constitutional law challenges in legislative processes. It was also the main reason behind the previous government's resignation in spring 2019.

The organisation and management of healthcare and social services is planned to be transferred from municipalities to 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 also be responsible for rescue services, and their responsibilities might be expanded later. The previous government plan was based on 18 counties. Currently, a special structure of five regions is being planned for the Uusimaa region, where the population base is large enough to support the needed service provision.

"Healthcare and social services reform is still underway"

The main objectives of the reform are to improve the quality and equality of the public healthcare and social services, as well as to improve control over the increasing costs of services. These objectives are being pursued through centralised management, as well as digitalisation and improved information systems for healthcare service providers. The previous government's objective of increasing the freedom of choice for citizens between public and private service providers has now been mitigated by the current government.

Although freedom of choice does not now seem likely to be realised, the planned reform has already significantly increased the supply of private sector healthcare services. The services continue to be publicly financed, but the amount of services being bought from private companies and third sector organisations continue to increase. Public sector's share of social and health care service provision was clearly less than 70% already in 2016, while its share of funding still remained above 75%.

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

As part of the previous government's regional reform, a separate company, Maakuntien Tilakeskus Oy, was established to own and manage the buildings needed for the services affected by the regional reform. As the reform's content has now been changed, the company's strategy will also be reassessed, and, according to the current plan, it will continue to support the municipalities' and municipal federations' property management by compiling and analysing information on the properties needed for public service provision.

1.4 Demographics

Finland is an ethnically homogeneous country, where most of the population is ethnically Finnish. Even though the share of foreigners of the population has increased in recent years, it is still among the lowest within the EU. The share of the population not speaking Finnish or Swedish as their first language only exceeded 7 per cent in 2018.

The population of Finland is currently around 5.6 million. Within the past decade, the population has increased by some 0.3-0.4 per cent annually. Population growth is a result of immigration, as the number of deaths currently exceeds that of births.

Fertility has decreased in recent years, and the average fertility rate currently stands at only 1.35. According to the current forecasts, the Finnish population is expected to increase until 2031, after which the population will decrease, and, by 2050, the total population would be some 100,000 less than currently.

"Fertility has decreased more rapidly than in the other Nordic countries"

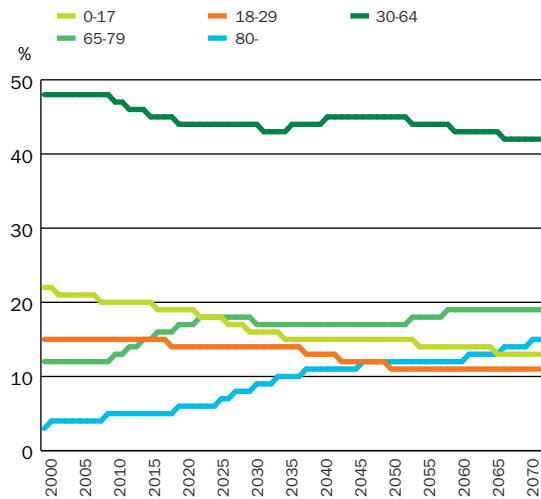
Life expectancy was 84.3 years for girls and 78.9 years for boys born in 2018. The difference in life expectancy between girls and boys has decreased significantly within the past decades.

The ageing of the population is currently one of the biggest challenges of the Finnish economy. The largest age groups were born in the years just after the Second World War, and between 1945–1950 almost or even more than 100,000 babies were born each year. In 2018, there were only 47,600 births, and in 2019, the number of births continued to decrease. The baby boom generations are now retired, which increases the total dependency ratio, that is, the total number of people under 15 and over 65 in relation to working age population. The total dependency ratio is currently almost 60.8, and is expected to increase to 62 by 2020 and to 66 by 2030.

The share of the total population of those over 65 years currently stands at some 22%. By 2030, their share is expected to increase to some 26%, and by 2050, to some 30%.

The average size of a Finnish household has been constantly decreasing. In 2018, some 44% of all Finnish households were single households, and another 33% consisted of two persons. In the largest cities, households are typically smaller, and in Helsinki, the share of single-person households was 49% in 2018.

The Finnish population by age group 2000-2070



Source: Statistics Finland

The Finnish households by size



Source: Statistics Finland

1.5 Finland's international competitiveness

Finland retains its good position in many international competitiveness rankings. Finland also ranks well in comparisons looking at various indicators regarding the overall welfare of citizens.

The long-term credit ratings for Finland remain strong. The Finnish state has agreements on credit rating with Standard & Poor's, Moody's and Fitch, and their current ratings place Finland in the second best category, at AA+ / AA1. All rating agencies currently consider the outlook as "stable". But in its report in late January, Fitch deteriorated the outlook from "positive", based on the expansive public spending of the current government, deteriorating economic outlook, as well as the prolonging of the healthcare reform.

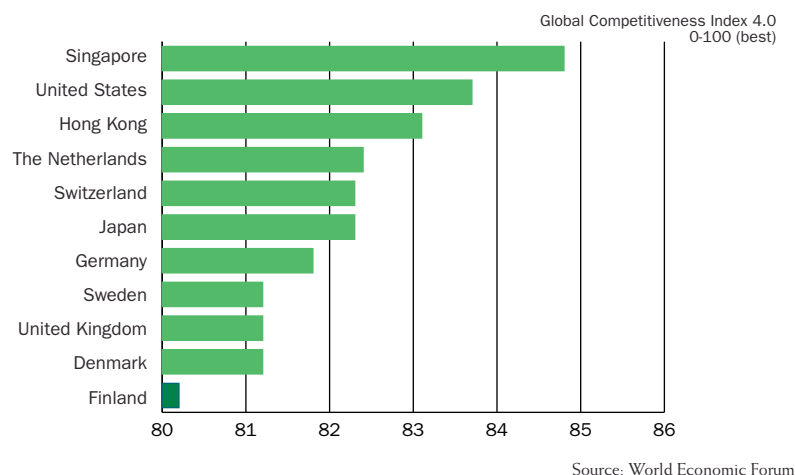
"Rating agencies consider the outlook for Finland as stable"

The rating agencies appreciate Finland's wealthy economy and its track record of stable, transparent, and effective governance and political institutions. Also, the government's relatively low net debt and the benefits of eurozone membership, including access to deep capital markets strengthen Finland's ratings. In current financial market conditions, the Finnish government continues to be able to acquire funding at a very low cost.

In the World Economic Forum's Global Competitiveness Report, published in October 2019, Finland retained its 11th position, right after Sweden, the United Kingdom and Denmark, among the 141 evaluated countries. In the report,



The most competitive economies in 2019



Nordic countries are assessed to be among the world's most technologically advanced, innovative and dynamic countries, and which also provide good living conditions and a high level of social protection.

In the ranking, Finland ranks high with regard to the functioning of its institutional framework, as well as its macroeconomic stability. On the other hand, Finland performs worse with regard to market size and infrastructure. Restrictive labor regulation was also identified as one problematic factor for doing business.

"Finland, together with other Nordic countries, offers high-quality living conditions and social protection"

In IMD's World Competitiveness Ranking of 2019, Finland improved its ranking to the 15th position (16th place in 2018). Also in this ranking, all Nordic countries performed well, with Denmark in the 8th, Sweden in the 9th and Norway in the 11th position.

Finland is widely recognised as one of the least corrupt countries in the world. In Transparency International's Global Corruption Perceptions Index for 2018, Finland retained third place among 180 countries. In this ranking, Finland was only outperformed by Denmark and New Zealand. The report identified strong access to information systems and transparency of institutions as the factors differentiating the winners from other countries. In The Fund for Peace's Fragile State Index 2019, Finland retained its position as the most stable country in the world.

In various rankings measuring quality of living, prosperity, equality and overall safety, Finland is one of the top performers in the world. Finland's security and safety are appreciated, for instance, by the *World Economic Forum's Travel and Tourism Competitiveness Report*, *World Justice Project*, *World Internal Security and Police Index*, as well as by *Law and Order Index*.

"Finland ranks high in comparisons assessing the ease of doing business"

Sustainable Development Solutions Network ranked Finland, again, as the happiest country in the world in its World Happiness Report in 2019. In this comparison, the key assessed variables supporting the citizens' well-being include income, healthy life expectancy, social support, freedom, trust and generosity.

Finland also ranks well in various comparisons assessing equality, supported by, for instance, quality and accessibility of the education system, environmental quality, safety and the overall life satisfaction of citizens. Finland also ranks well with regard to gender equality and social coherence. In OECD's ranking of wealth and income inequality, Finland ranked 7th in comparison of wealth concentration, and was also among the most equal countries with regard to income distribution.

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

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



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

Finland generally ranks well also in international comparisons conducted in the property markets. The Finnish property market's strengths are typically related to the friendly overall business environment, as well as transparency in terms of both professional market practices and availability of relevant market information.

"Finland is one of the most transparent property markets in the world"

In PricewaterhouseCooper's and Urban Land Institute's annual report *Emerging Trends in Real Estate Europe 2020*, Helsinki ranked 21st with regard to overall investment

prospects, after having reached the 8th position in the previous year. In this year's report, the overall investment prospects were rated as "average" among the 31 assessed cities. In the report's new rating based on the expected change in rents and values, Helsinki was ranked in the 13th position. Helsinki was assessed to lag many other cities in the real estate cycle and therefore to offer advantages compared to many other European capitals.

The Finnish property market is regarded as one of the most transparent in the world. In JLL's latest *Global Real Estate Transparency Index* from 2018, Finland was ranked Finland among the few "highly transparent" European markets. Market transparency has traditionally been backed by the large Finnish investors, who are committed to sharing data in order to improve the investment market environment. However, with regard to market information and transparency, the market is currently challenged by the increase in the share of global players, as their commitment to data sharing lags behind that of domestic players.

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.

"Mutual real estate company is a commonly used form of ownership"

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

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

The mutual real estate or housing company is responsible for the management of the property and upkeep of joint facilities, for which it collects a maintenance fee from the shareholders. This fee is most typically based on the floor area designated for each shareholder.

The company itself can also take out a loan, for example, for renovation and modernisation, and use the building and real estate as collateral. In these cases, the shareholders pay a finance charge to the mutual company, which then covers the loan to the original lender.

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

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. Transactions are also less complicated compared to direct ownership of real estate, as they are normal share transactions with less formal procedures and more freedom of agreement. The transfer tax rate is also lower: 2% on the shares of the limited company versus 4% on direct property.

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.

"Digital share register for mutual real estate companies is being implemented"

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

Legislation concerning renting and transactions

Generally speaking, the Finnish legal system is simple and liberal. In principle, there are no restrictions on buying or selling real estate, but as real estate transactions are subject to certain provisions, it is advisable to use real estate brokers or lawyers when entering into property transactions.

Transactions with housing or real estate company shares are straightforward and simple. As soon as transfer taxes have been settled, the purchaser can be registered as the owner of the shares in the company's registers.

Finnish legislation regulating rental agreements is among the most liberal in the world and is based on the idea of full freedom of agreement between two parties. There are no minimum or maximum lease terms, indexation is not regulated, there are no automatic rights for renewal, and break clauses are possible if agreed. Only in the residential market do some restrictions exist to protect the tenant, but even there, the legislation has very few restrictions compared with most other countries.

2.2 Market practices of property investment and renting

Property investment

The emergence of new players, increased internationalization and professionalism as well as the need for 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. High investment demand situations typically encourage sellers to carry out extensive auction processes in order to find the best solution. In quieter market conditions, tailored approaches to identify the potential buyer are more common. Off market procedures are also applied when the seller aims at a faster and smoother transaction process.

The role of advisors in the investment process varies depending on the situation, characteristics of the asset and type of parties 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 advisors' role is typically more limited.

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

Rental practices

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

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. Although the agreement type provides a lot of flexibility for the tenant, the agreements often last very long.

"More than half of all office rental agreements are indefinite"

In KTI's rental database, measured by the number of agreements, some 54% of all office agreements in the Helsinki metropolitan area are indefinite. Another 22% of the agreements first have a fixed term of, for example, 3 or 5 years, after which they continue automatically for



Distribution of office lease agreements in the Helsinki metropolitan area



Source: KTI Rental database

an indefinite period – until further notice from either of the parties. Indefinite lease periods are typically applied in smaller premises, and in larger agreements fixed terms are more often used. Measured by space area, fixed rental term is applied in 43% of office space covered by the KTI database.

When fixed terms are used, the contract periods are typically quite short compared with many other countries. In multi-tenant office buildings, a typical fixed term is from three to five years. For larger and purpose-built units, longer fixed-term agreements are commonly applied. For single-tenant office buildings, net leases of 10-20 years are common.

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, almost 80% of office agreements in the KTI rental database are for traditional

gross rent. In 18% of the agreements, the landlord recharges the maintenance cost separately to the tenant. This both encourages the tenants to save on costs and hedges the landlord against the increases in operational costs.

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.

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



Photo: Kojamo Oyj

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)

"Turnover-based rents are commonly applied in shopping centres"

In shopping centres, fixed term contracts are commonly applied, especially in larger premises. Fixed term contracts represent some 77% of the number of agreements and 84% of the total retail space in the KTI database.

In shopping centres, maintenance costs are typically recharged to the tenants. Separate service charges for marketing and other shared expenses are also typical in shopping centre lease agreements.

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.

2.3 Planning

Land use in Finland is regulated by the Land Use and Building Act. The current 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. The regional ELY centres (Centres for Economic Development) promote and steer planning and land use.

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 might be 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 recent years, actions to simplify the regulation concerning land use and planning and thereby speed up the planning and construction permit processes have been taken. Examples of these actions include simplifying the organization for regional plans, speeding up the complaint processes, as well as increasing regional control and coordination over the plans and building permits for large retail units.

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

"A reform in the Land Use and Building Act aims at simplifying the planning systems"

The Ministry of the Environment is preparing major reforms in the Land Use and Building Act. The aim of the project is to take the major changes in the operating environment – such as climate change, digitalisation, urbanisation and increasing differentiation between regions – into account in regulation. The reform aims to simplify the planning systems of land use, develop the steering procedures for construction, and to support the citizens' possibilities to impact the planning and decision-making regarding their living environments. The objective is to finalise the legislation by the end of 2021.

2.4 Taxation in Finland

Taxes in Finland are levied on behalf of the government, municipalities (local government), the Social Insurance Institution and various social security funds listed under some forty different headings. The bulk of taxation in Finland is derived from two categories: taxes on income, profits and capital gains on one hand, and taxes on goods and services on the other.

Individual taxpayer income is divided into two categories: earned income and capital income. Income tax is paid to the state at a progressive rate and to the municipalities at a flat tax rate. Some deductions are allowed in individual taxpayers' taxation. Part of the deductions are made from earned income (for example, part of housing loan interests and costs of journeys to and from work), whereas some are made directly from taxes (e.g. costs of domestic help).

The state tax rate is progressive, and the highest rate currently stands at 31.25% of earned income. The highest rate is applied when the taxpayer's annual income exceeds €78,500.

Municipalities define their tax rates independently, and for 2020 the average municipal tax rate stands at 19.97%, with rates varying between 17% and 23.5%. In recent years, municipal tax rates have increased, pressured by the increasing need for public services due to ageing and decreasing population of many, especially smaller municipalities.

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

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, the tax rate is 34%.

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.

In the Finnish tax system, the taxes most relevant for property investment are property taxes, capital gains taxes, transfer taxes, corporate taxes and value-added tax (VAT).

Tax on real property

Real property situated in Finland is subject to a real property tax that is based on the taxable value of the property. The taxable value is defined by local tax authorities and is generally somewhat below of the market value of the property. The revenue goes to the municipality where the real property is situated. Land used in forestry or agriculture is exempt from real property tax.

Minimum and maximum tax rates are regulated by the parliament, and municipalities decide the rates within this range. Maximum tax rates were increased slightly for 2019. The minimum general property tax rate currently stands at 0.93% and maximum at 2.0% of the taxable value per annum,



Photo: Skanska

² For tax purposes, persons present in Finland for a period of less than six months are considered non-residents and pay tax in Finland only on income received from Finland, at a flat rate of 35%. The earned income of persons staying in Finland for more than six months is taxed according to the same progressive rates as that of permanent residents of Finland. However, foreign "key employees", i.e. people working in jobs requiring special expertise, may qualify for a special tax at the flat rate, which was decreased from 35% to 32% in 2020, for a period of max 48-months. To be qualified for this rate, certain salary level and work type requirements must be fulfilled. See www.vero.fi

and is set at 1.07% on average. Tax rates for permanent residences can vary between 0.41% and 1.0%. The average rate is currently 0.50%.

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

A reform of property taxation is currently underway, and the new system is planned to come into force in 2022. The reform will impact the definition of the taxable value of both the land and the building, which, in the current system, are regarded not to respond to either the development of market values of the properties or the general development of prices and costs. New pricing zones based on market prices will be developed for the valuation of land, and the valuation system of buildings will be based of construction costs of different kinds of buildings in different parts of the country. More information on the new valuation systems is expected to be published in early 2020.

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

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

In the KTI database, property taxes represent some 9% of the total annual operational costs of residential properties, and some 23% of those of office properties. Their share

has increased constantly during the past couple of years, as pressures for increasing property taxes have continued. Minimum property tax rates have been increased several times within the past decade.

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

Capital gains taxes

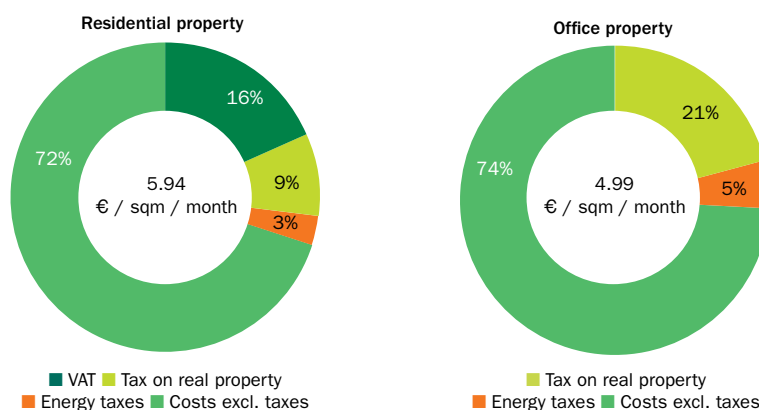
Tax on investment income (interest, net rental income and capital gains) currently stands at 30%. Capital income exceeding €30,000 is taxed at 34%.

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. 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.

The share of taxes of operational costs in Helsinki 2018



Source: KTI



Transfer taxes

Tax on the transfer of real property is 4.0% of the transfer price. Transfer tax for transactions made by buying shares in a housing or real estate company is 2.0% of the transfer price.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 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 received 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.

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.

"Limited partnerships are pass-through entities in taxation"

In the beginning of 2020, a new legislation concerning the taxation of business entities' income came into force. In the new legislation, all income of business entities will be taxed as business income, instead of the earlier practice to divide the income into two categories, i.e. business income and other income, with different taxation rules. The new legislation simplifies the taxation of partnership structures and also improves the possibility to deduct potential losses, which has previously been limited by the source of income regulation.

"The new taxation rules simplify the taxation of partnership structures"

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

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

Value added tax

Value added tax (VAT) is another tax that is relevant for property investment. The standard VAT rate currently stands at 24%. VAT is calculated on the total charge for goods and services. There are some lower VAT rates for specific groups of goods and services: for food products the VAT rate is 14%, and for books, medicine and certain services, the rate is 10%.

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

Under Finnish VAT legislation, a taxable entity is also entitled to deduct VAT included in the costs for the construction of a new building as well as the restoration of an existing building, provided that the relevant property is intended for the use of a VAT taxable business activity. This deduction will then be revised if the use of the property entitled to a deduction decreases or if the ownership of the property is transferred within a set revision period. In some circumstances, an increase of taxable use could also lead to a revision that is proportionate to the lapse of time.

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

Central tax rates in Finland

	TAX RATE	NOTE
Corporate tax rate	20%	
Capital gains tax rate	30% (34% on income exceeding €30,000)	Levied on profits from selling real property, buildings, securities such as housing company shares, shares in listed companies, etc.
VAT	24%	Special rates for food, restaurant and catering services (14%); medicine, books, transportation, cultural events, etc. (10%); and newspapers and periodicals (0%).
Tax on real property	0.93-2.0% 0.41-1.0% (residential property)	Depends on municipality and type of property. Taxable value defined separately for the building and the land.
Transfer tax, real property	4%	The majority of transactions are carried out by selling the shares of a (mutual) limited real estate company.
Transfer tax, shares of mutual real estate companies	2%	Tax is calculated on the total (gross) transaction price of the shares.
Transfer tax, securities	1.6%	Transfer of securities is tax-exempt if the transfer takes place through the stock exchange or if both the seller and the purchaser are non-residents. Shares in a housing company are always subject to transfer tax.

Source: Finnish Tax Administration, www.vero.fi

"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 in order to reduce the potential risk for VAT fraud. 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.

Deduction of interest expenses in taxation

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

In the legislation, there is a €500,000 threshold, under which net interest expenses are always deductible. Furthermore,

there is another €3,000,000 threshold for net interest expenses applied on, for instance, bank loans. Otherwise, the ability to deduct interest expenses is dependent on, for instance, the share of the interest expenses of the total profit of the company.

2.5 Legislation for indirect property investment

Property funds

Limited partnerships

From the Finnish institutional investor point of view, the most common structure for indirect property investment is a limited partnership, where, in most cases, the fund management company is the general partner. Tax issues are major drivers in these structures, as limited partnerships are tax transparent structures and investment income is taxed according to the investor's tax status, provided that certain conditions are met. Correspondingly, investment income from limited companies investing in property is subject to corporate taxation, and thus not favourable from a domestic institution's perspective.

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

Special investment funds

Finnish legislation also enables the establishment of special investment funds (*erikoissijoitusrahasto*) that invest in property. These special investment funds are stipulated by the Finnish Common Funds Act (in Finnish, *sijoitusrahastolaki*)

and are regulated by the Finnish Financial Supervisory Authorities. Special investment fund managers are stipulated by the Alternative Investment Fund Managers Directive. The regulation for these funds differs from normal mutual investment funds, for instance with regard to diversification of risks, the pricing of fund units and requirements for fund valuation and reporting.

Special investment funds are open-ended structures managed by a separate fund management company. The degree of the openness of the fund – provisions for investments in and redemptions from the funds – may be limited in the fund rules in order to take into account the illiquidity of the underlying property assets. According to the legislation, the fund must take new investments and accept redemptions at least twice a year. In practice, for instance, a fund may be open for subscriptions quarterly and for redemptions only twice a year. The maximum time limit for executing redemptions is also rather long – six months – and under special circumstances there might be limiting rules for redemptions and their pricing. For instance, if redeeming the units requires liquidating the fund's assets, the value of the units may be defined only after liquidation.

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

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

Special investment funds are not taxable entities and are considered as fully transparent for Finnish tax purposes. For Finnish taxpayers, the annual yield and sales profits are



Finnish special investment funds investing in property

Commercial properties	Residential properties	Public use properties	Building lots
Aktia Affärsfastigheter	OP-Rental Yield*	eQ Care	Ålandsbanken Tomtfond
eQ Finnish Real Estate	FIM Asuntotuotto	OP-Public Services Real Estate Fund	Fennica Building Plot Fund
Evli Vuokratuotto	Ålandsbanken Bostadsfond	Titanium Hoivakiinteistöt	
LähiTapiola Sijoituskiinteistöt*	Titanium Asunto		
UB Nordic Property Fund			
UB Suomi Kiinteistöt			
Elite Alfred Berg Rental Income*			
Fennica Properties I			
Trevian Finland Properties I			
CapMan Nordic Property Income Fund			

*Invest in both commercial and residential properties

Source: Bank of Finland, Fund Reports

regarded as taxable income. For individual taxpayers, this income is taxed as capital income, and for business entities, the taxation depends on the unit-holder's tax position. For non-Finnish investors, the consultation of tax authorities or tax advisors is recommended.

The first fund under this framework was launched in late 2012. Since then, several more funds with varying strategies have been launched by various banks and investment management companies. Many of these funds are, to a large extent, targeted at private investors, and therefore, these 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.

"Finnish special investment funds currently hold some €7.5 bn of property"

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

Property companies

In the Finnish context, the majority of property companies operate in the form of limited liability companies. They are regulated by the Limited Liability Companies Act and are taxed as normal companies. Property companies currently listed in the main list of the Nasdaq Helsinki exchange include Citycon, Investors House, Kojamo, Ovaro Kiinteistösijoitus and Hoivatilat. Two large listed companies,

Sponda and Technopolis, were delisted in 2017 and 2019 due to acquisitions of the shares by large investors. In late 2019, the Belgian listed company Aedifica made a public offering of the shares of Hoivatilat, which will likely result as the merger of the two companies during 2020.

"Several large companies have been delisted in recent years"

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

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

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

The company needs to be listed within three years of its foundation. Due to the limiting provisions set by the legislation, the framework has not become very popular. There has been only one company operating under this framework, Orava Residential REIT. However, in 2018, the company's name was changed to Ovaro Kiinteistösijoitus, and the company transformed into a normal investment company in order to expand its options with regard to investment strategy.

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

3.1 Investment market in 2019

Property transactions volume amounted to €6.3 billion in 2019. Despite a 33% decrease compared to the previous year's volume, transactions activity remained high. The number of transactions was almost as high as in the record year 2017, but, as no exceptionally large individual transactions were carried out in 2019, the average size of transactions decreased to €21 million, having stood at €34 and €27 million in 2017 and 2018, respectively.

"Transaction volume amounted to €6.3 billion in 2019"

The largest transaction in 2019 was carried out by pension insurer Elo in the beginning of the year, when it bought a 34% share of shopping centre Jumbo from Unibail-Rodamco-Westfield for almost €250 million. Another large single-property transaction was published in December, when Union Investment acquired an office and retail property in the Helsinki CBD from Sponda for €148 million.

Large portfolio transactions include the acquisition of a €140 million care property portfolio by SBB i Norden, as well as the purchase of almost 2,200 rental dwellings by Starwood Capital Group together with the Finnish Avara.

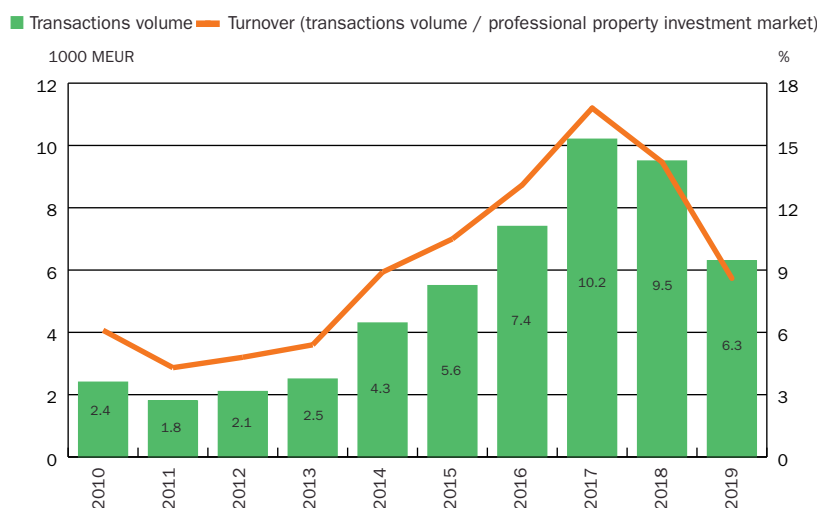
Like in 2017 and 2018, office properties remained the most popular property sector in the transactions market with a share of 37% of the total volume. The volume consisted of several smallish portfolio transactions and single-asset deals. The largest office portfolios in the transaction market were the Technopolis Kuopio properties, as well as three large office properties in Keilaniemi, Espoo, sold by Regenero. The second and third largest single-asset transactions were the sale of ECHA house by Skanska for €135 million and that of the S Group's head office property by Varma for €130 million.

"Office properties accounted for 37% of the total transaction volume"

The transaction volume of retail properties remained clearly lower than the sector's share of the total market, at 17%. In addition to the Jumbo transaction, smallish shopping centres were acquired by NREP, as well as eQ's and Trevian's funds. Retail property specialist Cibus continued to expand its Finnish portfolio in several transactions. Many domestic funds also invested in retail properties throughout the year.

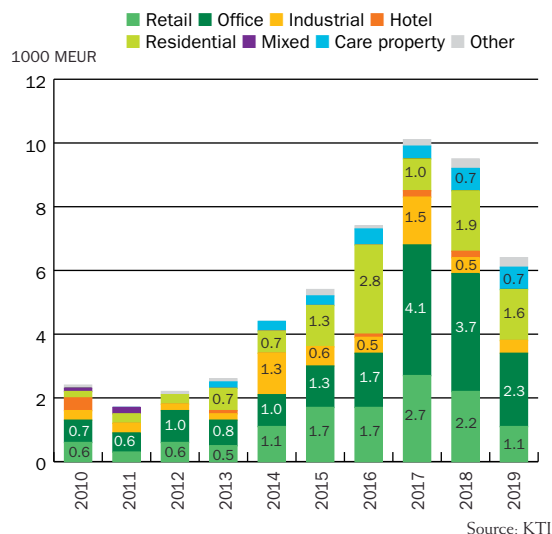
Transaction volume of residential properties amounted to €1.6 billion, representing 25% of the total volume. This was the fifth consecutive year with residential property transaction volume exceeding €1 billion. In the care property

Transactions volume and turnover in the Finnish property market



Source: KTI

Transactions volume by property sector 2010–2019



sector, the transaction volume exceeded €600 million for the second consecutive year.

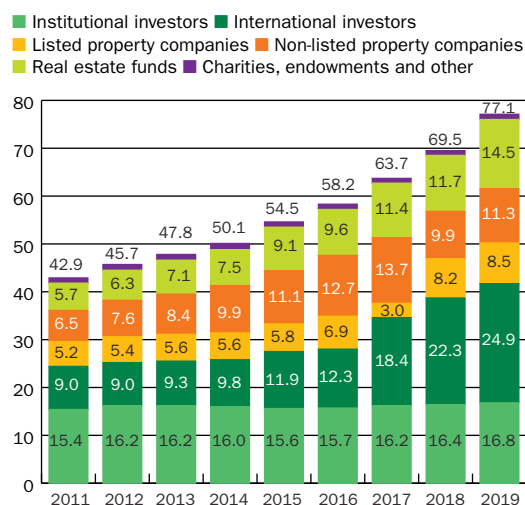
The share of foreign transactions remained clearly lower than in the two previous years, at 45%. Foreign investor interest was, however, widely spread among all property sectors and regions. In the residential market in particular, where foreign interest started much later than in the commercial sectors, foreign investors continued to increase their exposure in Finland.

3.2 Ownership structure

The total size of the invested market continued to increase in 2019. At the end of the year, the total size of the Finnish professional property investment market amounted to some €77 billion. Compared to the previous year, the market increased by 11%.

The structure of Finnish property investment market by investor group

Direct property investments in Finland 2011–2019, EUR billion

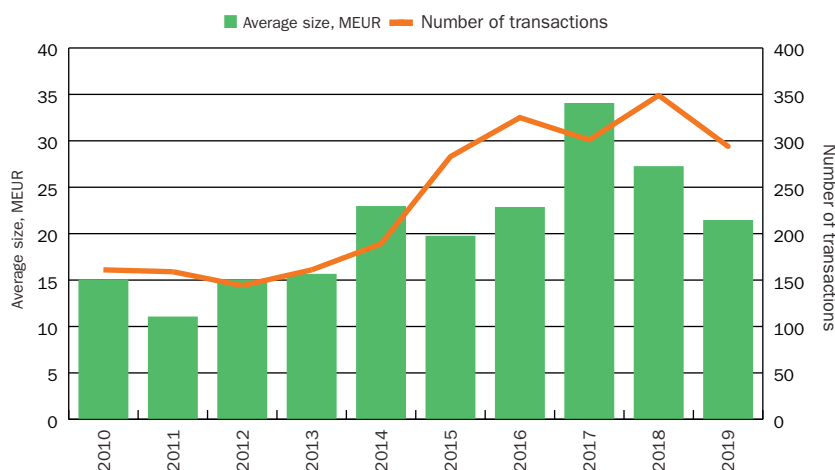


"The Finnish property investment market grew by 11% in 2019"

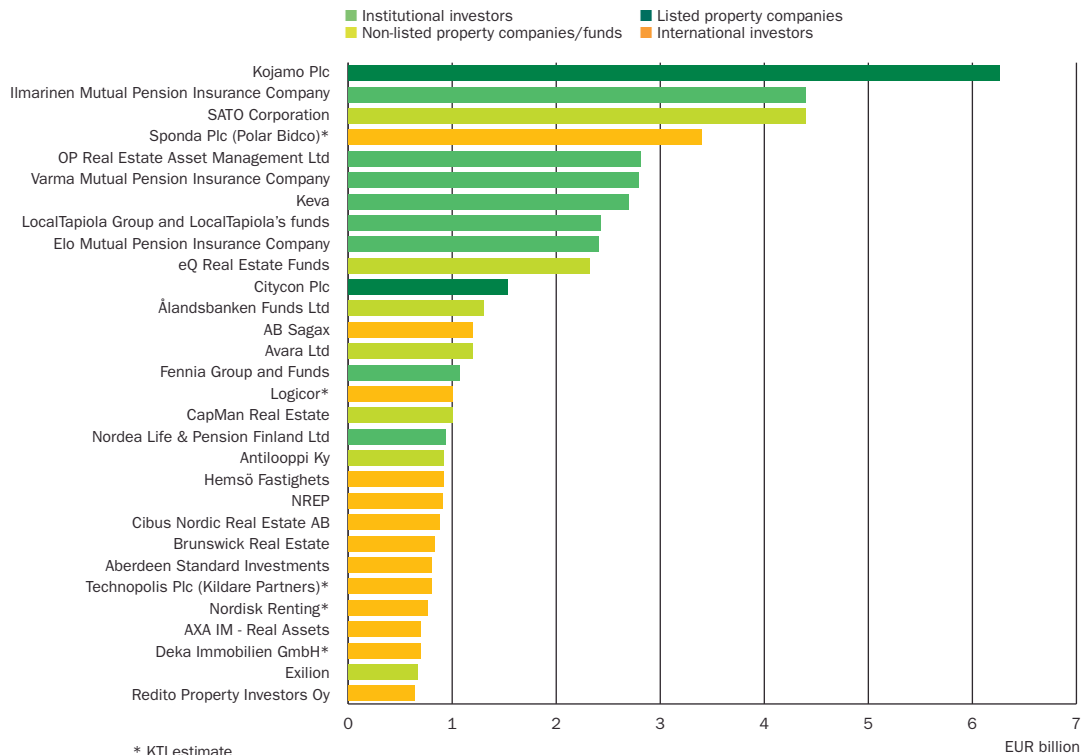
Despite their lesser dominance in the transactions market, foreign investors continued to increase their ownership share in the Finnish property investment market. At the end of the year, foreign investors held Finnish properties worth almost €25 billion, which corresponds to 32% of the total market. At the end of 2018, their holdings amounted to some €22.3 billion (32%). In the transactions market, foreign investors' net purchases amounted to €1.3 billion.

In recent years, Finnish institutional investors have been active in restructuring their domestic portfolios and increasing their international property investments.

Number and average size of property transactions 2010–2019



Direct property holdings of the 30 biggest property investors in Finland Property assets under management at the end of 2019, EUR billion



* KTI estimate

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

Therefore, their direct domestic holdings have remained rather stable for many years. In the transactions market in 2019, domestic institutions were again more active in the sales side with a share of 16% of the total market, while their share of the purchases only amounted to some 9%. Many institutions were, however, active in investing in property development projects. At the end of 2019, their total direct investments amounted to €16.8 billion, corresponding a 22% share of the total market.

Of the domestic investors, special mutual property funds have been active in increasing their portfolios in recent years, as the amount of equity in these funds has continued to grow. The main sources for capital for these funds include private investors and smallish domestic institutions. The largest players in this sector include eQ and OP. At the end of 2019, the total value of the property portfolios of special mutual property funds amounted to €7.5 billion.

"Changes in the listed property sector continue"

The role and importance of listed property companies is undergoing a change. In 2017 and 2019, two major companies, Sponda and Technopolis, were delisted, as the majority of the companies' shares were acquired by Blackstone and Kildare Nordic Acquisitions S.à.r.l, respectively. In summer 2018, residential property company Kojamo was listed, which increased the market significantly. In early 2020, however, the Belgian property company Aedifica finalised the acquisition of the care property company Hoivatilat, which will be thus delisted in 2020. As a result, the listed sector will comprise only two major companies, Citycon and

Kojamo. At the end of 2019, the Finnish property holdings of listed property companies amounted to approximately €8.5 billion, of which the share of Hoivatilat is some €480 million.

The list of largest property investors has undergone a major change in recent years. Many foreign investors have established their position in the top 30, while some domestic players have descended on the list. The average size of investment portfolios have continued to increase: at the end of 2019, the size of the portfolio on the 30th position amounted to approximately €650 million, having stood at slightly above €600 million at the end of 2018.

Residential property investment company Kojamo has established its position as the largest property investor in Finland. At the end of 2019, the total value of the company's portfolio amounted to almost €6.3 billion. Also SATO continued to increase its portfolio, and maintained the third place on the list of largest investors, only slightly behind Ilmarinen. Both Kojamo and SATO continued to increase their portfolios through active new development. In 2019, both companies also changed their valuation methodology, which contributed to their portfolio values markedly.

"Foreign investors raise their rankings on the list of largest investors"

Until recent years, only a few foreign investors were found in the rankings of largest players. However, in recent years, many large portfolio transactions have transferred previous domestic portfolios to foreign ownership, and many foreign investors have also continued to increase their portfolios

through transactions or property development. At the end of 2019, there were 9 foreign investors on the top 25 list of investors, while the number was only 4 at the end of 2015.

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 €209 billion at the end of the third quarter of 2019 (€205 billion at the end of the third quarter of 2018). The nominal return on pension institutions' investments amounted to 9% during the first three quarters of 2019.

"Investment assets of the Finnish pension institutions totaled €209 billion in 2019"

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

The reserves collected in the past form the basis of the Finnish institutional investment assets. Due to the retirement of large numbers of people from the 1940s generations, the amount of pensions being paid out is now larger than the amount of annual contributions. In 2018, pension contributions amounted to €2.7 billion, while the pensions paid out totaled €4.4 billion. The increase in pension funds'

investment assets is thus currently based on returns on existing investments.

Calculations on the long-term pension money flows are based on the assumption of a 2.5% annual real return on investments until 2028, after which the return expectation will be increased back to its original level of 3.5%. According to TELA, the real return on private sector pension institutions' investments has amounted to 4.2% per annum on average in the past 22 years. During the past ten years, the return has been some 5.5% per annum, thanks to the healthy returns on equity investments.

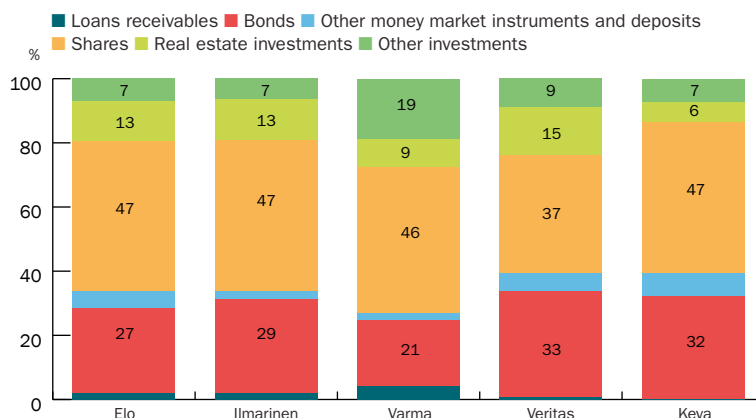
In the private pension sector, pension insurance companies are the biggest players. There are currently four major companies: Varma, Ilmarinen, Elo and Veritas. In addition, there are several smaller company or industry specific pension funds. In total, the investment assets of private sector pension institutions amounted to €131 billion at the end of September 2019. In the public sector, there are two major pension institutions: Keva administers the pensions of local government, State, Evangelical Lutheran Church and Kela employees, and the State Pension Fund (Valtion Eläkerahasto / VER) is a fund through which the state balances state pension expenditure and prepares to finance future pensions. Public sector pension institutions' investment assets totaled some €79 billion at the end of the third quarter of 2019.

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.

On average, at the end of the third quarter of 2019, 57% of all pension schemes' assets were invested in listed shares or in other equity investments. The share of bonds and other loan and money market instruments amounted to 35%.

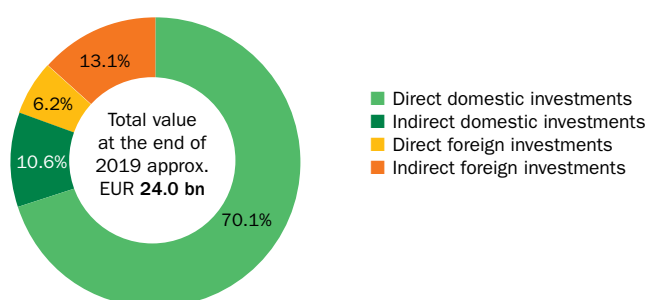
"Properties represent 8% of the Finnish pension schemes' investment portfolios"

Investment portfolios of pension insurance companies, Q3/2019



Source: The Finnish Pension Alliance TELA

Real estate exposure of Finnish institutions in 2019



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

The property investments in the investment portfolios amounted to €18 billion at the end of the third quarter of 2019 (€16.8 billion at the end of September 2018), representing some 8% of their total assets. For private sector pension insurance companies, the share of property investments varied between 9 and 15 per cent, while in the public sector pension schemes, the share is significantly lower.

Direct domestic investments dominate the institutions' property portfolios with the share of 70% at the end of 2019. The share of indirect investments has increased in recent years. Institutions are major investors in many domestic property funds and companies.

Institutional investors' foreign property investments amounted to €4.6 billion at the end of 2019 (€4.2 billion in 2018). The majority of foreign investments are invested in indirect vehicles. In recent years the largest institutions, such as Ilmarinen, Varma, Keva and Elo have made some direct investments, typically in large single assets, often in joint venture structures together with their investment partners and managers.

Ilmarinen and Varma are the largest private sector pension insurance companies in Finland. At the end of the third quarter of 2019, the market value of Ilmarinen's investment portfolio totaled €49.1 billion (€47.0 billion in 2018), and that of Varma totaled €47.4 billion (€46.9 billion). Ilmarinen has invested more in property, and its property portfolio's fair value amounted to €6.2 billion at the end of the third quarter of 2019, representing 13% of the total portfolio. The value of Varma's property portfolio was €4.1 billion, representing 9% of the total portfolio.

"70% of institutional property portfolios are direct investments in Finland"

In 2019, Ilmarinen continued to restructure its property portfolio, although at a slower pace than in the previous year. The largest sold asset in 2019 was the 14,000 sqm office building of the Dixi centre in Tikkurila, which was bought

by Patrizia. The only foreign transaction published in 2019 was the acquisition of the \$166 million office property in Atlanta, USA. Ilmarinen also continued to be exposed to property development projects, where the largest news in 2019 was the completion of the Mall of Tripla shopping centre. Ilmarinen also invests actively in rental residential development. In early 2020, Ilmarinen increased its stake in the shopping centre Redi as a part of the restructuring of the centre's ownership. At the end of 2019, Ilmarinen's direct domestic property investments amounted to €4.4 billion.

Varma's direct Finnish property portfolio amounted to €2.8 billion at the end of 2019 (€2.9 billion in 2018). The largest disposal in 2019 was the sales of the S Group's head office property for €130 million to Pareto Business Management's fund. Varma continued to invest in new developments, where the largest completed project was the K-Kampus offices in Kalasatama with some 35,000 sqm of lettable space. In late 2019, Varma published three major office development projects, including the €80 million OOPS project in Perkkaa, Stora Enso's head office development in Katajanokka, as well as the Keilaniemen portti office building in Keilaniemi.

"Varma increases its portfolio through active office property development"

The third largest private sector pension insurance company is Elo, with a total investment portfolio of €24.6 billion at the end of the third quarter of 2019. The value of Elo's property portfolio amounted to €3.1 billion, representing 12.7% of the total portfolio. At the year end, Elo's direct property investments amounted to €2.4 billion (€2.3 billion in 2018). In early 2019, Elo acquired the 34% share of the shopping centre Jumbo from Unibail-Rodamco-Westfield, and later in the year, Varma and Elo rearranged the ownership of Jumbo and Flamingo to a joint venture structure.

"Elo and Varma formed a joint venture structure for Jumbo and Flamingo"

The public sector pension institution Keva is the biggest player in the Finnish pension sector; its investment portfolio amounted to €54.6 billion at the end of the third quarter of 2019. Of Keva's investment portfolio, 6.3% is invested in property, and, at the year end, the value of Keva's direct domestic property holdings amounted to €2.7 billion. Keva's largest recent investment in Finland is the Marriott hotel property development in Tampere, which was completed in late 2019. Keva also invests in other Nordic countries with investment partners.

The State Pension Fund VER was managing an investment portfolio of €20 billion at the end of the third quarter of 2019. VER focuses solely on indirect property investments. At the end of the third quarter of 2019, the investment category "other investments" represented 10.2% of VER's, total investments. This category comprises real estate, infrastructure and hedge funds. The fund's statutes prevent them from making direct property investments.

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

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

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

Other institutional property investors in Finland include life insurance and insurance companies. Their investment portfolios are, however, markedly smaller than those of pension institutions. At the end of the third quarter of 2019, the total amount of investments of life insurance companies amounted to €21.8 billion and that of insurance companies to €13.7 billion. Their total property investments amounted to some €3.6 billion, according to the statistics of FSA, the Financial Supervisory Authority.

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

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

property funds, targeted to both institutional and private investors.

Listed property sector

At the end of 2019, the Finnish property holdings of the five property companies listed in the Nasdaq Helsinki stock exchange amounted to €8.5 billion. The total market value of these companies stood at €6.2 billion. The total property holdings will be reduced by some €0.5 billion when the shares of Hoivatilat will be delisted in 2020.

"Hoivatilat will be delisted in 2020"

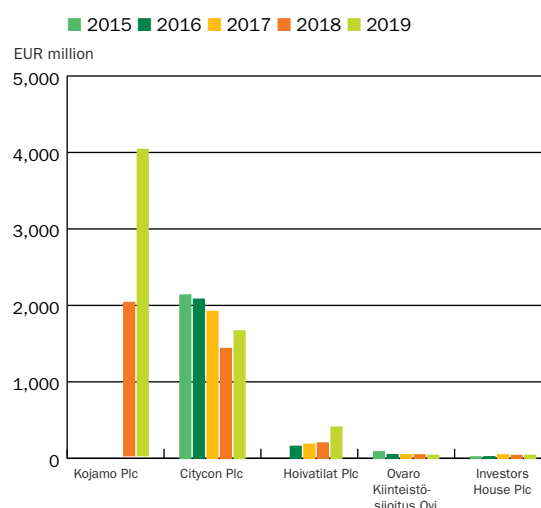
Kojamo is the largest property investor in Finland with a property portfolio of €6.3 billion. The market value of the portfolio increased markedly in 2019, for which the main contributor was the change in the valuation methodology. The company was listed in 2018. Kojamo only invests in residential properties, and at the end of 2019, its portfolio comprised some 35,000 apartments, mainly under the brand Lumo Kodit. The company increases its property portfolio both through its own development projects and through acquisitions. In 2019, the company acquired some smallish portfolios of existing properties and continued to invest actively in its own development projects. The company also disposed of a portfolio comprising 478 apartments to Olo Asunnot.

"Kojamo's property portfolio value exceeded €6 billion in 2019"

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 some €4.2 billion at the end of 2019. In total, the company currently owns and manages 38 shopping centres, of which

Market values of the Finnish listed property companies

Market values at the end of year



Source: NASDAQ OMX Helsinki



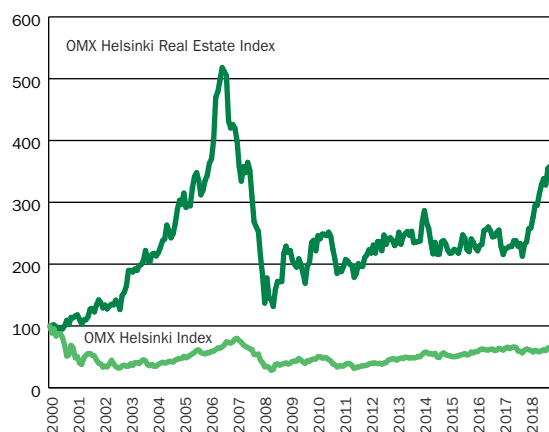
Photo: Jussi Helsten / My Helsinki Materialbank

8 are located in Finland. The shopping centre Iso Omena in Espoo is the largest of the company's shopping centres, with a gross leasable area of 101,000 sqm. Citycon is currently reconstructing and extending the Lippulaiva centre in Espoo to comprise some 42,000 sqm of leasable space, as well as 500 residential apartments, scheduled for completion in 2022. In 2019, the company sold two shopping centres – Arabia in Helsinki and Duo in Tampere – to NREP for €77 million.

Hoivatilat is a company specialising in care and other public use properties. At the end of 2019, the company's property portfolio amounted to €480 million, up from €349 million at the end of 2018. The company has recently started to expand its operations in Sweden. In early 2020, the Belgian REIT Aedifica made, through its daughter company Aureit Holding, a public offer to acquire all shares of Hoivatilat, which was accepted by a vast majority of the shareholders.

Share performance of Finnish listed property companies

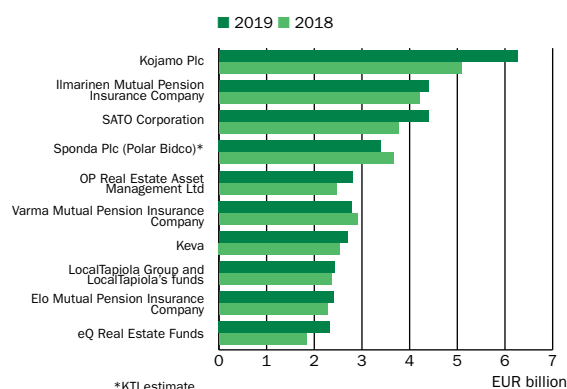
OMX Helsinki Index and OMX Helsinki Real Estate Index (index 7/2000=100)



Source: Nasdaq OMX

Direct property holdings of the 10 biggest property investors in Finland

Property assets under management, EUR billion



*KTI estimate

Source: KTI (query for investors), annual reports

The company will thus be delisted from the Nasdaq Helsinki stock exchange.

The smaller listed property companies include Ovaro Kiinteistösi joitus and Investors House. Ovaro Kiinteistösi joitus invests in residential properties and had a property portfolio worth €155 million at the end of the third quarter of 2019. The company was previously called Orava Residential Real Estate Investment Trust, and it operated under the Finnish property fund legislation, which provides tax transparency for listed real estate investment companies investing in rental residential properties. However, in 2017, another property investment company, Investors House, acquired some 25% of the company's shares. Following the acquisition, the company's strategy and management team was changed, and the company was delisted as a REIT and relisted as a normal listed company.

Investors House invests in residential and commercial properties mainly outside the Helsinki metropolitan area.

The company also provides services related to property investment and management.

The OMX Real Estate Sector price index showed an increase of some 40% in 2019. Due to some exceptional events during the year, property companies clearly outperformed the stock exchange's overall price development. The OMX Helsinki CAP price index showed an increase of some 3% in 2019.

Non-listed property companies

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

SATO's residential property portfolio comprises some 26,000 apartments. SATO is one of the largest property investors in Finland with the total property portfolio value of some €4.5 billion at the end of 2019.

Some 80% of the portfolio is located in the Helsinki metropolitan area, and 17% in other major cities in Finland. SATO also has some investments in Saint Petersburg, Russia, and they currently represent some 3% of the total portfolio. The Swedish Balder owns the majority of the shares of SATO, with the Dutch pension fund APG and the Finnish Elo as other main shareholders.

The other residential investment company, Avara Oy, currently owns and manages some 8,000 rental apartments with a total worth of some €1.2 billion, and the company has published an objective of doubling this amount within the next three years. Avara's shareholders are major Finnish institutions, including Elo and OP Group's and Fennia's funds, as well as the management of the company. According to the company's current strategy, they also pursue growth through private equity funds, co-investments and joint ventures as well as investment management services. Unlike the other large private sector residential companies, Avara also owns and manages state-subsidised residential properties. In 2019, Avara entered into a partnership with the US Starwood Capital Group, and their joint venture company acquired a portfolio of 2,200 dwellings from Avara's shareholders.

Antilooppi invests in office properties in the Helsinki metropolitan area. The company is owned by the Finnish pension insurer Ilmarinen and the Swedish AMF Pensionförsäkring. Since its foundation in 2015, the company has grown through several acquisitions, and in 2019, it acquired three properties of the business park complex Stella in Espoo. At the end of the year, Antilooppi's portfolio value exceeded €900 million. In early 2020, the company continued its expansion by acquiring a portfolio of nine properties in Ruoholahti from Sponda. Antilooppi is an active redeveloper of its existing properties, and has major projects underway in, for instance, Hakaniemi in Helsinki.

"Antilooppi continues to expand its portfolio"

Ilmarinen and AMF are also owners in Mercada Oy, where the Finnish retailer Kesko is the third owner. 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.

Agoré Kiinteistöt is another joint venture company, owned by pension insurance company Elo, the Swedish pension insurer Första AP-fonden and Trevian Asset Management. The company focuses on city centre retail and office properties in major cities primarily outside the Helsinki area. The company owns 12 properties with a total value of over €200 million.

LAK Real Estate is a property investor and developer active in the Helsinki airport area and its surroundings. The company is owned by the state-owned Finavia, a fund managed by NREP and the investment company Pontos. LAK Real Estate has an existing portfolio of approximately 170,000 sqm, and building rights for additional 400,000 sqm. The company owns, for example, the Hilton hotel and WTC office property at the airport, and is about to start the development of the largest hotel in Finland, comprising 13 floors and more than 700 rooms.

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

Ahlström Capital, Lindström Invest and Rettig Fastighetsutveckling are examples of the investment arms of traditional Finnish corporations. They have a role in redeveloping the holdings of the corporations, but they are also currently expanding their property investment portfolios. Another investment arm of a traditional Finnish corporation, Onvest Oy, was divided into two separate companies in 2018. Onvest Oy and Conficap Oy will both continue investing in property. Conficap continued to expand its portfolio with several acquisitions in 2019. Another property investment company with a family corporate background is Julius Tallberg-Kiinteistöt Oyj, which owns and develops commercial properties in the Helsinki metropolitan area.

Turku Technology Properties is a real estate company that owns and manages business premises in Turku, mainly located in the Kupittaa area. The company owns the majority of office properties in the area. Turku Technology Properties has also invested in some educational and sports properties in Kupittaa, and it is currently developing new premises for the University of Applied Sciences, and just announced that it will start the development of a new head office property in the vicinity for the local energy company. The shareholders of the company are the City of Turku, the Swedish Hemsö Fastighets and a group of local investors.

Ylva (formerly HYY Real Estate) is an investment company owned by the student union of the University of Helsinki. The company's property portfolio is concentrated in the Helsinki CBD. Ylva is currently redeveloping a traditional office and hotel property in the Helsinki CBD, and the Grand Hansa Hotel will become the first hotel in Finland in the Unbound Collection by the Hyatt chain. Ylva is also currently demolishing the former office building of the City of Helsinki in Hakaniemi, and will replace it with the €100

million Lyyra project, comprising 7,500 sqm of office space, a 6,000 sqm hotel, some 4,000 sqm of retail and 2,000 sqm of residential space.

Renor is an example of a specialised property investment company owning mainly old industrial properties, which it develops into new uses. The company's largest asset is the shopping centre Porin Puuvilla, which it owns together with Ilmarinen. In 2019, the company completed the first phase of the redevelopment of the Tikkurilan Silkki office project, and sold the majority of its holdings in the Askonalue office buildings in Lahti to Trevian's fund.

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. The property holdings of domestic funds continued to increase in 2019, and amounted to €14.5 billion, up from €11.7 billion at the end of 2018.

"Finnish funds increased their portfolios actively in 2019"

Finnish non-listed property funds targeted at institutions are typically structured as limited partnerships, which from a taxation point of view is a favourable structure for domestic institutions.

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

"The property holdings of semi-open-ended mutual funds amounted to €7.5 billion at the end of 2019"

Finnish property fund management companies have diverse backgrounds, which 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.

"The supply of property funds continues to increase"

Of the largest fund managers, OP, LocalTapiola and Fennia are traditional Finnish institutions, who manage their groups' direct property investments but also offer fund investment opportunities to other clients. They all manage both limited partnerships and open-end special investment funds investing directly in the Finnish property market. The total value of Finnish property assets under management of OP amounted to €2.8 billion at the end of 2019, and that of LocalTapiola to €2.4 billion, including both the direct portfolios managed for their internal clients and property funds. The total value of the property portfolios managed by Fennia increased to some €1.1 billion at the end of 2019.

eQ Fund Management, a subsidiary of eQ Bank, manages two special real estate investment funds. One of the funds is specialised in public use properties and the other invests in commercial properties. The funds continued to grow rapidly in 2019 with the total property value amounting to €2.3 billion at the end of the year.

Other bank-related real estate fund management companies include Ålandsbanken, Evli, Aktia and FIM. Ålandsbanken manages two special property investment funds, of which the larger specialises in rental residential units, and the other invests in plots. In 2019, Ålandsbanken established a joint venture company with YIT, which acquired ten residential buildings with a total value of €112 million from YIT.

Evli also manages one special investment fund and another structured as a limited partnership. Aktia's special investment fund invests in commercial properties while FIM's fund focuses on residential properties. The Elite Alfred Berg Group manages three property funds, one of which is a special investment fund and two that are structured as limited partnerships.

CapMan Real Estate manages four funds, one of which is a special investment fund. Three of the funds have a Nordic strategy and invest in commercial properties. The fourth fund, established in late 2019, invests in hotel properties, and it is continuation for CapMan's earlier hotel fund, which owned 29 hotel properties, mainly located in Finland. The new fund targets significant growth, and it will also expand its strategy to other Nordic countries. CapMan's funds' total property holdings in Finland amounted to some €1 billion at the end of 2019. CapMan also manages the German BVK's Nordic residential property investment mandate.

Aberdeen Standard Investments is one of the world's largest investment companies, which currently manages one Finnish property fund and also invests in Finland through its European property funds. In addition, Aberdeen Standard Investments executes alternative investment strategies on behalf of its clients. In total, Aberdeen Standard Investments' Finnish property assets under its management amounted to some €800 million at the end of 2019.

Specialised Finnish property management companies include, for instance ICECAPITAL, Trevian Asset Management, and Titanium. ICECAPITAL Real Estate Asset Management manages several residential property funds in different lifecycle phases.

"The importance of special investment funds is increasing"

Trevian Funds AIFM is a fund management company, which currently manages one special mutual fund structure, Trevian Finland Properties I. The fund invests in commercial properties mainly outside the Helsinki metropolitan area and increased its portfolio in several transactions in 2019. Their sister company, Trevian Asset Management, is a real estate investment and asset management company, which has founded and exited several limited partnership structures in recent years. The company also structures real estate investments for its clients and acts as investment partner or manager in joint venture structures.

Titanium is a fund management company managing two special investment funds investing in property – one of the funds investing in residential, and the other in care properties. The total size of the funds exceeded €600 million in 2019.

Auratum, Taaleri and United Bankers are other examples of Finnish wealth management and investment companies that also offer property funds for their clients as an alternative asset class. Of the two special investment funds managed by UB, one invests in Finland and the other has a Nordic strategy.

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 has exited two out of its three property funds in an IPO in early 2018, whereby Cibus Nordic Real Estate was created.

Northern Horizon manages both property funds and separate mandates. The company has offices in Nordic and Baltic countries as well as in Berlin. Their real estate funds invest predominantly in care properties.

Catella Asset Management, part of Catella Group, is a real estate investment and asset management company

that manages some international and domestic investors' portfolios in Finland, as well as their own funds' investments.

Many of the Finnish funds can be considered as club-deal-like or joint venture arrangements where a limited number of investors join forces to establish a property fund for specific purposes. Examples of these kinds of arrangements include Exilion and VVT. Exilion is a joint venture of four Finnish institutional investors, and the company owns and manages a portfolio of some €660 million comprising office, retail and hotel properties. VVT is a joint venture of Varma, the State Pension Fund and Tradeka. The fund invests in commercial properties in the largest Finnish cities.

International investors

Foreign investors form a diversified group of players with varying strategies and management practices. Many of them have established their own offices in Finland, while others operate through their Nordic offices and / or their 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 investments in the Finnish property market in 2019. At the end of the year, the total holdings of foreign investors amounted to almost €25 billion, up from €22.3 billion at the end of 2018. Their total share of the invested property markets remained stable at 32 per cent.

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

The largest foreign property investor in Finland is Polar Bidco, owned by Blackstone and Areim, who, since 2017, owns the formerly listed property company Sponda Plc. The company owns office and shopping centre properties in the largest Finnish cities, mainly in prime areas in the Helsinki metropolitan area and in Tampere. In 2019 and early 2020, Sponda restructured its property portfolio through



several office property transactions. The largest single-asset transactions were carried out in the Helsinki CBD, where Nordea Life Assurance and a fund managed by Union Investment acquired properties from Sponda. Other buyers included, for instance, funds managed by Swiss Life, GLL and CapMan. In early 2020, Sponda sold nine properties in Ruoholahti to Antilooppi.

In the list of largest foreign investors in Finland, the second place is held by the Swedish Sagax, which has steadily increased its portfolio in Finland in recent years, and whose total investments amounted to €1.2 billion at the end of 2019. The company invests mainly in industrial and logistics properties.

Logicor, which is part of a European logistics and warehouse property platform, is another significant foreign player in Finland. The company owns 77 properties in Finland, with a total value of approximately €1 billion. The company is owned by China Investment Corporation.

Aside from Logicor, the amount of Asian capital has been rather limited in Finland and comprised some smallish investments from South Korea and Japan. In early 2020, however, two South Korean investors, NH Investment & Securities (NHIS) and Shinhan Investment Corp, together with the Finnish pension insurer Varma, acquired the head office of OP Group in Vallila for €480 million.

"Swedish-originated investors continue to increase their operations in Finland"

The Swedish Hemsö, which specialises in public use properties, continued to increase its property portfolio in Finland in 2019. At the end of the year, the value of the company's Finnish properties exceeded €900 million. Hemsö's biggest investment in 2019 was the acquisition of nine healthcare properties from the City of Turku, whereby it also became a significant shareholder of the Turku Technology Properties. Hemsö also signed an agreement to develop two fire station properties in Oulu.

NREP is another Nordic investor who has actively increased its investments in Finland, and their total portfolio value also exceeded €900 million at the end of 2019. NREP has several vehicles with varying strategies, and the company thus has a diversified portfolio in Finland, comprising, for instance, 2000 residential units, two shopping centres, one ongoing hotel project and another about to be started. In 2019, NREP also launched a new Noli Studios short-term housing concept, which opened two locations in central Helsinki, both developed in former office buildings.

Cibus Nordic Real Estate has a Finnish grocery property portfolio with a total worth of over €800 million. The company is listed in the Nasdaq First North in Stockholm.

Technopolis owns, develops and manages a chain of business park campuses in seven countries in the Nordic and Baltic regions. The company also operates 11 UMA co-working spaces, of which three are located in Finland, all in the Helsinki metropolitan area. In 2018, the shares of

the company were acquired by Kildare Nordic Acquisitions S.à.r.l., and the company was thus delisted in early 2019. In 2019, Technopolis entered in two major transactions, whereby it divested its operations in Kuopio and also decreased its portfolio in Tampere and Oulu. On the other hand, the company also invested in new development, and completed one property in Vantaa and another in Tampere, and, at the year-end, had three ongoing office property development projects, all due for completion in 2020.

In addition to Sagax, Hemsö and Cibus, many other Swedish-originated investors continue to be active in Finland. Kielo Ab, managed by Brunswick Real Estate, for instance, continued to expand its investments in Finland through three transactions comprising four office properties in the Helsinki metropolitan area in 2019. Also Redito, which manages two retail property portfolios in Finland, has a Finnish portfolio worth more than €600 million. Another investor in the same size category is Niam, which invests in office and retail properties in the Helsinki metropolitan area and acquired the second phase of the Aviabulevardi project in 2019, after having invested in the first phase in 2017.

Areim is another Swedish-originated investor in Finland, who has continued to increase its portfolio. The company has formerly only invested in office properties in Helsinki metropolitan area, but in February 2020, it acquired a portfolio comprising 900 rental apartments from Ilmarinen.

Hemfosa and SBB i Norden are specialised in public use properties, and both companies have been active in Finland for a couple of years. Following the acquisition of Hemfosa by SBB i Norden in 2020, their combined Finnish property portfolio value will increase to almost €600 million.

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

"German investors increase their Finnish investments"

In addition to investors from the other Nordic countries, many German investors continue to play an important role in the Finnish market. The largest of these include Union Investment and Deka Immobilien who have both predominantly invested in large office assets in the Helsinki metropolitan area. In 2019, Union Investment increased its portfolio through several investments, the largest of which was the acquisition of an office and retail property in the Helsinki CBD from Sponda for €148 million. An even larger asset in the Union Investment portfolio is the Urban Environment House for the City of Helsinki, which will be completed in the second quarter of 2020. Deka's largest assets in Finland include an office property in Töölönlahti,

Kalasatama health and well-being centre, as well as the Hotel St George property in the Helsinki CBD. Commerz Real and Hansainvest have also invested in major office projects in Helsinki recently. The latest German newcomer is the KanAm Grund Group, who acquired the B and C phases of the Fredriksberg office complex in 2019.

"Starwood Capital Group was the largest newcomer to the Finnish property market in 2019"

The Finnish rental residential sector has increasingly attracted foreign investors in recent years. In total, foreign investors currently own some 17,000 rental dwellings in Finland. The largest non-Finnish investor in the residential sector is Round Hill Capital, who, under their Finnish brand Olo Asunnot, owns almost 5,000 rental apartments in Finland. In 2019, the largest foreign newcomer in the Finnish residential sector was Starwood Capital Group, who acquired 2,200 apartments together with their Finnish partner Avara. Also, NREP's, Morgan Stanley's and the German Bayerische Versorgungskammer's (BVK) Finnish residential portfolios comprise close to or over 2,000 apartments.

"Foreign interest continues to increase in the Finnish residential property market"

In recent years, the number of Finnish companies acting as co-investors with foreign players and companies offering investment management services have also increased. Avant Capital Partners is an example of this kind of companies. After having divested its largest investments in 2018, the company recently worked together with the South Korean-Finnish consortium, which acquired the OP Group's head office in Vallila. Also Trevian often commits to its partners' investments through co-investment. Another Finnish company that has recently expanded its operations in co-investments is Avara, which acts as the local investment partner for Starwood Capital Group.

Public sector

Public sector entities are important players in the Finnish property market. The Finnish state has concentrated most of its property holdings on a government-owned enterprise called Senate Properties, who provides working environments and promotes new ways of working among the state agencies. Senate Properties develops, manages and lets the state's property holdings, and also acts as an intermediary in lease agreements between state agencies and private sector property investors.

Senate Properties' property portfolio comprises almost 6 million sqm of premises used by state agencies and ministries, including offices, prisons and cultural buildings as well as properties used by the Finnish Army. Senate Properties operates under the control of the Ministry of Finance.

The state has started to pursue a new workplace strategy that will ambitiously increase space efficiency, which would thus free significant amounts of space to be sold by Senate Properties. Senate Properties has a business unit whose sole purpose is to develop and/or dispose of properties that are not needed by state agencies in the long term. Premises needed for state operations are also increasingly leased from private investors in cases where there are no specific needs from the point of view of, for instance, security or specialised facilities or equipment.

The majority of Finnish university properties are owned by three limited companies, whose sole purpose is to own and manage university buildings. Two of the companies own and manage university buildings in the Helsinki metropolitan area (Helsinki University Properties and Aalto University Properties), and these companies are owned by the universities themselves. Aalto University Properties has recently carried out a major development project in its campus area in Otaniemi, where an increasing amount of premises are also used by other tenants. The third company, University Properties of Finland Ltd, has a broader shareholder base, with its ownership spread across nine universities and twelve cities throughout Finland. The Finnish state is also a shareholder in this company. University Properties of Finland also increasingly offers premises to private corporations and other education organisations on its campuses.

Finnish municipalities typically own the majority of properties required for public administration and service provision, such as offices, schools, nurseries and healthcare centres as well as cultural buildings. Through their subsidiaries, the municipalities also own a significant amount of residential properties, the majority of which are subsidised by the state and therefore mainly targeted at low-income households. The City of Helsinki, for instance, is the largest single landlord in Finland through its residential property company Heka, which owns almost 50,000 state-subsidised dwellings.

"Finnish municipalities are major owners of subsidised rental residential properties"

The book value of the property holdings of the Finnish municipalities is estimated to exceed €30 billion, and their current technical value is assessed to be much larger. Of these, some €13 billion are residential properties and the rest are properties used for municipal service provision.

In recent years, municipalities have started to apply more varying strategies in their service provision, which has also impacted property ownership. For instance, a big proportion of new properties needed for elderly care have been developed by private investors, and they rent the premises to private sector service providers who sell their services to municipalities. One driver behind the new approaches is the tight economic situation of most of the municipalities, for which the ageing of the population creates additional pressures.

"Finnish municipalities increasingly operate in rented premises"

New concepts like "school as a service" also drive the municipalities towards new practices in space usage and ownership. Municipalities also increasingly offer their services in locations where it is easy for the residents to visit, for instance, shopping centres.

In some cases, cities also enter long-term rental agreements with private sector investors. The largest recent examples of these are the Kalasatama health and well-being centre and the Urban Environment House in Helsinki, which were both sold to investors even before their completion.

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

Corporations

Among the Finnish corporations, owner-occupation of properties is becoming less common in office markets in particular. More than 80% of the Finnish office property stock is currently owned by professional investors, and of the remaining 20%, the majority is owned by the public sector organisations. Large retail properties, shopping centres in particular, are also very often owned by professional investors. Only in the industrial sector, the vast majority of the total stock, more than 80%, is still owned by Finnish industrial corporations.

The broadening investor base and structural 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. In recent years, several major head office moves have been published, and in all cases the user has entered in a long-term lease agreement with an investor, who thereby commits to develop the new premises.

Companies using office space are increasingly pursuing 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.

"Several major corporate head office relocations have taken place in recent years"

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. In

2019, however, no major sale-and-leaseback transactions were published, and the total property sales of Finnish corporations only amounted to some €200 million.

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 retail property development and investment, and owns, for instance, the shopping centre Easton in eastern Helsinki. S Group and its co-operatives are major owners of retail, shopping centre and hotel properties, although they also increasingly apply different strategies.

The German retail chain Lidl typically owns its properties in Finland, with the exception of stores located in shopping centres and city centres.

3.3 Real estate service sector

Asset and property management services

The largest asset and property management companies servicing the large institutional and foreign investors are Newsec, Colliers International Finland, Realia Management and CBRE. These companies have attracted mainly large players and portfolios, which has, in recent years, opened up new opportunities for smaller, specialised local management companies for more focused needs and smaller clients.

Newsec, part of the Swedish-originated Stronghold-group, is a major player in the asset and property management as well as advisory service sector. Newsec offers a wide spectrum of real estate management, advisory and valuation services for both domestic and international property investors and corporations. In recent years, the company has attracted many large property investor clients with their extensive service supply.

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.

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 domestic and international investors as well as corporations. Colliers International Finland also offers shopping centre management and development services, and manages currently approximately 10 shopping centres across Finland.

"Supply of management services is evolving"

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

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

Realidea is another newly established company offering management, development and consultancy services mainly for retail properties and shopping centres.

Another domestic management company that mainly specializes in residential property management is Premico. The company is active with domestic property funds, but is also involved in a joint venture with Morgan Stanley Real Estate Investing and the Swedish RIM and acts as the local manager of a nearly 1,600 rental apartment portfolio.

Another recent news event in the property management sector was the acquisition of the housing management firm Aari Isännöinti by the housing investor Avara. Through the acquisition, Avara will expand its business operations to housing management. In addition to Avara's 8,000 residential units, the company has its existing client base of 9,400 dwellings.

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

Facilities management services to occupiers are offered by both specialist management companies and traditional service companies that have expanded to offer the whole service chain. The largest service companies with backgrounds in traditional service provision (such as cleaning, catering and maintenance) who also currently offer management services include ISS, Lassila & Tikanoja and SOL.

Advisory, transaction and valuation services

The advisory service market includes a mixture of small domestic entrepreneurial firms and big global companies. Of the major management companies, Newsec, CBRE and Realia Management also offer valuation, advisory and transaction services. Catella is another major player in the Finnish property valuation and transaction advisory service markets.

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

"Global advisors are typically involved in the largest transactions"

According to the transaction statistics of KTI, JLL has been the largest advisor in the Finnish transactions market in 2018-2019, followed by CBRE, Nordanö and Cushman & Wakefield, when measured by transaction volume. Measured by number of transactions, the largest advisor firms include Catella, JLL, Newsec and CBRE.

There are also a couple of smaller local transactions and valuation service firms servicing mainly domestic players. Of the local traditional valuation firms, Kiinteistötaito Peltola & Co serves some major investors. GEM Property is a newer example of a Finnish property valuation and advisory firm, which has also served some international clients in recent years.

In the transactions services sector, Finnish Property Partners, mrec Oy and Ecorum are examples of domestic companies working with both Finnish and international investors.

Other firms offering capital market services in the Finnish real estate sector include, for instance, Advium Corporate Finance and Aventus. Global business consultancy firms, such as KPMG, EY and PwC, offer real estate specific services in Finland as well.

Property financing

The debt financing market for property investment has been traditionally dominated by banks. The major part of real estate financing is provided by the major local and Nordic banks, including SEB, Nordea Bank, Danske Bank and OP Group.

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

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

Even though bank debt has been available for property investments with rather favorable terms in recent years, there are some signs of tightening conditions. For instance, in the RAKLI-KTI Property Barometer carried out in October 2019, 18% of the respondents expected the availability of debt to tighten, and 26% expected interest margins to increase within the next six months. Reasons behind tightening availability for debt include the increasing industry risk awareness and tightening solvency requirements of banks. Therefore, alternative sources for financing are being investigated by many property investors.

In addition to banks, some institutional investors, for instance life funds, also provide debt financing for property investments. Pension and life insurance funds can either provide property debt directly to their clients or act in co-operation with banks in financing deals.

Bonds issued by the Finnish property investors

ISSUED BY	ISSUE DATE	MATURITY DATE	YEARS	EUR MILLION	ANNUAL INTEREST	OTHER INFORMATION
SATO	10.9.2015	10.9.2020	5	300	2.25%	Unsecured
Citycon	16.9.2015	16.9.2022	7	300	2.375%	Unsecured
SATO	24.3.2016	24.3.2021	5	300	2.375%	Unsecured
Citycon	8.9.2016	8.9.2026	10	350	1.25%	Unsecured
VVO (now Kojamo)	17.10.2016	17.10.2023	7	200	1.625%	Secured
Kojamo	19.6.2017	19.6.2024	7	500	1.50%	Unsecured
Citycon	22.9.2017	22.9.2025	8	1.0 bn NOK	2.75%	Unsecured
Mercada	24.10.2017	24.10.2022	5	175	1.875%	Secured
Kojamo	7.3.2018	7.3.2025	7	500	1.625%	Unsecured
Regenero	31.5.2018	31.5.2021	3	100	4.00%	Secured
Citycon	22.8.2018	15.1.2027	over 8	300	2.375%	Secured
University Properties of Finland	2.11.2018	2.11.2023	5	100	1.80%	Unsecured
SATO	31.5.2019	31.5.2024	5	350	1.375%	Unsecured
eQ Finnish Real Estate	27.6.2019	29.1.2024	about 4.5	100	2.75%	Secured

Source: Press releases

"Nordic banks are major providers of debt financing"

Another source of debt capital is debt funds, which provide either senior or mezzanine debt for property investments. This sector's volume is, however, currently insignificant in Finland.

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

In addition to the largest players, also some mid-sized property companies have issued bonds in recent years in order to balance the use of different financing instruments. These bonds are typically secured. Examples of these kind of companies include shopping centre investor Mercada, the development company Regenero and University Properties of Finland. The latest bond issuer is eQ Commercial Real Estate Fund, which issued a €100 million secured bond in autumn 2019, thus being the first special fund structure using bond financing.

"The number of investors using bond financing continues to increase"

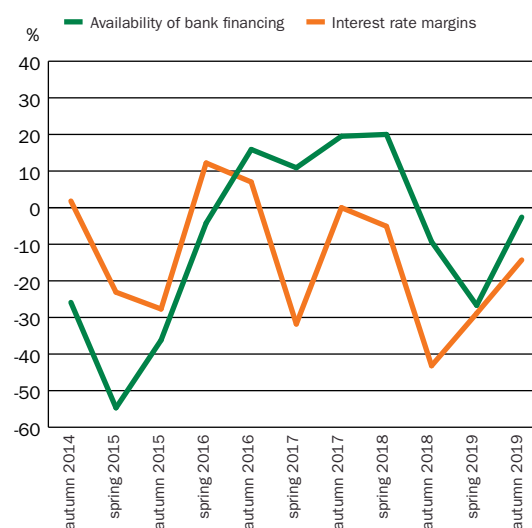
Some property investors also have access to special institutions' financing. For example, both SATO and Kojamo have received financing from the European Investment Bank

for the development of new nearly zero energy buildings. EIB has, together with NIB and some commercial banks, also provided financing for the Mall of Tripla project.

Major banks are typically interested in financing rather large, low-risk investments with known clients. Therefore, it is sometimes more difficult to get financing for riskier or more complicated transactions. This has opened up new opportunities for some smaller banks or financing institutions that are willing to accept more risk. 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.

Availability of bank debt and development of interest rate margins, next 6 months

Balance figures



Source: RAKLI-KTI Property Barometer

Property development

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

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

YIT is currently the largest Finnish and a significant North European construction company. The company has operations in 11 countries. In Finland, YIT develops and builds both residential and commercial properties. Its Business Premises segment is responsible for commercial property construction and project management, and the Partnerships Properties unit is responsible for financing major development projects and the ownership and subsequent realisation of plots and developed properties. The company is a major developer in, for instance, the Pasila area in Helsinki, where it completed the Mall of Tripla in late 2019, and is now about to start the Trigoni high-rise project in the vicinity.

Through its joint venture company Regenero, which YIT owns together with a private property developer HGR Property Partners, YIT has also been involved in a major redevelopment project in Keilaniemi. The redevelopment of the landmark property, which used to be Fortum's head office, was completed in late 2019, and has been mainly rented to accounting firm Accountor. The company will also develop a 160-meter high tower in the area, Keilaniemenrannan Torniprojekt. Elevator company Kone and Kämp Collection Hotel's Glo Hotel will be the main users of the tower, which is due for completion in 2022. In recent years, YIT has also involved in property investment, for instance, through its joint venture residential investment company with Ålandsbanken, which was established in 2019.

**"YIT and Ålandsbanken
established a joint venture
residential investment
company in 2019"**

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. The office building leased to European Chemicals Agency ECHA in Telakkaranta area in Helsinki, which has been sold to Hansainvest Real Estate, is the largest of Skanska's recent projects. In 2019 Skanska also sold the second phase of the Aviabulevardi office project to Niam, who had also invested in the first phase of the project.

NCC Property Development is developing the Fredriksberg business park in Vallila. The first phase was completed and sold to Swiss Life in 2018, and the second and third phases, which are currently underway, were sold in 2019 to a fund managed by KanAm Grund Group. Another major office development project of NCC is the OOPS office building

in Perkkää, Espoo, which was sold to pension insurer Varma in 2019 for €80 million and is due for completion in the latter half of 2021.

SRV was the developer of the REDI shopping centre in Kalasatama, and continues to develop high-rise residential buildings, and is also about to start an office tower in the area. The company is also developing the Woodcity project in Jätkäsaari, where mobile game company Supercell is an investor and will be the main user. SRV is also developing the Tampere Deck and Arena residential, sports and culture arena project. In early 2020, the ownership of the project was restructured, whereby SRV reduced its holdings in the project, and the institutional investors OP and LocalTapiola increased their ownership.

Hartela completed Ramboll's new head office project in Leppävaara in early 2019. Hartela and YIT are currently jointly developing the 25,000 sqm local commercial centre Hertsi in Herttoniemi. The project is due for completion in the first half of 2020. Peab Invest completed the second phase of its Ultimes Business Garden in Pitäjänmäki in 2019. Peab's Optimes Garden project is due for completion in March in Jyväskylä, and has been sold to Fennia's fund.

Most of these companies also develop residential properties for owner-occupied housing and typically buy and hold a significant amount of plots for this purpose. In the past couple of years in particular, construction companies have also been active in housing development projects, which they sell to investors. In the residential property development sector, there are also numerous, typically smaller local players, who mostly develop apartments for home buyers.

Some owner-occupiers – large retailers S Group and Kesko, in particular – are significant and professional property developers who have a number of development or renovation projects underway continuously. Lidl also continues to develop properties for its own use.

Institutional investors traditionally have quite conservative strategies concerning commercial property development. For instance, in projects led by construction companies, institutions typically only enter a project when the majority of the premises are pre-let. In larger projects, developers often gather a consortium of investors, who share the development risk with the main developer. Recently, these kinds of consortiums have been established for the development of Mall of Tripla as well as Tampere Deck and Arena projects, for example.

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

**"Institutional investors have
increased their development
activity"**

The current tight availability of investment assets has, however, encouraged some institutions to pursue more active development strategies. For example, Varma has entered into several office development projects within the past years, and Elo is about to start the development of a major office and hotel property in Keilaniemi.

Institutions are also involved in residential development activity, where the volumes have been rather high in recent years. Most investors have aimed at increasing their residential holdings, due to the increasing demand for rental housing in the largest cities. Residential development has also been encouraged by regulators, and pension funds are temporarily allowed to use debt financing in residential development.

Property investment companies also actively develop assets in their own portfolios. Sponda, Citycon and Technopolis are active players in property development in their own core areas both in Finland as well as in other countries included in their strategies. Sponda is currently developing an office and retail property in the vicinity of the Ratina shopping centre, which the company also developed for its own portfolio. Technopolis also has some ongoing office development projects in Tampere and Oulu, and Citycon's largest project is the Lippulaiva shopping centre in Espoo. Large residential companies, Kojamo and SATO in particular, are also active property developers.

There are also some smaller non-listed property companies and funds active in property development in their niche markets. Ylva, for example, has significantly increased its development activity in recent years in central locations in

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

"Conversion projects have increased in volume in recent years"

An oversupply of offices in the Helsinki metropolitan area has generated lots of conversion and redevelopment projects in recent years. Conversion projects are most often developed by their owners, and, for instance, many institutions have redeveloped their properties into a new use. In some cases, the properties are sold to investors who are willing to carry the development risk. For instance, Exilion's fund invested in the old office property to be redeveloped into hotel use in the main railway station.

In recent years, also some international investors have invested in properties that are planned to be redeveloped into a new use. For example, NREP has invested in some office buildings, which it has developed for hotel or short-term living purposes. Barings Real Estate Advisers is also redeveloping a former office building into hotel use.



Photo: Kojamo Oyj

4 Property sectors: market structure, practices and investment performance

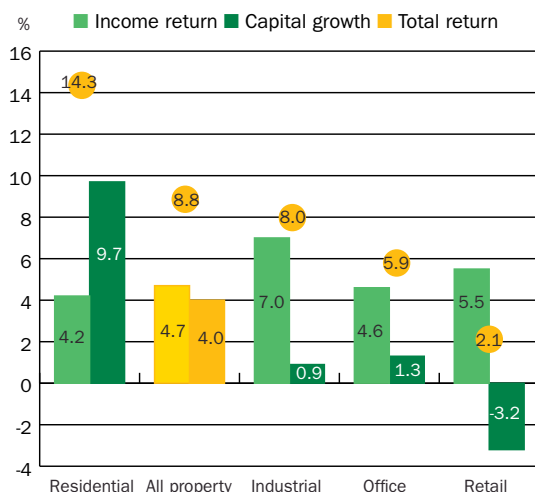
In terms of property sector structure, the Finnish property investment market has changed markedly in recent years. The largest shift has been the significant increase in the share of residential properties of the total market. Residential properties are, since a couple of years, the largest sector in the professional investment market with the share of 32%.

While traditional commercial property sectors retain their strong position as main commercial property investment sectors, the share of previously smaller sectors, for instance hotels and public use properties, has also increased due to the strong investment appetite. In recent years, retail properties have lost their popularity due to their weaker investment performance. Office properties have, again, increased their attractiveness during the past couple of years, and their share of the total market stands currently at approximately 26%.

In 2019, the capital value of residential properties owned by professional investors increased by some €4.7 billion euros compared to the previous year. The increase was supported by healthy capital growth, as well as abundant new development activity by professional investors.

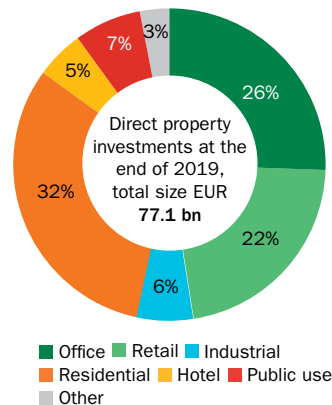
"The amount of residential properties increased by €4.7 billion in the investment market"

Total returns by property sector in 2019



Source: KTI Index

The structure of the Finnish property investment market by sector



Source: KTI

Of the commercial property sectors, the total value of office properties increased to some €20 billion. The increase in value accelerated from previous years, due to both new assets being developed and a slight capital growth. Capital values of retail properties, on the other hand continued to decline, and the increase in the total value of retail properties in the investment market was a result of the completion of some major retail assets.

According to the KTI Index, the total return on the Finnish property market amounted to 8.8% in 2019 (5.8% in 2018), consisting of a capital growth of 4.0% and a net income of 4.7%. Residential was the best performing sector in the investment market.

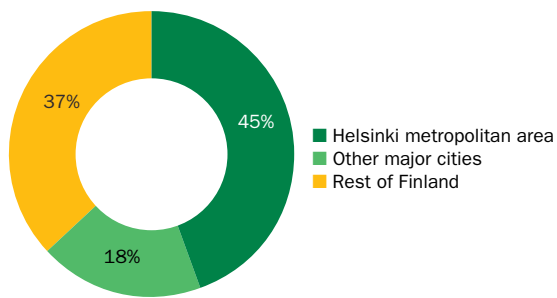
4.1 The office market

Stock

The total stock of office space in Finland is some 19.6 million square metres, according to Statistics Finland. The Helsinki metropolitan area has a dominating position within the Finnish market, and of the total stock, 45%, some 8.8 million sqm, is located in Helsinki, Espoo and Vantaa. The office stock in Tampere amounts to some 1.1 million sqm, and that of Turku to 0.8 million sqm.

New office development is also concentrated in the Helsinki metropolitan area. Within the past decade, approximately 82,000 sqm of new office space has been completed annually on average in the Helsinki metropolitan area. During the same period, however, the volume of demolitions and conversions has increased, and amounted to approximately

Distribution of office stock by location, sqm



Source: Statistics Finland

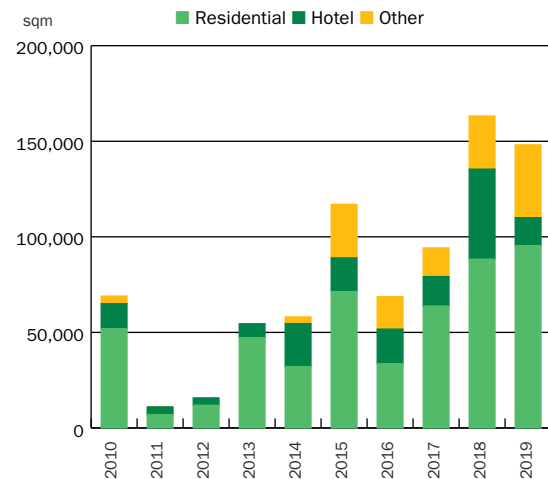
83,000 sqm per annum on average. Between 2015 and 2019 the growth in conversion volumes has accelerated, and there were some 75,000 sqm of new office space completed annually, while the annual reduction volume amounted to 123,000 sqm on average.

Measured by volume, the majority of old office premises are being converted into residential use. In the most central locations in Helsinki, many former office buildings have future potential in hotel use, and there are currently several ongoing or planned projects underway. In some cases, office buildings are also being converted into some other, for example educational use.

"In recent years, the volume of office conversions and demolitions has exceeded that of new construction"

In 2019, approximately 123,000 sqm of new office space was completed in the Helsinki metropolitan area. The largest projects included the Ramboll head office in Leppävaara, K-Kampus's two buildings in Kalasatama and the K6 project

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



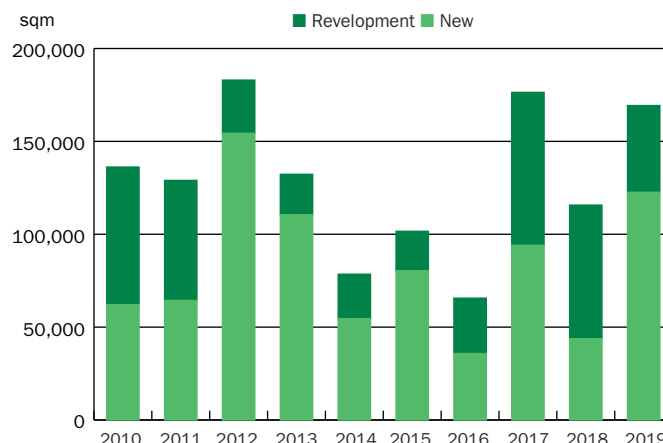
* If information on rentable area hasn't been available, rentable area has been estimated based on gross area information.
** Projects are allocated between years according to the point of time when they are not offered for office use; ie. when the new plan is confirmed / conversion project has been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

Source: KTI, RPT Docu Oy

in Sörnäinen. At the end of the year, approximately 136,000 sqm of office space was under construction. The largest ongoing projects were the Tripla Workery offices in Pasila and the Urban Environment House in Kalasatama, both due for completion in the first half of 2020. There are also several large projects planned to be started in 2020, and the construction volume is thus likely to remain rather high.

In the main cities outside the Helsinki metropolitan area, in the Tampere, Turku, Oulu, Jyväskylä, Kuopio and Lahti regions, some 25,000 sqm of new office space was completed in 2019, the majority of which, some 17,500 sqm, was in Tampere. At year end, approximately 90,000 sqm of office space was under construction, of which some 30,000 sqm is located in Kuopio, and almost the same amount in Tampere.

Completions of offices in the Helsinki metropolitan area in 2010-2019



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

Source: KTI, RPT Docu Oy

Players

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 established office areas in the Helsinki metropolitan area. The third office category is business-park-type properties located near good traffic connections.

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, Antilooppi and Technopolis. Foreign investors, for instance Niam, Kielo, Deka Immobilien and Union Investment, also have significant investments in Finnish office properties. In recent years, many domestic funds have also increased their investments in office properties, including, for instance, those managed by eQ, CapMan and OP.

Finnish institutional investors have been reducing their office property holdings for many years, mainly due to their poor investment performance and high vacancy rates in the Helsinki metropolitan area in particular. Therefore, for many years, foreign investors have dominated the office transactions market. However, in recent years, prime offices have increased their attractiveness again, and institutional investors have started to increase their exposure to office properties. For instance, Varma has published several major office development projects within the past 2-3 years, including the K-Kampus project in Kalasatama, the OOPS project in Perkkaa, the Stora Enso head office project in Katajanokka, as well as the Keilaniemen Portti Project in Keilaniemi. In 2019 Varma also purchased an existing office property in Ruoholahti, and sold one in Vallila.

"Offices were, again,
the largest sector in the
transaction market in 2019"

For the past three years, offices have been the largest sector in the transaction market. In 2017 and 2018, the office transaction volume was boosted by exceptionally large portfolio transactions, while in 2019, the volume comprised mainly single-asset or smaller portfolio deals. Due to the lack of large individual transactions, the office transaction volume decreased markedly from the two previous years and amounted to €2.3 billion in 2019.

The largest office transaction in 2019 was carried out by Union Investment, who acquired an office and retail property in the Helsinki CBD from Sponda for €148 million. Other single-asset transactions exceeding €100 million were the acquisition of the ECHA office in Telakkaranta by Hansainvest Real Estate, as well as the S Group's head office in Vallila, which was bought by a fund managed by Pareto Business Management.

Outside the Helsinki metropolitan area, the largest office portfolio transaction was carried out by KPY Sijoitus Oy, who bought the remaining 60% share of Technopolis's business operations in Kuopio. Otherwise, office transactions outside the Helsinki metropolitan area were mainly single-asset deals.

"The Helsinki metropolitan
area dominated the office
transaction market"

Many foreign investors continued to increase their investments in the Finnish office properties in 2019. In addition to Union Investment and Hansainvest, for instance, KanAm Grund Group, GLL Real Estate, Swiss Life, Quadoro Doric, Kielo, Tristan Capital Partners and Patrizia invested in office properties in Finland in 2019.

"A brisk start for the office
transaction market in 2020"



Photo: Skanska

In early 2020, Antilooppi purchased a portfolio of nine commercial properties in Ruoholahti from Sponda. The transaction was the continuation of a series of Sponda office property divestments after the acquisition of the company by Blackstone's Polar Bidco. Since late 2018, Sponda had sold about a dozen individual office properties in the Helsinki metropolitan area before the Antilooppi transaction.

"Sponda continued to dispose office properties in early 2020"

Another major event in the office market in the beginning of 2020 was the disposal of the head office of OP Group in Vallila. The €480 million deal was the largest single office property transaction ever in Finland. The buyers were South Korean NH Investment & Securities (NHIS), Shinhan Investment Corp. and the domestic pension insurer Varma.

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 to 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.

In recent years, the increase in office occupiers' flexibility demands has likewise increased 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 and Turun TeknologiaKiinteistöt. Of the international players, IWG's brands Regus and Spaces as well as the Swedish Epicenter are represented in the market.

There are also some targeted concepts offered to, for instance, start-up companies in the technology sector. Examples of these kinds of concepts include A Grid in the Aalto University campus in Espoo as well as Maria 01 in the Helsinki CBD.

Rental market – offices

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

The Helsinki CBD is the most appreciated office area in Finland. Rents have increased steadily in the CBD in recent years, and the amount of vacant space is currently very low.

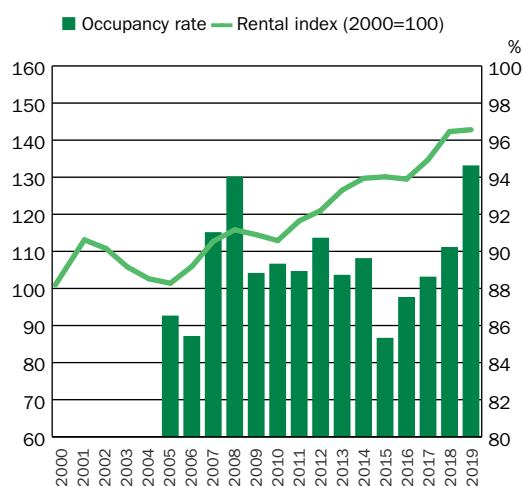
"Office rents continue to increase in the Helsinki CBD"

In the KTI rental database, the upper quartile of new rental agreements stood at almost €37 per sqm per month in the agreements started between March and September 2019. In the whole stock of agreements, the upper quartile stood at €33.3 per sqm in September 2019, up from €32.1 per sqm in 2018. The median rent currently stands at approximately €29 per sqm per month. In the KTI database, the occupancy rate stood at 95% in Helsinki CBD in September 2019, having been 90% in the previous year.

The demand for office space has spread from the Helsinki CBD to the surrounding areas, and, for instance, in Kamppi, Etu-Töölö and Ruoholahti both rents and occupancy rates have increased markedly within the past year. Other office areas with positive rental and occupancy development include Keilaniemi and Leppävaara.

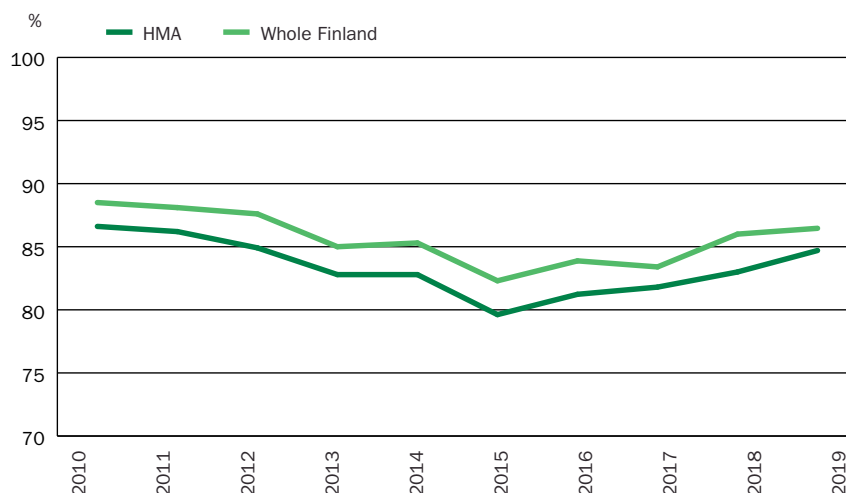
However, despite the positive development in the best office areas, the amount of vacant office space remains high in the Helsinki metropolitan area. At the end of 2019, there was still more than one million sqm of vacant office

KTI office rent index and occupancy rate, Helsinki CBD



Source: KTI

Office occupancy rates in the Helsinki metropolitan area and whole Finland



Source: KTI Rental database

space, representing 12.3% of the total stock in the Helsinki metropolitan area, according to Catella.

In the KTI rental database covering the professional investor portfolios, the occupancy rate of offices stood at 85% in September 2019. Despite its still low level, this is the highest figure since autumn 2012. Areas with the most vacant office space include, for instance, Pitäjänmäki and Vallila in Helsinki, as well as Kilo-Mankkaa in Espoo.

In the other two main cities, the office vacancy rate currently stands slightly below 10% in Tampere, and at less than 7% in Turku, according to Catella. These two cities mainly differ in terms of new development, which has been significantly more active in Tampere in recent years.

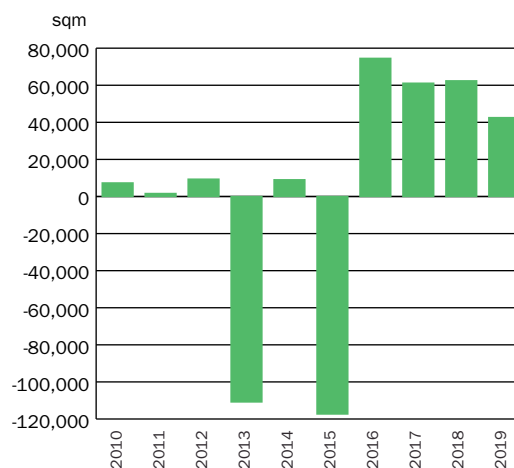
Supported by the strengthening economy, office net take-up has remained positive in recent years. In 2019, net take-up amounted to some 43,000 sqm, which is slightly less than in the two previous years. Gross take-up remained stable at approximately 380,000 sqm.

"Office net take-up remained positive in 2019"

The office market has recently been characterised by several large head office relocations, which has translated into exceptionally large leases. In many cases, head offices are moved to newly developed buildings, which typically requires rather long rental agreements in order to attract developers and investors. In 2019, for instance, Ramboll and Kesko moved their head offices into newly developed buildings, and in 2020, Telia and HOK-Elanto will move to the Tripla Workery offices. Other major corporate head office relocations published in 2019 include, for instance, those of Stora Enso, Fiskars Group, Kone and Deloitte.



Office net take-up, Helsinki metropolitan area



Annual figures are calculated from each 12-month period between September and August.

Source: KTI

Examples of major corporate head office relocations

Property	Rentable area	Main user(s)	Owner(s)	Completion / Moving date
Headquarters of Ramboll Finland Oy	20,750*	Ramboll Finland Oy	Keva	Q1/2019
Kalasataman Kampus	35,000	Kesko Oyj	Varma	Q2/2019
Accountor Tower	24,700*	Accountor Group	Unnamed international investor	Q4/2019
Tripla Workery offices	50,000	Telia, HOK-Elanto	Fund managed by Commerz Real	Q1/2020
Wood City	13,000*	Supercell Oy	Supercell Oy	Q3/2020
OOPS (Phase A & B)	18,500	Trimble Solutions Corporation	Varma	Q3/2021
Keilaniemi Next	9,500	Fiskars Group	NCC	Q1/2022
Headquarters of KONE	48,000*	KONE Oyj	Regenero (HGR Property Partners Oy & YIT Oyj)	2022
We Land	21,000	Deloitte	NCC	2023
Headquarters of Stora Enso	20,000*	Stora Enso	Varma	2023

*Gross area

Source: KTI

"Several major head office relocations taking place 2019-2021"

The investment performance of office properties has, for many years, shown diverse development: prime assets' returns are supported by both increasing rents and decreasing yields, whereas in secondary assets, performance is pressured by high vacancies and perceived risks. In 2019, the total return of offices amounted to 5.9% (6.2% in 2018). Capital growth decreased slightly in 2019 compared to the previous year, while income return remained stable.

Office rents and yields in Helsinki and other European capitals

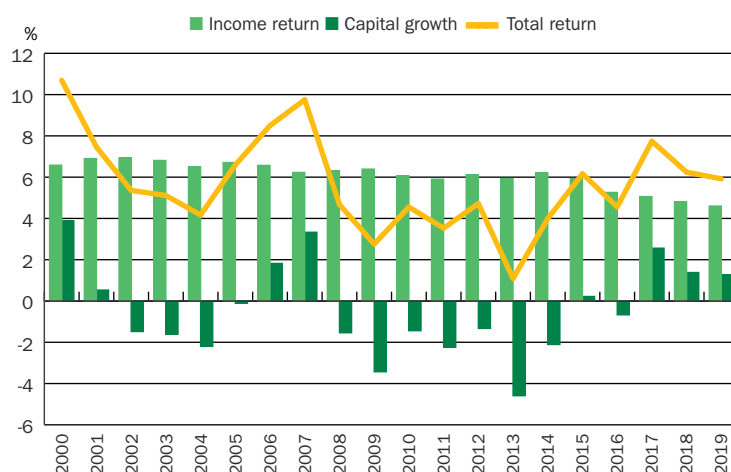
In recent years, Helsinki CBD offices have outperformed most other office sub-markets in Finland. Capital growth has been supported by both increasing rental values and

decreasing yields, and has remained positive every year since 2013. In 2019, the Helsinki CBD continued to show strong performance, and clearly outperformed the average office returns. Rental growth, yield compression as well as high occupancy rates all contributed to the positive performance in 2019.

"Yield compression continued in the Helsinki CBD in 2019"

Prime office yields in the Helsinki CBD have decreased steadily during the past decade, supported by low interest rates and strong investment demand. In the latest RAKLI-KTI Property Barometer, carried out in October 2019, yield compression for prime office buildings in the Helsinki CBD had accelerated again, and prime yield stood at 3.8% on average (4.1% in 2018). In the recent transactions, yields for the best properties have stood well below 3.5%.

Total returns on office investments, 2000-2019



Source: KTI Index

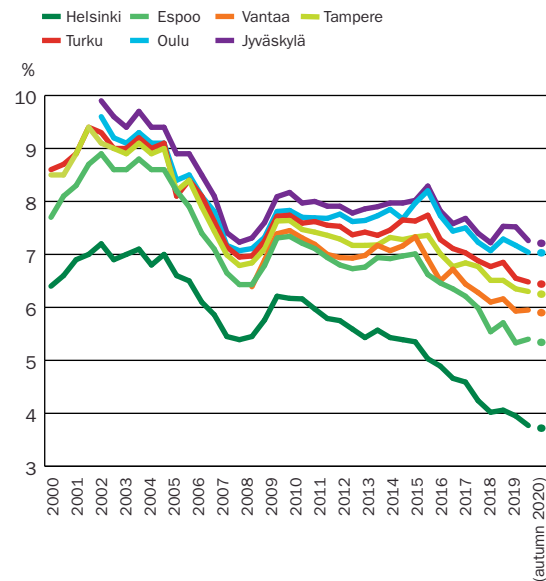
In other major cities, office yields have also continued to compress, but they still offer a healthy premium compared to central Helsinki. In Tampere and Turku, yields stood at 6.3 and 6.5%, respectively, and in Jyväskylä and Oulu, yields exceed 7%.

In comparison with its European peer cities, office rents in Helsinki are slightly lower than in, for instance, Amsterdam, Berlin and Madrid. However, in Stockholm prime office rent is more than 80% higher, and even in Oslo rents are significantly higher than in Helsinki. This strengthens the outlook for growth potential in prime rents in the Helsinki CBD.

"Helsinki CBD office rents are significantly lower than in Stockholm and Oslo "

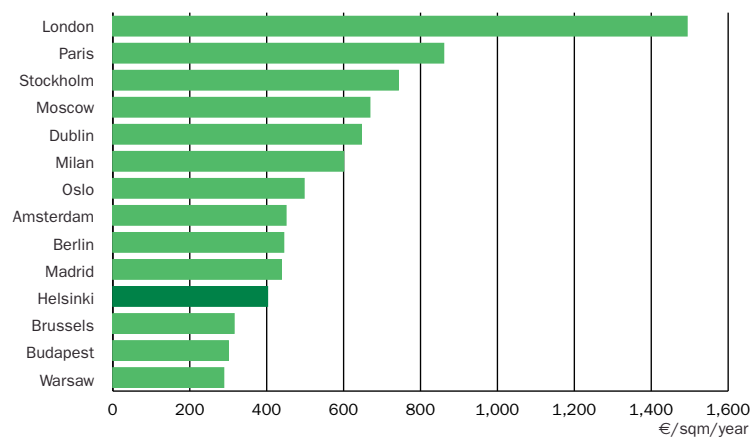
The rental outlook for offices remains positive for the Helsinki metropolitan area, as well as for Tampere and Turku. However, in other cities, rents are expected to remain stable or even decline going forward, according to the RAKLI-KTI Property Barometer.

Prime office yields in major Finnish cities



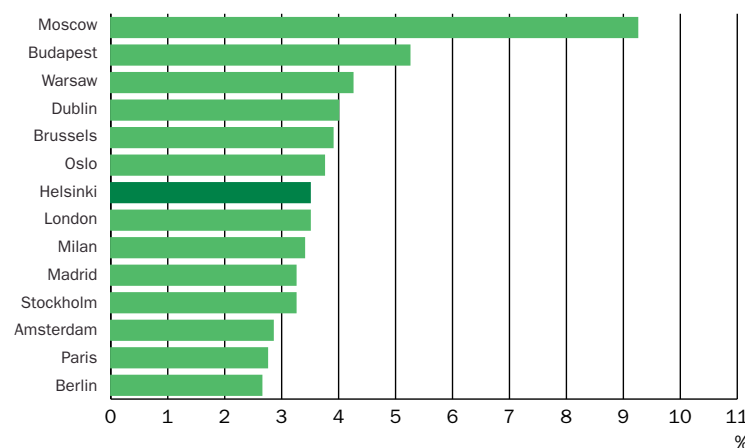
Source: RAKLI-KTI Property Barometer

Prime office rents in Helsinki and other European cities, Q4/2019



Source: JLL, KTI (Helsinki)

Prime office yields in Helsinki and other European cities, Q4/2019



Source: JLL, KTI (Helsinki)



4.2 The retail market

Stock

Altogether, there are some 31 million sqm of retail space in Finland. In Statistics Finland's data, this also includes hotel properties. About 4.2 million sqm of the retail space stock is located in the Helsinki metropolitan area, and 5.9 million in other major cities.

According to the Finnish Council of Shopping Centers, there were 105 shopping centres with a total leasable retail area of some 2.3 million sqm in Finland at the end of 2018. The most significant new opening in 2019 was that of the Mall of Tripla in Helsinki. Also in Seinäjoki, the 63,000 sqm Ideapark shopping centre was opened in late 2019.

Retail property stock owned by professional investors has grown steadily in recent years, mostly due to new development and some major sale-and-leaseback transactions. At the end of 2019, the total amount of retail properties in the investment market amounted to some €17 billion, corresponding to 22% of the total market.

Retail property stock in the Helsinki metropolitan area has increased markedly during the past decade. In 2019, as much as 157,000 sqm of new retail space was completed, representing a growth of 3.7% for the total stock. During the past decade, the annual completions have amounted to some 69,000 sqm on average. However, after a couple of years of exceptionally high volumes, retail construction activity is now expected to decline markedly, and, at year end, there were some 79,000 sqm of retail premises under construction. Of the ongoing projects, Citycon's Lippulaiva shopping centre project is the largest, with 44,000 sqm of lettable space.

"Retail property construction volumes are decreasing after many years of high activity"

In Tampere, Turku, Oulu, Jyväskylä, Kuopio and Lahti regions, there were some 53,000 sqm of retail premises under construction at year end, more than half of which are located in Tampere.

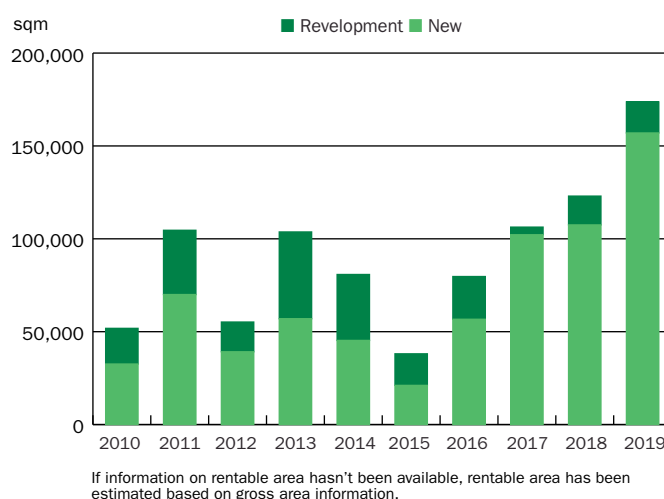
Players

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

The largest specialised shopping centre investor in Finland is Citycon, who currently owns and operates 8 shopping centres across Finland. Iso Omena in Espoo is the portfolio's largest asset. Another major shopping centre investor is Sponda, whose biggest centres include Forum and Citycenter in the Helsinki CBD, Ratina in Tampere centre, Elo near Tampere as well as Zeppelin in the Oulu region. Another large retail investor is Mercada, which owns three shopping centres and 31 other retail assets in Finland. The majority of Mercada's properties are leased to Kesko Group. Both large retail chains, Kesko and S Group, also own some shopping centre properties.

Many Finnish institutional investors, including, for instance, Ilmarinen, Varma, Elo, LocalTapiola and Keva, own whole shopping centres across Finland. In larger centres, they also often enter into joint investments with other investors. For example, the Sello shopping centre in Espoo is owned jointly by three pension institutions – Keva, Elo and Ilmarinen. The

Completed retail space in the Helsinki metropolitan area in 2010–2019



Source: KTI, RPT Docu Oy

ownership of Jumbo and Flamingo in Vantaa was reorganised in 2019, and pension insurers Varma and Elo currently own the joint venture company with equal shares. Before the arrangement, Elo had acquired the 34% share of Jumbo from Unibail-Rodamco-Westfield for €248 million.

Ilmarinen is a co-investor in Citycon's IsoKristiina centre in Lappeenranta, as well as in Renor's Puuvilla in Pori. Domestic institutions also own the REDI shopping centre in Helsinki, after the developer SRV divested its share in early 2020. The Mall of Tripla is owned by a joint venture company made up of the developer YIT and a group of domestic investors.

The Finnish shopping centre market has also attracted foreign property companies and funds. The largest foreign owners include Morgan Stanley Real Estate Investing, who owns the Itis shopping centre, and Allianz and Nuveen Real Estate, who jointly own the Kamppi shopping centre in the Helsinki CBD. Funds managed by CBRE Global Investors, Barings and AXA Investment Management – Real Assets have also invested in Finnish shopping centre properties.

Domestic funds investing in shopping centre and other retail properties include those managed by, for instance, eQ, OP, Fennia and Trevian. Agore Kiinteistöt's retail property portfolio also includes some shopping centres.

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

Other retail properties, such as hypermarket and supermarket properties as well as smaller retail centres, are owned by a diverse group of investors, including, for instance, large retailers, domestic institutions and funds, and foreign investors.

One of the largest foreign players in the Finnish retail property sector is the Swedish Cibus Nordic Real Estate, who continued to expand its portfolio in several transactions

Top 10 Shopping centres in Finland

CENTER	RETAIL NLA	MAIN OWNERS	LOCATION
Jumbo-Flamingo	115,900	Elo, HOK-Elanto, Kesko, Varma	VANTAA
Ideapark	103,027	Private investors	LEMPÄÄLÄ
Sello	95,948	Keva, Ilmarinen, Elo	ESPOO
Mall of Tripla	85,000	YIT, Ilmarinen, Conficap, Fennia	HELSINKI
Iso Omena	84,380	Citycon Finland	ESPOO
Itis	78,723	Fund advised by Morgan Stanley Real Estate Investing	HELSINKI
Ideapark	63,000	Private investors	SEINÄJOKI
REDI	58,334	Ilmarinen, OP Group, LocalTapiola	HELSINKI
Mylly	58,149	Kauppaeskus Mylly	RAISIO
Willa	52,554	Varma, CapMan Real Estate, Nordic Real Estate Partners, HOK-Elanto	HYVINKÄÄ

Source: Finnish Council of Shopping Centres

in 2019, and whose Finnish portfolio value is approaching €900 million.

Another significant player in this segment is Trophi Fastighets, managed by Redito, whose portfolio comprises more than 100 retail assets across Finland.

The Finnish daily goods market is dominated by S Group and Kesko, with shares of 46% and 36% of total sales in 2018, respectively. They operate in all store categories – hypermarkets, supermarkets and smaller stores – under different brands. The German chain Lidl is the third largest player in the daily goods market with a share of some 10%. In 2018, total sales of daily goods amounted to some €18.2 billion, representing a 3% growth in value compared to the previous year.

The regulation of retail business has been markedly liberated in the past couple of years. For example, opening hours of retail units are currently totally deregulated, and the sales of low-volume alcoholic drinks have been liberated.

Rental practices

Rental practices in the retail market vary significantly according both to the type of retail unit and to the preferences of the investors and tenants.

Rental agreements are normally longer in the retail than in the office market. Fixed terms are more commonly applied in the retail market, as tenants want to ensure the continuity of their business with agreements. The typical minimum fixed term for retail space is three years. In many cases, agreements are first made for a fixed period and are then continued for an infinite time period. These kinds of terms are typically applied especially in high street shops.

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

In shopping centres, anchor tenants often have leases of five to ten and even fifteen years, with renewal options sometimes applied in shorter leases. Other tenants typically have shorter leases. The use of turnover leases is increasing in shopping centres. According to the KTI rental database, 47% of the total retail space of shopping centres is leased for rent partly or totally based on the tenant's turnover.

The retail market in 2020

The total volume of retail sales increased by some 2.3% in 2019, according to Statistics Finland. The growth was supported by slow inflation and increasing earnings. Private consumption is expected to continue increasing in 2020, but at a slowing pace, by some 1.4%.

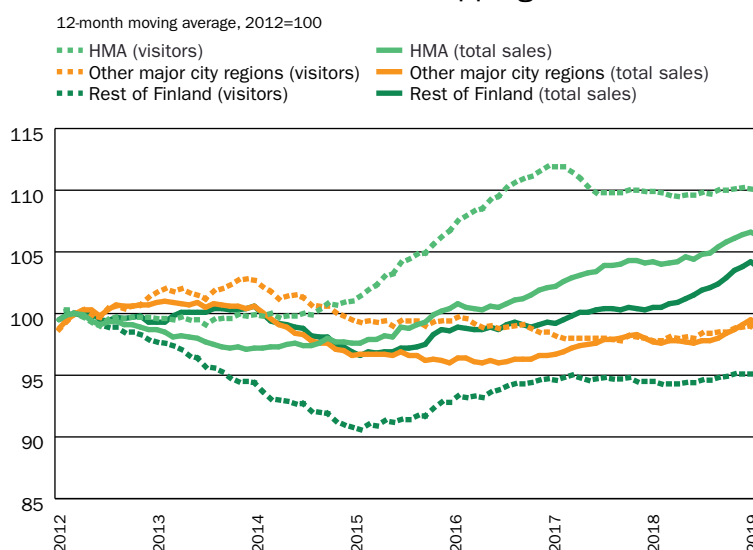
"Total sales in shopping centres increased by 2.2% in 2019"

Total sales in shopping centres increased by 2.2% in the whole of Finland in 2019, when comparing like-for-like stock. The number of visitors only increased by 0.3%, according to the indices produced by KTI and the Finnish Council of Shopping Centers. The growth in sales was strongest in the third quarter of the year, while in the last quarter, the growth slowed down to 0.7%.

The growth in shopping centre stock makes the increase in sales more pronounced: when new centres and extensions are included in the index, both total sales and number of visitors increased by 6.6% compared to the previous year.

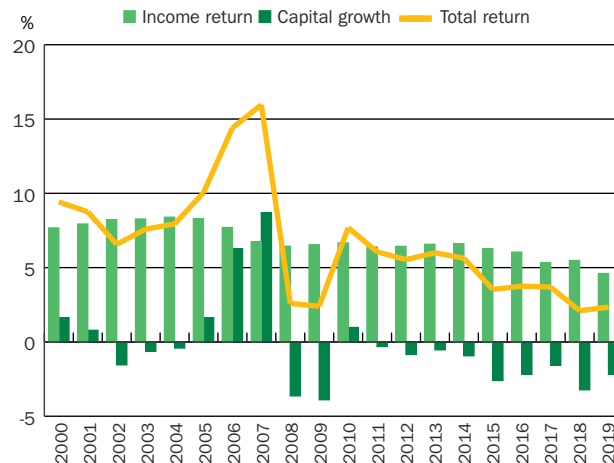
Within the shopping centres, the importance of various kinds of services continues to increase. Cafes and restaurants, for instance, currently represent almost 10% of the total sales of shopping centres, and of the rents, their share is even higher. Beauty and wellness services as well as leisure

Sales and visitors in Finnish shopping centres



Source: KTI and Finnish Council of Shopping Centers

Total return on retail investments, 2000-2019



Source: KTI Index

and entertainment services also continue to increase in importance, although their share of total sales still remains rather low, and stands at some 3-4% for both categories.

Other retailer categories showing positive development of sales include health and beauty goods as well as furnishing, home decor and supplies. On the other hand, the sales of fashion and accessories has continued to decline, and currently represent some 16% of the total sales of the Finnish shopping centres. Their share of both rents and used area is significantly larger than that of total sales. In 2019, the sales of fashion and accessories decreased by 2.7%.

The importance of grocery and department stores is exceptionally significant for the Finnish shopping centres. In the last quarter of 2019, their sales represented 39% of the total sales, and showed an increase of 1.8% compared to the previous year. Grocery and department stores use 22% of the total area of the Finnish shopping centres.

"Grocery and department stores represent 39% of the total sales of the Finnish shopping centres"

The Helsinki CBD has an undisputed position as the prime retail area in Finland. The CBD's main shopping streets include Aleksanterinkatu and Northern Esplanade as well as streets interconnecting these two streets. The city centre also accommodates several shopping centres, including Kämp Galleria, Kluuvi, Forum, Kamppi and Citycenter.

"Retail rents in prime locations are showing resilience"

In the Helsinki CBD and in the best shopping centres, prime rents have remained stable. According to the RAKLI-KTI Property Barometer carried out in October, prime rents in

the Helsinki CBD stood at some €122 per sqm per month on average, having stood at €123 the previous year. In another barometer survey, carried out with shopping centre professionals, the majority of the respondents expected retail rents and occupancy rates to remain stable in the largest shopping centres in the Helsinki metropolitan area, whereas in smaller centres and elsewhere in the country, there is a downward pressure on rents.

Despite the significant increase in supply, retail vacancy rate remains low in the Helsinki metropolitan area. In the KTI rental database, the retail occupancy rate stood at some 95% in September 2019, and that of shopping centres stood at the same level at the end of the year.

"The retail occupancy rate remains high in the Helsinki metropolitan area"

However, in cities outside the Helsinki metropolitan area, there is more vacant retail space. In the shopping centre follow-up of KTI and the Finnish Council for Shopping Centers, the retail occupancy rate for major city regions outside the Helsinki metropolitan area stood at some 93% at year end, and for the rest of the country, it stood at just below 90%. For both regions, the figures were slightly higher than for the previous quarter, which might be partly explained by an increase in pop-up and other temporary stores for Christmas sales.

The outlook for the retail rental market continues to be uncertain, and differentiation is increasing between the best locations and the largest centres on one hand, and secondary locations and smaller centres on the other hand. While the outlook for rents and occupancy rates for the best retail locations remains stable or slightly positive, there is increasing uncertainty and negative outlook for other locations. The change in consumer behaviour and increase in e-commerce, as well as an increase in retail property stock tightens the competition for customers and sales, and requires determined measures for continuous development of retail concepts in terms of offerings of services and goods, as well as other means for attracting customers.



Photo: Kojamo Oyj

"Increasing differentiation between prime and secondary retail locations"

In the Helsinki CBD, the retail market is also undergoing a change. Some traditional retailers, as well as newer international chains, especially in the fashion category, have closed their shops, and, in many cases, have been replaced by cafes and restaurants or by some kind of newer, often temporary retail concepts. The latest news in this front is the closing of the traditional Aleksi 13 fashion department store at the end of 2020. The department store has been in the same location in Aleksanterinkatu for more than 50 years. Ilmarinen owns the building and is seeking a solution where the upper floors of the building would be converted to office and service premises, and lower floors would remain in retail use. However, the redevelopment of the building is dependent on a change in the city plan, which might be difficult to obtain.

In recent years, the investment performance of retail properties has reflected the increasing uncertainty in the market. In the KTI Index, capital growth for retail properties has been negative every year since 2011, and in 2019, the total return on all retail properties amounted to 2.3%. Shopping centres' investment performance remained weaker than that of other retail properties, pressured by both lower capital growth and income return. Income return of shopping centre properties is being pressured by decreasing occupancy rates, increasing costs and lower rents.

"The retail property transactions volume fell significantly in 2019"

Due to the increasing uncertainty and weak investment performance, the transactions volume of retail properties has fallen below the sector's relative share of the total

investment market. In 2019, the total volume of retail property transactions amounted to €1 billion in 2019, which represented 17% of the total market. Unlike in the two previous years, there were no significant individual single-asset or retail property portfolio deals in 2019, and the 34% share of the shopping centre Jumbo, which was acquired by pension insurer Elo, was the largest retail property transaction of 2019.

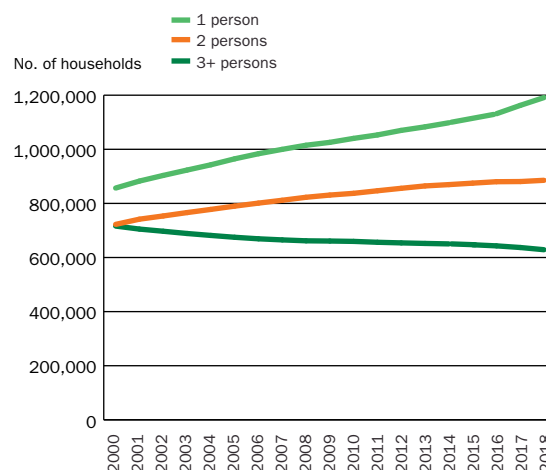
4.3 Rental residential sector

Stock

According to Statistics Finland, there were some 2.71 million occupied housing units in Finland at the end of 2018. Of these, 39% were single-family homes. The share of dwellings in apartment buildings currently stands at 46%.

The average size of a Finnish household has been decreasing steadily, and in 2018, some 77% of all households consisted of only one or two persons. In Helsinki, this share is even higher, 79%. Because of the decreasing average size of households, the demand for smaller dwellings is increasing in the largest cities in particular.

Finnish households by size



Source: Statistics Finland

In 2018, about 63% 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.

Some 900,000 dwellings, representing some 33% of the total stock, are rented dwellings. Rented housing is more common in major cities than in the whole country on average. In the Helsinki metropolitan area, some 45% of all dwellings are rented. In Helsinki, the share of rented dwellings is 49%, and there are currently more rented than owner-occupied dwellings.

"In Helsinki, there are more rented than owner-occupied dwellings"

Of all rented dwellings, some 35% have been provided with some kind of public subsidy, most commonly a state-guaranteed loan or an interest subsidy. The share of subsidised dwellings of all rented dwellings has decreased steadily during the past decade. The majority of subsidised dwellings are owned by the Finnish municipalities' daughter companies. Other major providers of subsidised housing include non-profit organisations offering rental housing for specific groups such as students, elderly people or the disabled. Y-Foundation, TA-Yhtymä and KAS Asunnot, as well as numerous student housing foundations are examples of these kinds of players. Kojamo, SATO and Avara also hold this non-profit status enabling them to offer subsidised housing. This currently applies to a limited part of their businesses, and they are all currently reducing the share of subsidised dwellings in their portfolios.

In the subsidised markets, the terms and regulation of different types of public subsidy for housing supply vary significantly between different forms. Some have specific rules for tenant selection and the buildings can only be sold to organisations with an approved non-profit status by the Housing Finance and Development Centre ARA. In the majority of the subsidised stock, rents are cost-based.

In 2019, subsidised housing production represented approximately 20% of all housing construction starts. 58% of the started subsidised dwellings were normal rental dwellings, and the share of rental dwellings targeted at specific groups amounted to 19%. The rest, some 1,400 dwellings, were right-to-use apartments, where the financing also has a guarantee from the state.

In 2020, the share of subsidised housing production is expected to increase due to an expected decrease in total construction volume, as well as by the government's support to moderately priced housing production through, for example, infrastructure investments.

The government may also offer different kinds of subsidy frameworks for private sector players in order to boost the supply of housing in major cities. The most recent framework was introduced in 2016, based on a 10-year interest subsidy and state guarantee, during which period the dwellings have to be rented to low-income tenants at moderate rental levels. After this period, the dwellings can be freely let at market price. In 2019, the construction of 1,200 dwellings was started within this framework.

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, and also for both rented and owner-occupied housing. The amount of subsidy depends on the household's income and size, as well as the dwelling's location. In 2019, some 380,000 households, representing some 14% of all households, received public housing support.

According to KTI estimations, non-subsidised rental housing stock amounted to some 525,000 dwellings at the end of 2018. The stock continues to increase mainly through new construction, and, to a lesser extent, through the termination of the restrictions on subsidised stock.

"All investor groups have increased their investments in residential properties"

Of professional investors, all investor groups, institutions, property companies and funds as well as foreign investors have increased their residential investments in recent years. Professional investors owned approximately 200,000 rental dwellings at the end of 2018. Finnish households and smaller companies have also increased their investments in rental dwellings in recent years, and the majority of the non-subsidised stock, some 325,000 dwellings, is owned by Finnish households or other private investors.

Despite a slight increase in volume, residential construction activity remained high in 2019. According to the estimates of the Confederation of Finnish Construction Industries RT, the construction of some 38,000 new dwellings was

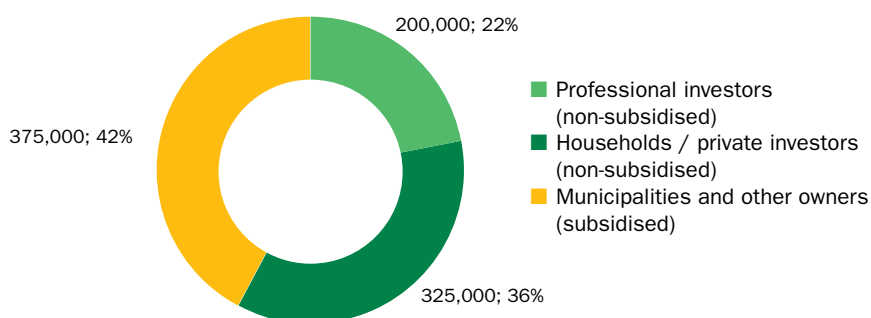
Owner-occupied and rented dwellings in the Helsinki metropolitan area

Size of household-dwelling unit					
Tenure status	1 person	2 persons	3 persons	4+ persons	Total
All owner-occupied dwellings	39%	55%	57%	65%	283,250
All rented dwellings	55%	39%	37%	30%	256,874
Right of occupancy dwellings and other or unknown tenure status	6%	6%	6%	6%	32,277

Source: Statistics Finland

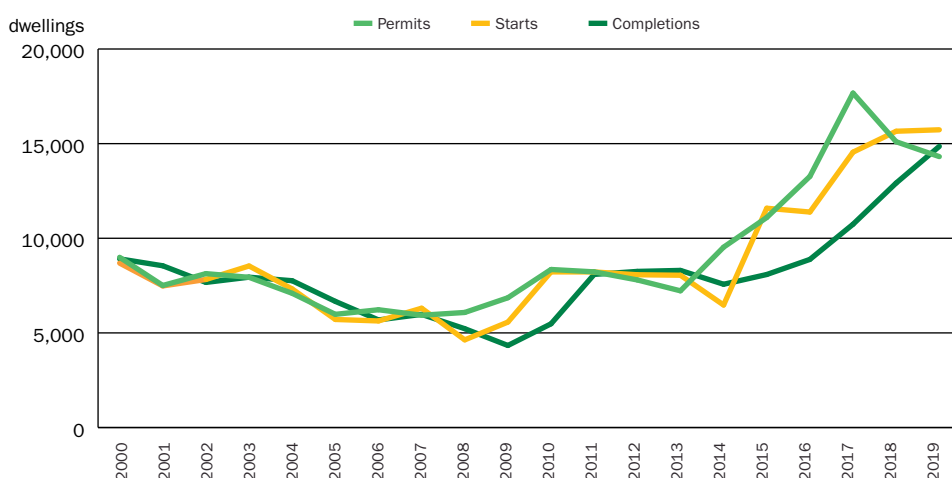
Ownership structure of rental apartments in Finland in 2018

Total 900,000 rental apartments



Source: ARA, Statistics Finland, Suomen Vuokranantajat, KTI

Residential construction activity in the Helsinki metropolitan area



Source: Statistics Finland

started during the year, down from the record level of 45,600 in 2018. Construction activity is weighted in the largest cities, in the Helsinki metropolitan area in particular. In the Helsinki metropolitan area, the construction of some 15,700 dwellings was started in both 2018 and 2019.

New housing construction has been concentrated on apartment buildings and in smaller apartments, in response to the housing demand supported by increasing urbanisation and the decreasing size of households.

Active construction of rental housing has been one of the drivers of the increase in construction volumes. According to KTI statistics, almost 13,000 new rental dwellings were under construction in major cities at the end of 2019. This figure only comprises apartment buildings, which will be 100% for rental use. In addition to these, a part of apartments located in normal housing production will end up in rental use through smaller investors. This proportion is not, however, captured by any statistics.

Of the rental dwellings under construction at year end, 9,000 are in the Helsinki metropolitan area. In 2018, some

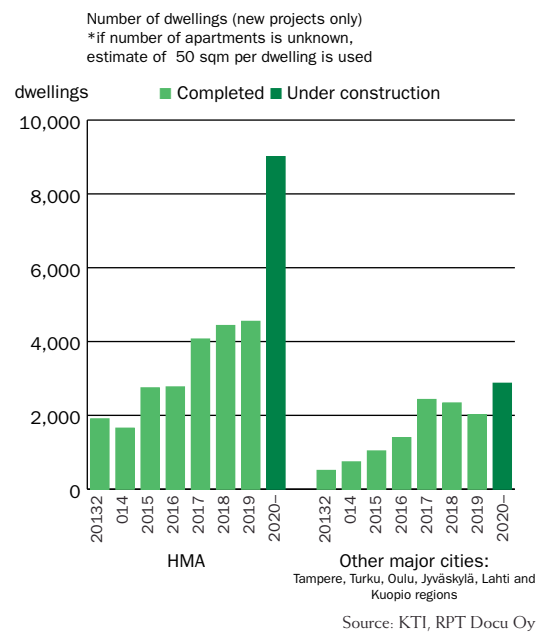
Residential construction activity

Started residential dwellings	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*	2020*
Apartment buildings	21,000	21,200	20,100	19,600	18,400	22,100	26,400	32,700	34,400	27,300	21,600
Non-subsidised	9,800	12,700	13,900	13,200	11,000	13,600	18,500	24,100	25,800	19,800	12,600
Subsidised	11,200	8,500	6,200	6,400	7,400	8,500	7,900	8,600	8,600	7,500	9,000
Single-family homes	12,500	11,600	9,800	8,100	6,700	6,500	6,700	7,400	7,200	6,900	6,700
Non-subsidised	12,500	11,000	9,800	8,100	6,700	6,500	6,700	7,400	7,200	6,900	6,700
Total	34,500	33,700	31,000	27,900	25,300	32,500	37,200	44,500	45,600	38,000	32,000
Non-subsidised	23,300	25,200	24,800	21,500	17,900	24,000	29,300	35,900	37,000	30,500	23,000
Subsidised	11,200	8,500	6,200	6,400	7,400	8,500	7,900	8,600	8,600	7,500	9,000

*Estimate

Source: Statistics Finland, ARA, RT

Rental residential dwellings completed 2013-2019 / under construction at the end of 2019



35% of all completed residential dwellings in the Helsinki metropolitan area were in buildings targeted 100% for rental use. In 2017, the share was even higher, 41%.

"Professional landlords represented 35% of all housing development in the Helsinki metropolitan area in 2018"

Players

The majority of subsidised housing stock is owned by the Finnish municipalities. Heka Oy, a company owned by the city of Helsinki, is the biggest player in this segment with almost 50,000 apartments, which accommodate some 92,000 residents. The city of Espoo's housing company

owns some 15,000 dwellings, and the other large municipal companies with 9,000-11,000 dwellings include those of Turku, Vantaa and Tampere.

In the non-subsidised rental residential market, the so-called professional investors have increased their holdings rapidly in recent years, currently comprising some 200,000 dwellings. In this segment, specialised residential investment companies Kojamo, SATO and Avara are the biggest players with 35,000, 25,000 and 8,000 dwellings, respectively.

Kojamo and SATO currently hold positions one and three in the ranking of the largest property investors in Finland. In recent years, both companies have been active in restructuring and increasing their portfolios through both property development and acquisitions. In 2019, Kojamo's holdings grew by some 1,000 completed or acquired dwellings, while the number of sold apartments amounted to 520.

SATO did not enter in any major transactions in 2019, but concentrated on its own development activities. At the end of September, the company had approximately 1,000 rental dwellings under construction. In the Avara portfolio, the main event was the sale of some 2,200 apartments to a joint venture between Starwood Capital Group and Avara. Avara's shareholders were the sellers in the transaction, and the apartments remained in Avara's management.

The largest pension funds are also significant players in the rental residential market. Residential properties are a recognised sector in the institutional investment market, and Varma, Ilmarinen, Keva and Elo, for instance, all have several thousand rental dwellings in their portfolios. Many institutions also have significant indirect exposure to residential investment through specialised property companies and funds. Institutional investors' residential investments are also currently boosted by the temporary possibility to use leverage in new housing development.

There are also several non-listed property funds specialising in residential property investment. Funds managed by for instance ICECAPITAL and LocalTapiola Real Estate are targeted at domestic institutions. In the past two years, some new open-ended special mutual investment funds targeted at private investors have been established, and these have



Photo: Skanska

Biggest foreign investors in the Finnish residential property market

INVESTOR	NUMBER OF RENTAL APARTMENTS IN FINLAND (ca.)
Round Hill Capital	4,800
Starwood Capital Group	2,200
Bayerische Versorgungskammer (BVK)	2,100
NREP	2,000
Fund managed by Morgan Stanley Real Estate Investing	1,600
Funds managed by AXA IM	1,500
AREIM	900
Aberdeen Standard Pan-European Residential Property	800
DWS	500
Fund Managed by Barings Real Estate Advisers	300
Catella Wohnen Europa	300

Source: KTI

attracted a lot of equity from both private investors and smaller institutions. Special funds that invest in residential properties and are also targeted at private investors are managed by OP Property Management, Ålandsbanken, Titanium and FIM, which is part of S-Bank.

"Foreign investors continued to increase their exposure in the Finnish residential market in 2019"

Foreign investors' interest in the Finnish rental residential investments has materialised in the past 2-3 years in several major transactions and also through some investors' own development activity. The largest foreign player is currently Round Hill Capital, who through its local brand Olo Asunnot owns some 4,800 rental dwellings across Finland. In 2019, the largest newcomer was Starwood Capital Group who are now the second largest foreign residential property investor. Also DWS's fund entered the Finnish property market by acquiring a portfolio of 500 apartments under construction

from construction company Lehto. Other foreign investors increasing their exposure in the Finnish residential market in 2019 included Catella Wohnen, NREP and AEW.

"Foreign investors owned some 17,000 rental dwellings in Finland at the end of 2019"

The market entry of foreign investors has been enabled by the domestic investors' increased willingness to restructure their portfolios. The growth of the residential fund sector has also boosted market activity, as terminations of funds increases the supply in the transactions market. Market entry is also made easier by the emergence of Finnish investment managers willing to work for and co-invest with foreign investors.

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

Rental practices

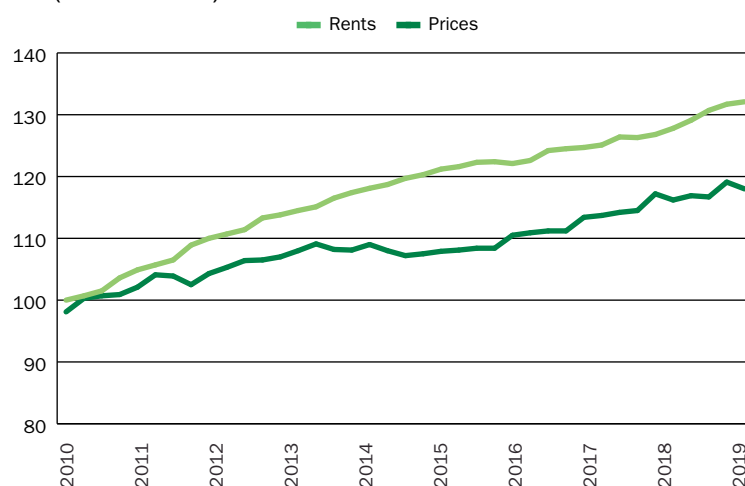
Rents for free market rental dwellings were gradually deregulated during the 1990s. Currently, there are no restrictions for rental periods or rental levels.

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

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.

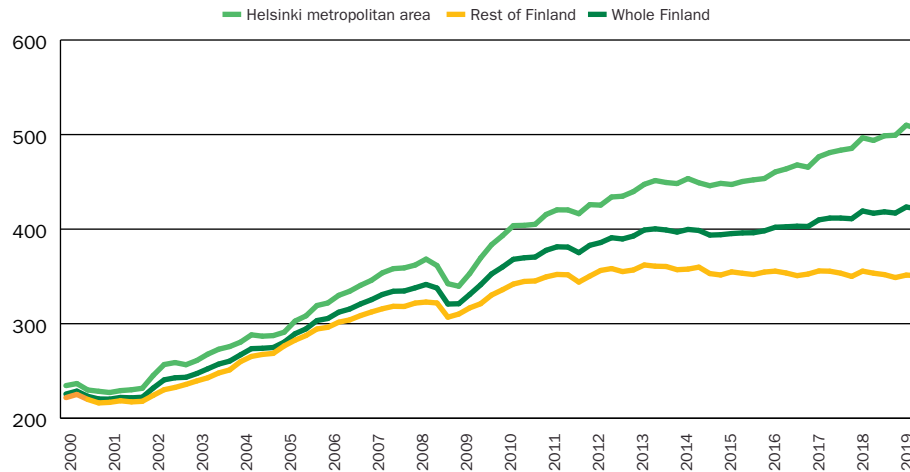
Rents are typically indexed, with the cost of living index being the most used. It is also common to agree on a higher

Residential price and rent indexes, Helsinki metropolitan area, index (2010=100)



Source: KTI and Statistics Finland

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



Source: Statistics Finland

level of rental increases, for instance a minimum of 3 or 5 per cent. This kind of indexation is used by professional investors in particular, and allows the landlord to adjust rental increases to prevailing market conditions in different areas and buildings.

"Residential rent regulation is liberal"

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

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

The residential market in 2020

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

Outside the Helsinki metropolitan area, rental demand is still exceeding the supply especially in the Tampere and

Turku regions, whereas in other large cities, the increasing supply has mitigated rental growth potential in recent years.

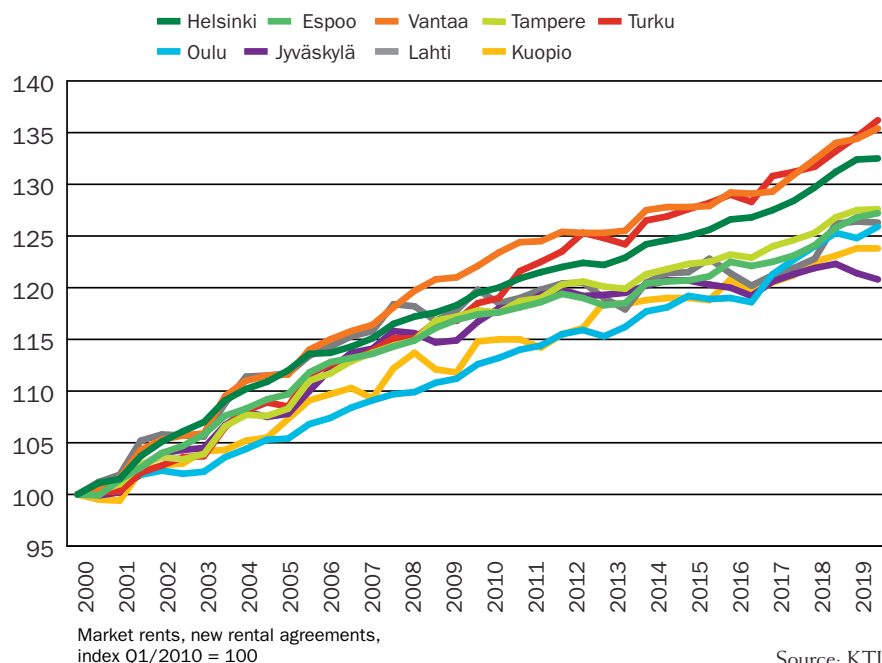
"Increasing polarisation characterises the Finnish residential market"

According to Statistics Finland, prices for old residential dwellings increased by some 1.9% in the whole country on average in 2019. In the Helsinki metropolitan area, prices increased by 3% on average, whereas elsewhere in the country, prices increased by 0.7%. Outside the Helsinki area, housing prices increased the most in Tampere, by 1.5%.

The Finnish housing markets are currently characterised by an increasing polarisation. The strongest development is shown by the Helsinki metropolitan area, where population growth and improving earnings support the positive development of housing prices and rents. In the second category, Tampere and Turku regions are also developing positively. Also in Oulu, housing market fundamentals remain relatively strong, but, due to an increasing supply, growth potential for both prices and rents is slightly lower than in Tampere and Turku. In the third tier markets in Jyväskylä, Kuopio and Lahti, increasing supply has mitigated the growth of both rents and prices, and the outlook remains stable or even slightly negative. Outside these main cities, the outlook for both housing prices and rents is mainly negative.

Pellervo Economic Research PTT forecasts that housing prices will increase by some 1% in 2020 in the whole country on average. The difference between different cities remains prominent. Housing prices are expected to increase by 3% in Helsinki, and by some 1% in Vantaa and Espoo. Outside the metropolitan area, prices are expected to continue increasing the most in Tampere and Turku, by 3% and 2%, respectively. Oulu and Jyväskylä are forecasted to show a slightly positive development, but in Lahti and Kuopio, they forecast prices to continue declining in 2020.

KTI Residential rent index, main cities



In the rental market, demand for rental housing remains strong, especially in the major cities. The demand is strengthened by continuing urbanisation and a decrease in the average household size. However, the development of rents has, to some extent, also differentiated between the Helsinki metropolitan area and Tampere and Turku regions on one hand, and the other main cities on the other hand. Regions outside the main cities are mainly outside the radar of the largest investors.

The KTI Rental Residential Index for new rental agreements showed an annual increase of 3.3% for the Helsinki metropolitan area, and 2.4% for the other main cities on average in 2019. Within the Helsinki metropolitan area, Helsinki, Espoo and Vantaa all showed similar growth rates, while among the other main cities, there were more significant differences.

Since the start of the KTI Index in 2010, rents have increased the most in Turku, Vantaa and Helsinki, by 32–36%. In Jyväskylä, Kuopio, Lahti and Oulu, the rents have increased by 21–26% during the 2010's.

Occupancy rates of residential properties have remained high. In the KTI Index database, the average financial occupancy rate for residential properties in 2019 remained stable at 96.8%. In the Helsinki metropolitan area, the occupancy rate was even higher, 97.4%.

In the RAKLI Residential Barometer, carried out in October 2019, the expectations for rental demand remained positive and rents for small apartments were expected to continue increasing in all main cities – except in Lahti, where rents were expected to remain stable. For larger apartments, the rental outlook was positive for the Helsinki metropolitan area, as well as for Tampere and Turku, whereas in Kuopio and Oulu, rents are expected to remain stable, and in Lahti and Jyväskylä, the outlook was slightly negative.

"Rental outlook remains positive for main cities"



In the professional property investment market, residential property portfolio transaction volume amounted to €1.6 billion in 2019. The largest transaction, comprising 2,200 apartments, was carried out by Starwood Capital Group. Otherwise, the transactions were rather small, and comprised mainly single assets or portfolios of some 500 dwellings or less. The buyers included foreign investors, domestic funds and investment companies. Institutional investors continued to increase their residential investments through their own development activity.

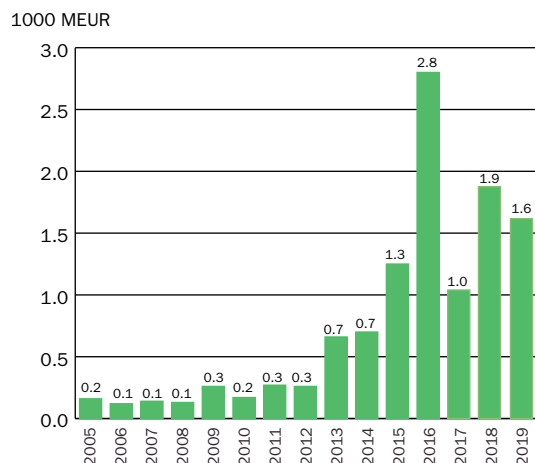
"Residential property transaction activity amounted to €1.6 billion in 2019"

In recent years, residential properties have established their position as the largest property sector in the Finnish professional property investment market. At the end of 2019, the total amount of residential properties in the investment market amounted to almost €25 billion, representing 32% of the total invested universe. The significant increase during 2019 was a result of both the increase in the volume through new development and brisk capital growth. The increase in capital values during 2019 was boosted by both increasing rents and decreasing yields. Both of the largest residential investors, Kojamo and SATO, also changed their property valuation technique from a transaction-based approach to an income-based method, and reported significant increases in their portfolio values.

"The largest residential investors changed their valuation technique to an income-based approach"

In the RAKLI-KTI Property Barometer, the yield for a residential property in a central location in Helsinki decreased to 3.6% in 2019, and in the RAKLI Residential

Volume of residential portfolio transactions



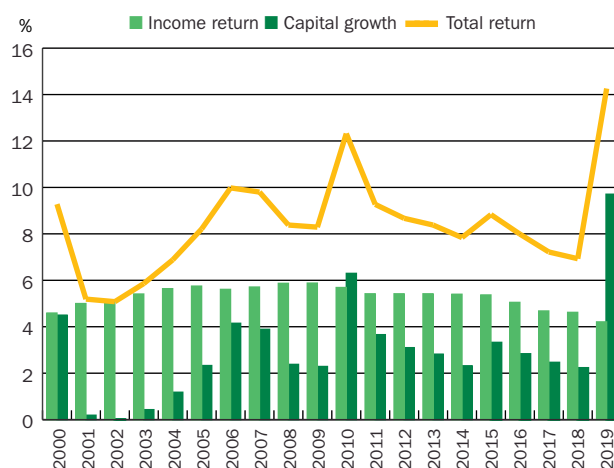
Source: KTI

Barometer, all types of investors were expected to continue increasing their investments in rental residential properties within the next year. The interest of foreign investors in particular was expected to continue to grow.

"Residential properties showed a brisk capital growth in 2019"

In the KTI Index, residential properties' capital growth has remained positive every year since the index's start in 2000. In 2019, residential was clearly the best performing sector with its total return of 14.3%. Capital growth was nearly 10%, boosted partly by the change in valuation technique by some large investors. Rental growth and a decrease in yields has also supported capital values. Due to an increase in capital values, income return decreased markedly, although rents continued to increase and occupancy rates remained high.

Total return on residential property investments 2000–2019



Source: KTI Index

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 and cultural buildings have also started to attract investors.

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

The demand for healthcare and other social sector properties is increasing with the ageing of the population. These services are mainly provided by the Finnish municipalities, but they are also increasingly outsourcing these to private sector service providers. Another factor increasing municipalities' interest in new solutions is the tight economic situation of many municipalities, which forces them to consider alternative options for their traditional practices and their own investments.

"Public use properties represent 7% of the total invested property market"

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), 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 13.2 million sqm at the end of 2018. The amount of healthcare properties in the investment market has increased rapidly in recent years. According to KTI estimates, the total market value of the healthcare properties owned by professional investors amounted to €3.6 billion, and the value of all public use properties to €5.1 billion at the end of 2019.

In other public use property segments, the amount of private investments is still rather small in relation to the total supply of these properties. Private sector investors own, for instance, various educational, children's day care, cultural and sports buildings, but these typically represent individual assets in investors' portfolios. In recent years, investments have also been made in, for instance, fire station buildings, a court house and in a property rented to the Finnish broadcasting company.

"Investor interest is expanding from healthcare properties to other sectors"

It is also increasingly common for public sector organisations to rent normal office premises from private sector investors. For instance, premises for various state agencies are currently leased from private sector investors.



Players

Private sector players in the public use property investment sector include a group of specialised foreign investors, domestic property funds and companies and institutional investors.

The largest domestic property funds investing in healthcare properties are managed by eQ Bank, Titanium Rahastoyhtiö and Evli Fund Management Company. eQ's special mutual fund eQ Hoivakiinteistöt has increased markedly in recent years and the market value of its property portfolio currently amounts to some €1.2 billion. Evli Healthcare I is structured as a limited partnership, and it has some €200 million of equity and a total investment capacity of €400 million. In January 2020, the total size of Titanium's healthcare property fund amounted to €554 million. Northern Horizon also manages funds investing in healthcare properties. Its newest fund, Nordic Aged Care, invests in healthcare properties across the Nordic region. OP Group also has a special investment fund investing in various kinds of public service properties, and by the end of 2019, the fund's property portfolio amounted to approximately €240 million. In early 2020, LocalTapiola established a new fund structure for public use properties. The anchor investors in the fund include pension insurers Keva, VER and Verso. The fund's target size is €500 million.

Hoivatilat is a listed property company that invests in healthcare, educational and children's daycare properties. The company has grown briskly in recent years, and, at the end of 2019, the company had a Finnish property portfolio worth €480 million, about half of which is invested in health care properties, with most of the rest invested in educational properties. The company has also just started operations in Sweden. In 2020, the shares of Hoivatilat were acquired by Aureit Holding, a company managed by the Belgian listed care property investor Aedifica. Hoivatilat shares will thus be delisted in 2020.

The Swedish Hemsö is the largest foreign investor in the Finnish public use property sector. The company continued to expand its Finnish property portfolio in 2019, and, at the end of the year, the value of its properties exceeded €900 million. Hemsö invests in healthcare, educational and other kinds of public use properties.

"There are several specialised investors in the public use property sector"

Also the Swedish SBB i Norden and Hemfosa are active in the Finnish market. Hemfosa's portfolio comprises mainly office properties rented for public agencies, as well as some care properties it acquired in 2019. SBB i Norden has invested in more than 40 care properties across Finland. Following the planned acquisition of Hemfosa by SBB i Norden, the combined value of the company's Finnish investments will amount to approximately €600 billion.

In addition to these specialised investors there are some general property investors who have also invested in public use properties, including, for instance, Deka Immobilien, who owns a health and wellbeing centre in Kalasatama,

Helsinki, and AXA IM – Real Assets, who owns a portfolio of care properties.

Market practices

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

The market in 2020

The transaction volume of healthcare properties amounted to €660 million in 2019, almost equal to the previous year's record level of €680 million. In addition, many investors continued investing in new development.

"Care property transaction volume amounted to €660 million in 2019"

The largest transaction was carried out by SBB i Norden, who acquired a €142 million care property portfolio from eQ's fund. Hemfosa carried out several transactions throughout the year, and acquired two care property portfolios, several office properties and one educational property.

Hemsö also continued to expand its Finnish portfolio in 2019. Early in the year, it acquired a €130 million portfolio of care and hospital properties from the City of Turku, whereby it also became a shareholder in Turku Technology Properties Ltd. Later in the year, Hemsö also committed to develop two fire station properties in Oulu, scheduled for completion in 2021 and 2023.

The total return on care properties amounted to 5.2% in 2019. Capital growth ended up slightly negative, and income return remained healthy and well above 6%.

4.5 Industrial / logistics market

Stock

The Finnish industrial and logistics property stock amounts to some 74 million sqm, according to Statistics Finland. Of this, some 9.4 million sqm is located in the Helsinki metropolitan area.

The industrial property market can be divided into various sub-categories with varying market structures and practices, as well as a heterogeneous investor and customer basis. Large industrial corporations' manufacturing properties are typically owner-occupied. In the investment market, light manufacturing properties and modern warehousing and logistics properties are the main sub-categories. Of these, the stock of logistics properties in particular has developed rapidly in recent years as a result of both changes in space demand and new traffic connections. In particular, the supply has increased in municipalities with good traffic connections and surrounding the Helsinki metropolitan area.

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

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

Players

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

Measured by capital value, some 85% of the total stock of industrial and warehouse properties is estimated to be owner-occupied. Big owner-occupiers include, for instance, large industrial and retail corporations. Also international logistics operators sometimes develop and own their own properties. The value of industrial properties in the invested property market is estimated at approximately €5 billion.

The Swedish listed property company AB Sagax continued to increase its Finnish portfolio through several transactions in 2019, and the company is currently the largest investor specialising in industrial and warehouse properties. At the end of 2019, its Finnish portfolio amounted to approximately €1.2 billion.

Logicor, owned by China Investment Corporation, together with its investment partners, is another significant investor in the Finnish logistics / industrial property sector. The company's Finnish holdings comprise 77 properties.

Other foreign investors invested in the Finnish industrial properties include, for instance, funds managed by DWS, NREP and Aberdeen Standard Investments.

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

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

Market practices

Because of the heterogeneity of both available stock and user needs, rental practices vary in the industrial and logistics markets. Rents are typically net or triple-net rents. Traditional Finnish gross leases are only used for smaller premises in multi-tenant buildings. In fixed-term contracts,

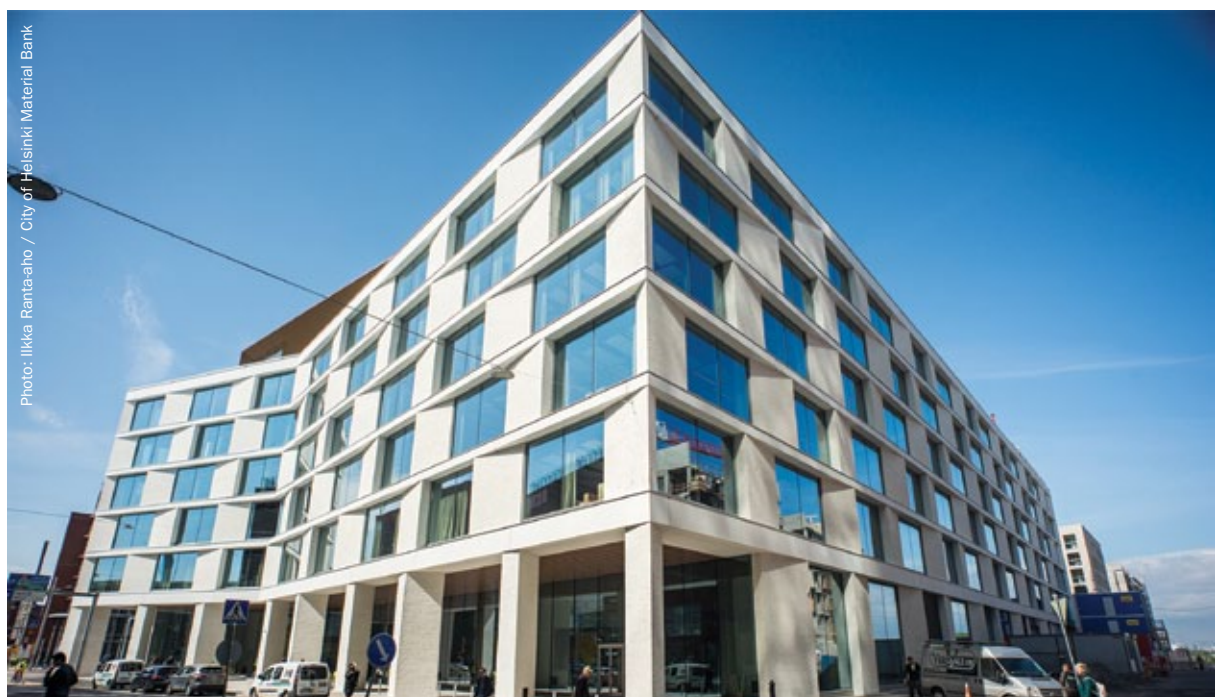


Photo: Ilkka Rantaaho / City of Helsinki Material Bank

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 2020

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

Industrial and logistics property rents have remained fairly stable in recent years. However, by international comparison, rental levels for modern logistics premises are relatively high, partly explained by high construction costs. In the KTI database, the upper quartile rental levels for the best logistics areas in the Helsinki metropolitan area and surrounding municipalities stand at some €10-11 per sqm per month. In the airport area in Vantaa, the prime logistics rents are typically slightly higher than this.

The transaction volume of industrial and logistics properties amounted to €0.4 billion in 2019, which represents a slight decrease from the previous year.

New development of logistics and industrial properties in the Helsinki metropolitan area has recently been concentrated in the airport area and its surroundings. In 2019, however, only some 25,000 sqm of new industrial and logistics properties were completed, and, at the year-end, another 32,000 sqm were underway. However, elsewhere in the Helsinki region, there were some 70,000 sqm of logistics and industrial premises under construction. The largest projects were carried out by the retailers Lidl and S Group in Järvenpää and Sipoo, respectively, as well as by NREP in Kerava. S Group's logistics centre in Sipoo will, after the completion of the latest phase, comprise more than 200,000 sqm of modern and highly automated logistics premises.

Outside the Helsinki region, there were more than 20,000 sqm of logistics and industrial property development projects underway in, for instance, the Tampere, Turku and Lahti regions. In Turku, DB Schenker is about to complete a logistics property, whereas in the Tampere region, the volume consisted of several smaller manufacturing

properties. In the Lahti region, there were two owner-occupied manufacturing properties underway, as well as a logistics property, where OP's fund is invested.

The Finnish industrial / warehouse property sector produced a total return of 8% in 2019 (7% in 2018). After several consecutive years of declining market values, capital growth turned slightly positive in 2019, and net income remained healthy at almost 7%.

4.6 Hotels

Stock

According to Statistics Finland, there are 634 hotels in Finland, comprising some 54,000 rooms. Of these, 130 hotels with almost 17,000 rooms are located in the Uusimaa region. According to KTI estimates, the market value of hotel properties owned by professional investors stood at some €3.5 billion at the end of 2019.

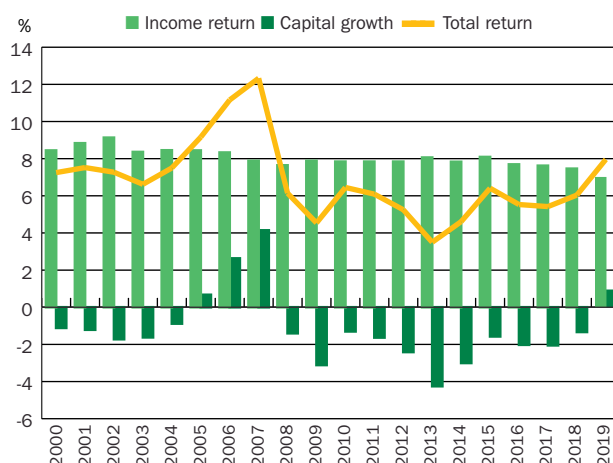
Players

The two biggest hotel property owners in Finland are CapMan's hotel fund and the Swedish Pandox. CapMan's hotel fund, originally established in 2008, was succeeded by a new fund in late 2019, and the 29 existing hotel investments formed the seed portfolio for the new fund. The new is open for new investments, and has a Pan-Nordic investment strategy. The Pandox portfolio comprises 14 hotels in Finland.

Most of the biggest institutions hold some hotel properties in their portfolios. Of the domestic funds, those managed by Exilion, eQ and Fennia, for example, have invested in hotel properties. LAK Real Estate and Ylva are examples of domestic players who have recently expanded their hotel property development and investment activity. Foreign investors in the Finnish hotel property market include Deka Immobilien, Corum, NREP and Balder. Some hotel operators, S Group in particular, also own some hotel properties.

The largest hotel operators include Scandic and S Group. Scandic currently operates 68 hotels in Finland. S Group

Total return on industrial property investments 2000–2019



Source: KTI Index

operates 50 hotels, which are located across Finland as well as in Tallinn and St Petersburg.

In 2019, the Finnish Kämp Collection Hotels were acquired by Nordic Choice hotels, which, after the acquisition, operates 13 hotels in the Helsinki metropolitan area under various brands. The chain will also open a new hotel in the airport area in 2023.

Of the other operators, Finlandia Hotels operates 14 hotels, also across the country. Other expanding but more concentrated operators include Lapland Hotels, who operates 18 hotels, mostly located in Lapland but now also expanding into the largest cities.

Finnish hotel property investors typically favour long, triple net rental agreements with a lease length of 15-25 years. The operator is responsible for all maintenance and operational costs. In some properties in city centres where there is a significant amount of other space, for example in retail use, responsibilities between the landlord and tenant might be allocated differently. Management agreements where the investor carries part of the hotel's business risk and is closely involved in property management are not common in Finland.

The hotels market in 2020

According to Statistics Finland, the occupancy rate of hotel rooms was 56.2% in the whole country on average in 2019, up from 55.3% in 2018. In the Uusimaa region, the occupancy rate was clearly higher, 68.4%.

According to Statistics Finland, the number of nights spent in the Finnish hotels continued to grow to over 23 million in 2019, representing a growth of almost 4% compared to the previous year. The number of nights spent by domestic travellers increased by 4.3%, while the increase of foreign tourists amounted to 2.9%.

Russians remained the largest tourist group despite a slight decrease in the number of nights spent in Finland. The increasing tourist groups included Chinese, French and Italian travellers, while the number of tourists from the UK declined in 2019.

The two main growth areas for tourism in Finland include the Helsinki metropolitan area and Lapland, representing 51% and 30%, respectively, of all foreign travellers. In 2019, the number of nights spent by foreign tourists in the Uusimaa region increased by some 1.5% compared to 2018, supported by both business and leisure travellers. In Lapland, the number of hotel nights increased by 1.3% in 2019 compared to the previous year.

Hotel supply is increasing markedly in the Helsinki metropolitan area in particular. In total, some 40,000 sqm of hotel premises were completed in the Helsinki metropolitan area in 2019. At the year-end, there were almost 90,000 sqm of hotel space under construction, and several major projects planned to be started in 2020.

In the Helsinki CBD, several old office buildings have been or are being converted into hotel use. The main hotel completions in 2019 included the 132-room Lapland Hotel

Hotel development projects in central Helsinki



Bulevardi, as well as NREP's two Noli Studios, one of which is located in Katajanokka and the other in Sörnäinen. All these hotels were converted from office buildings. The new 430-room Original Sokos Hotel Tripla also opened in early 2020. Exilion's fund has invested in the property.

In the next couple of years, several thousands of new hotel rooms will come to the market in the Helsinki metropolitan area, both through new construction and conversion projects.

Hotel conversion projects that are presently underway in Helsinki include the new 500-room Scandic at the main railway station, the U14 hotel in Unioninkatu, Maestro Hotel in Kamppi, as well as the Folks Hotel in Vallila. Exilion's fund is the investor in the Scandic project, and OP's fund has invested in the Folks Hotel property. U14 is being developed by Barings Real Estate Advisers.

New hotel development projects are also currently underway in Jätkäsaari and Ruskeasuo. In Ruskeasuo, a 422-room Valo Hotel & Work concept will be opened in the latter half of 2020. Shares of the hotel are offered to investors, and the return is based on the occupancy rate of the rooms. The concept also offers workspace and meeting facilities, also operated by the hotel operator, and part of the investors' return is based on the sales of these services.

"Hotel construction continues to be active in the Helsinki metropolitan area"

In Jätkäsaari, one hotel project is currently underway, and five others are being planned. In total, these hotels would comprise more than 1,000 rooms.

In the Helsinki CBD, Ylva is about to start the development of the traditional Seurahuone hotel property and expand the hotel to the neighbouring properties. The new 224-room Grand Hansa Hotel, scheduled to be opened in 2022, will be part of the Unbound Collection by Hyatt chain and operated by Primehotels. Ylva will also develop a hotel property in Hakaniemi as part of its Lyyra-project.

In late 2019, Varma published the plan to redevelop an office property in Annankatu into hotel use. The hotel 350-room Scandic Avenue hotel will be opened in 2022. Varma is also carrying out a major redevelopment project in its traditional Torni hotel property in the Helsinki CBD.

Finland's largest hotel will be developed at the Helsinki-Vantaa airport by LAK Real Estate. The 13-floor hotel will comprise 711 rooms and operated by Nordic Choice hotels. The project is scheduled for completion in 2023. Another new hotel project is being planned by Elo, who will develop an office and hotel property in the area between Keilaniemi and Otaniemi in Espoo. The 260-room hotel will be operated by Sokotel and scheduled for completion in 2022. There are also other planned hotel projects, the schedule of which has not, however, been confirmed.

"Supply of hotels increasing in Tampere and Turku"

Outside the Helsinki metropolitan area, the largest completed project in 2019 was the Marriott Hotel in Tampere, which is owned by Keva. Also in the Tampere region, a new hotel was opened in Kangasala in 2019. Also in the Tampere Deck and Arena project, there is a 285-room hotel underway.

Hotel construction activity is high also in Turku, where two hotels will be completed in the first half of 2020. In Kupittaa, an almost 200-room Original Sokos Hotel will be opened, where the local Rausanne is the investor. In the developing Kakolanmäki area, the Hotel Kakola will also be opened in summer 2020. In the city centre, the traditional Hamburger Börs property has been demolished, and a new 300-room hotel will be developed by LocalTapiola. Scandic Hotels will be the operator of the new hotel. Also the existing Marina Palace Hotel is being extended by another 100 rooms.

In other major city regions, the only hotel project underway is the Oulu Torihotelli project.

"Hotel properties continue to produce a healthy investment return"

Hotel properties produced a total return of 7.2% in 2019, down from 8.4% in 2018. Both capital growth and income return decreased compared to the previous year.

Hotel property transaction volume remained low in 2019, and only amounted to some €50 million. There were only four transactions captured by the KTI transaction follow-up.

5 Property markets in different regions

5.1 Main city regions in Finland

The importance of the largest city regions has increased rapidly in the past couple of decades. In 1990, some 60% of the Finnish population lived in urban areas, and by 2017, the share has increased to some 70%. Four out of five Finns currently live in the 20 largest city regions, and the share of 10 largest city regions amounts to over 60 per cent.

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

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

The concentration of the Finnish population in the largest cities is expected to continue, which will lead to an increasing differentiation between growing and decreasing city regions. According to the latest estimates, there will be only three city regions that will significantly grow their population between 2017 and 2040: those of Helsinki, Tampere and Turku. Oulu and Jyväskylä regions are expected to show moderate growth, and the population in the Kuopio region will remain stable. Population of Lahti, Joensuu, Seinäjoki and Vaasa regions is expected to decrease between 2017 and

2040. In total, the share of the ten largest city regions of the total population is expected to increase from less than 62% in 2017 to over 67% by 2040.

"Two thirds of the population are expected to live in the ten largest city regions in 2040"

Population growth has and is expected to be fastest in the Helsinki region, which currently accommodates some 1.5 million inhabitants. The region comprises 14 municipalities, and the main cities in the region include Helsinki, Espoo and Vantaa, which, together with the smaller city of Kauniainen, form the Helsinki metropolitan area with almost 1.2 million inhabitants. The population of the city of Helsinki itself amounts to 654,000 inhabitants. In recent years, the population of the Helsinki region has been increasing by almost 20,000 inhabitants per annum, with net migration from both other parts of Finland and from abroad being the main driver for the growth.

"Only three main city regions are expected to show significant growth"

According to MDI, a consultancy firm for regional development, by 2040, one third of the Finnish population, some 1.8 people, is forecasted to be living in the Helsinki region. The Helsinki region currently represents some 27% of Finland's total population, 37% of the country's total GDP and 32% of all jobs, even as the land area represents only 1.2% of the whole country.

The Tampere region, located some 170 km north of Helsinki, currently accommodates some 390,000 inhabitants, of which some 238,000 live in Tampere itself. In addition to Tampere, the region comprises seven municipalities. The region has shown strong growth in recent years. Between 2017 and 2040, MDI expects the population in the Tampere region to grow by 9% and amount to some 439,000 inhabitants.

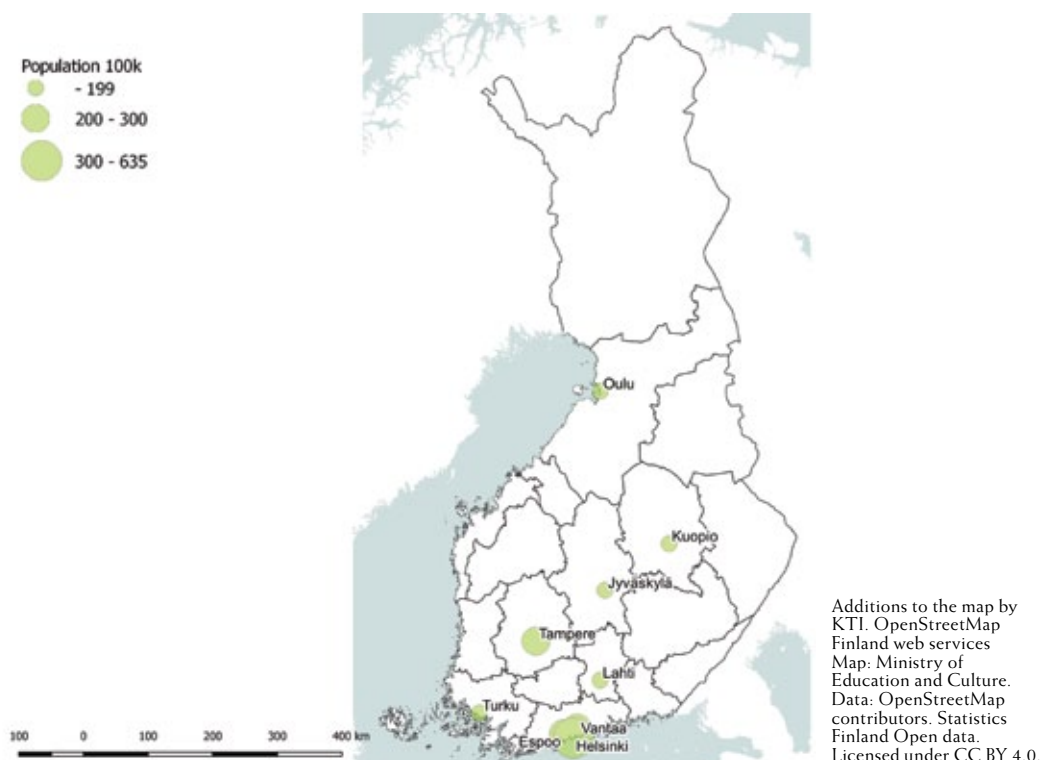
The Turku region is located in the south-western corner of Finland, some 160 km west of Helsinki. The population of Turku amounts to 193,000 inhabitants, and that of the whole region to some 330,000. The region consists of eleven municipalities. In the past decades, the region's growth has lagged that of Tampere, but by 2040, the region is expected to grow by almost 10 per cent, and the number of inhabitants to amount to almost 360,000.

10 largest city regions in Finland: population in 2017 and forecast for 2040

10 largest city regions in Finland: population in 2017 and forecast for 2040	2017	2040
Helsinki	1,539,900	1,833,300
Tampere	402,500	438,900
Turku	328,100	359,800
Oulu	248,300	265,000
Lahti	201,200	189,600
Jyväskylä	184,300	193,500
Kuopio	139,900	142,200
Seinäjoki	126,900	120,900
Joensuu	124,400	117,800
Vaasa	101,000	98,700

Source: MDI

Main city regions in Finland 2020



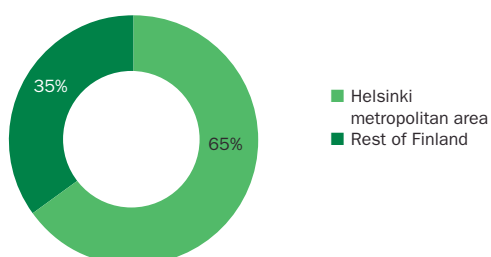
The southern Finland's three large city regions – those of Helsinki, Tampere and Turku – form the so called “growth triangle”, which currently accommodates 49 per cent of the population and 53% of all private sector jobs, and accounts for 55.5% of the total GDP. It is also an increasingly connected employment area for 1.5 million people, where well-functioning public transport has an important role in connectivity and economic development. Therefore, the development of rail connections between these cities are currently discussed actively, and both the Turku and Tampere regions promote the idea of an hour's train connection to Helsinki. Both projects are still in the early planning phase and there are no decisions for the actual construction of or financing for the connections.

“Helsinki, Tampere and Turku regions make up the ‘growth triangle’ of Finland”

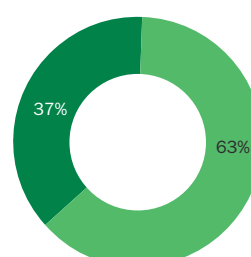
Oulu, located some 600 km north of Helsinki, is the largest city in northern Finland, whose influence covers almost half of the total area of Finland. There are currently some 205,000 inhabitants in the city itself, and approximately 250,000 in the whole region. The growth of the region's population is expected to continue for the next decade, but is expected to start declining in the 2030s, and, by 2040, some 265,000 people are expected to live in the region, according to MDI.

The Finnish property investment market: Helsinki metropolitan area and rest of Finland

The Finnish property investment market

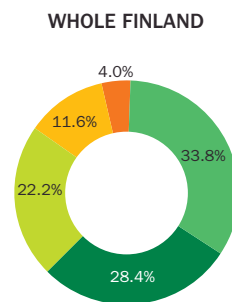
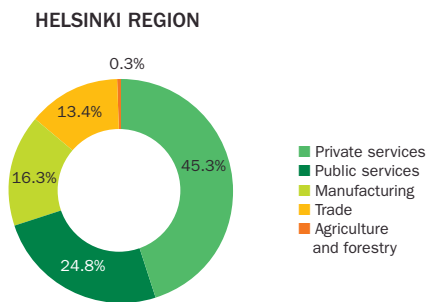


Transaction volume 2019



The structure of the economy

Percentage of jobs, 2018



Source: Helsinki Region Chamber of Commerce

Jyväskylä is located in the centre of Finland, some 270 north of Helsinki, at the junction of several important national road and rail connections. The city accommodates some 142,000 inhabitants, and the whole region some 185,000 people. The population of the Jyväskylä region is also expected to continue to grow until the 2030s, but after that, the development is forecasted to turn negative, and by 2040, some 193,000 inhabitants are expected to live in the region.

Lahti is the eighth largest city and the region is the sixth largest city region in Finland with some 120,000 inhabitants in the city itself and slightly over 200,000 in the region. Lahti is located 104 kilometers north-east of Helsinki, and a significant part of the population commutes to work in the Helsinki metropolitan area. Despite its favorable location, Lahti is the only large city region where the population is expected to decrease between 2017 and 2040. MDI forecasts that the number of inhabitants in the region in 2040 will amount to some 190,000.

Kuopio is located in eastern Finland, some 400 kilometers north-east of Helsinki. There are some 119,000 inhabitants in the city, and some 140,000 in the whole region. In the Kuopio region, the number of inhabitants is also expected to grow until the early 2030s, but to start to decline after that, and some 142,000 people are expected to live in the region in 2040.



5.2 The Helsinki metropolitan area

The Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen, is the dominant region in the Finnish property market. Its dominance is the most prominent in the office markets: its 8.7 million sqm office stock accounts for some 44% of that of the whole country, and measured by value, its share exceeds 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.

Most major company headquarters as well as government agencies are located in the Helsinki metropolitan area. The economic base of the region is wide, with information industries, professional and financial services, wholesale trade, logistics, high-tech industries and research and development occupations being the largest occupations. In the Helsinki region, the proportion of jobs in the private service and retail trade sectors is significantly higher than across the entire country, and stands at 58%. 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.

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 2014 and 2019, total production increased by 14% in the Helsinki region, while in the whole country, the growth amounted to 9%. The number of jobs has also increased significantly more in the Helsinki region.

The region's growth also fuels construction in the Helsinki metropolitan area. The growth of residential construction continued in 2019: between September 2018 and September 2019, some 18,000 new dwellings were completed in the Helsinki region, which is the highest number in the 2010s. Some 6,000 of the new dwellings are located in Helsinki. In recent years, the shares of Espoo and Vantaa of the region's new residential construction have exceeded these cities' relative share of the total residential stock and population.

Residential construction has been concentrated in apartment buildings and in smaller dwellings, and supported by the

investment demand for rental residential dwellings. Some 4,700 of the new dwellings were buildings targeted 100% for rental use. Going forward, residential construction volumes are expected to decrease slightly, but still remain at a relatively high level.

Investments in the public transportation network support the growth and construction in the Helsinki metropolitan area. After the 2015 completion of the Ring Rail Road, which connects the Helsinki airport and several significant residential areas with the city centre, and the 2017 completion of the Western Metro line to Matinkylä in Espoo, the next main rail construction projects include the extension of the metro line to Kivenlahti and the construction of the so called Rail Joker, a fast tram connection from Keilaniemi in Espoo to Itäkeskus in Helsinki. The metro connection is planned to start operations in 2023, and the Rail Joker is expected to be completed in 2024.

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

Other public transport development projects of the early 2020s include several developing tram lines, to, for example Jätkäsaari and Hernesaari as well as between Kalasatama and Pasila. The construction of Kruunusillat, a light traffic and tram bridge connecting the inner city with Kalasatama, Laajasalo and Korkeasaari is also expected to be started in 2021 and completed in 2026. These projects enable more residential construction in the areas and reduce the need for private cars in the inner city.

"Public transport connections are being developed in Helsinki"

Another major infrastructure project in planning is a 90-100-kilometer railway tunnel between Helsinki and Tallinn in Estonia in order to form a twin city with some 3 million inhabitants. The total cost of the tunnel is currently estimated at some €15-20 billion. The tunnel would connect Finland to Rail Baltica and form a European Gateway, and would be used both for freight and passenger traffic. It would also connect the Tallinn airport with the Helsinki-Vantaa airport. At the moment, there are two independent initiatives around the project. According to the current plans, the project is planned to be financed by private sources.

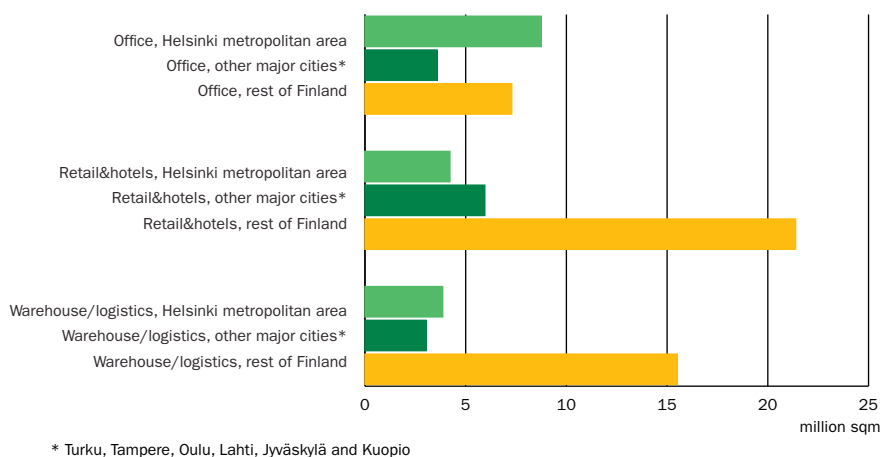
Within the Helsinki metropolitan area property markets, the Helsinki central business district (CBD) has an indisputable position as both the prime office and prime retail market location. Outside the CBD, other prime office locations include Ruoholahti and the Pasila-Vallila-Kalasatama areas in Helsinki,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

In the retail markets, in addition to the CBD, the most important areas include the regional centres of Leppävaara, Tapiola and Matinkylä in Espoo and Tikkurila and the surroundings of the airport in Vantaa. Main shopping centres are located near main rail or road connections in Pasila (Mall of Tripla), Itäkeskus (Itis), Kalasatama (Redi), Kannelmäki (Kaari), Leppävaara (Sello), Aviapolis (Jumbo), Tapiola (Ainoa) and Matinkylä (Iso Omena), as well as in the Helsinki CBD (Kamppi, Forum, Kämp Galleria, Citycenter and Kluuvi).

"Helsinki metropolitan area office stock totals 8.7 million square meters"

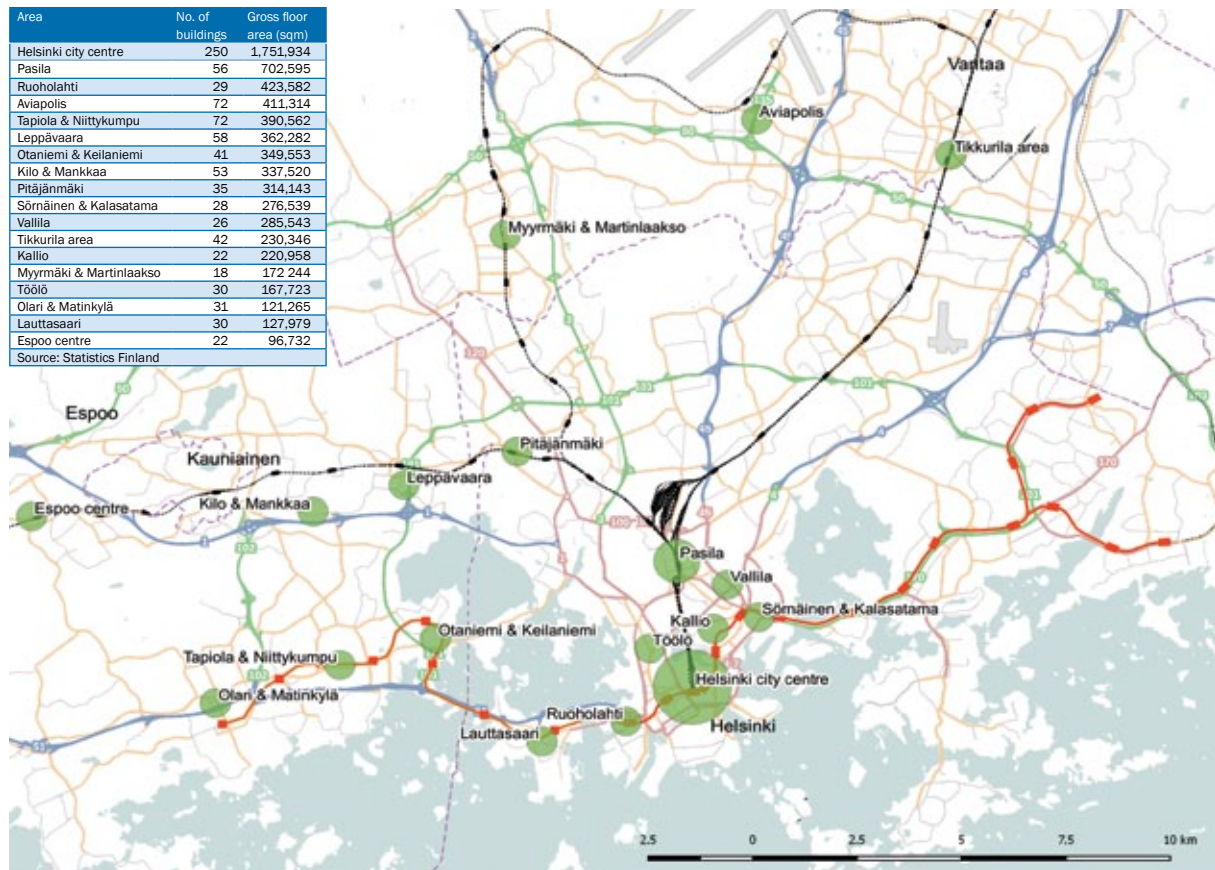
Of around 8.7 million sqm total stock of offices in the Helsinki metropolitan area, almost 6 million sqm is located in Helsinki. Espoo accommodates about 1.8 million sqm and Vantaa about 1 million sqm of offices. Retail space stock of the Helsinki metropolitan area amounts to about 4.2 million sqm. Of this, about 2.1 million sqm is located in Helsinki. In recent years, office stock has remained stable or

Commercial property stock by region and property sector



Source: Statistics Finland

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.

even reduced slightly due to active conversion construction, whereas the retail property stock has continued to increase as a result of active new construction.

5.1.1 Helsinki

The current city master plan of Helsinki is based on a prediction that, by 2050, the population in Helsinki will grow to some 860,000 people and the number of jobs will amount to 560,000. The master plan is based on a vision of the increased building density in the inner city, as well as zoning of new areas – for instance the Malmi airport area and parts of the central park – into residential use.

Areas with increasing commercial property supply include, for instance the extending Pasila–Vallila–Kalasatama axis, as well as the traditional office and industrial areas Pitäjänmäki and Herttoniemi.

The Helsinki Central Business District

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

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

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.

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, as well as the new central library, which was completed in late 2018. Further in Töölö, towards Pasila, YIT is planning the Helsinki Garden project in Nordenskiöldinkatu. The project is a hybrid property complex comprising an events arena, hotel, restaurants and other services as well as retail premises.

In Katajanokka, next to the Market Square, Varma is currently planning to develop a wooden office and hotel property with a gross area of some 20,000 sqm with estimated completion in 2023. The main tenant in the office premises will be the forest industry company Stora Enso.

"Major office development projects are planned to be started in the outskirts of the CBD"

At the other side of the CBD, in Kamppi, a consortium led by YIT and pension insurer Keva are planning the redevelopment of the old Maria hospital area. The construction of the Growth Company Campus project is scheduled to be started in late 2020 and to comprise a gross area of some 56,000 sqm.

Transaction activity in the Helsinki CBD remained high in 2019. Transactions in the most central locations included two office acquisitions by Union Investment in Eteläesplanadi and Aleksanterinkatu, the purchase of Keskuskatu 1 by Nordea Life Assurance, as well as the acquisition of the Atlas building in Aleksanterinkatu by a fund managed by BlackRock. Of these, the largest was the €148 million acquisition of Aleksanterinkatu 19 office and retail property by Union Investment, where Sponda was the vendor.

On the outskirts of the CBD, a fund managed by Schroders acquired an office property in Antinkatu, Quadoro Doric's fund in Yrjönkatu, and Conficap invested in an office building in Kalevankatu.

The yields for prime offices in the CBD have continued to decrease in 2019. In the RAKLI-KTI Property Barometer carried out in October 2019, the prime office yield stood at 3.7% on average. Transactions of the very best properties have been closed on levels well below 3.5%.

The investment performance of Helsinki CBD offices is also supported by positive rental growth. The KTI Rental

Index for new rental agreements for Helsinki CBD offices increased by some 0.4 per cent per annum in 2019. However, the rents for the best premises increased markedly, and the upper quartile of new office rental agreements stood at over €36/sqm/month, more than 3 euros higher than in 2018. The average rent in new rental agreements amounted to almost €31/sqm/month.

"Office rents and occupancy rates continue to increase in the Helsinki CBD"

Increasing space demand has also resulted as an increase in occupancy rate in the Helsinki CBD, which stood at almost 95% in the KTI database in September 2019, having been under 90% in late 2018.

As a result of both decreasing yields and increasing rents, capital values in Helsinki CBD offices continued to increase in 2019.

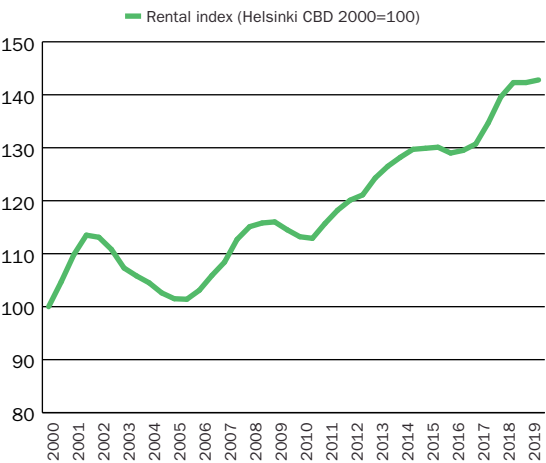
"The supply of hotels will increase through several conversion projects in CBD"

Helsinki CBD (KTI Office rental index area)



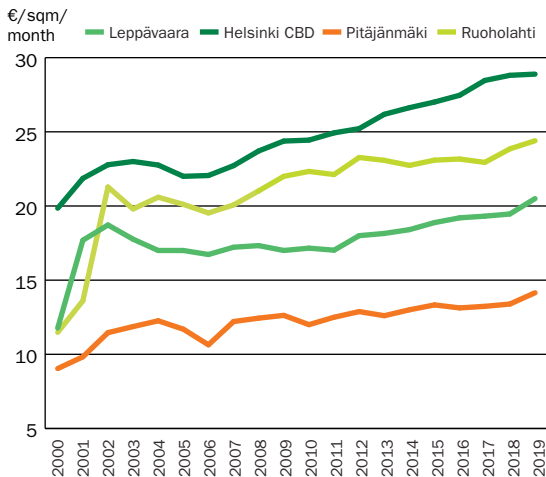
Additions to the map by KTI.
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KTJ Rental index, Helsinki CBD offices



Source: KTJ

Median office rents, all agreements



Source: KTJ

In the Helsinki CBD, several office buildings have recently been or are currently being redeveloped to hotel use. Demand for hotels is supported by an increasing number of tourists and conference guests visiting the Helsinki metropolitan area. At the main railway station, Exilion's fund is converting office premises into a 500-room Scandic hotel, and in Unioninkatu, Barings is converting an office property into a 117 room U14 hotel. Both projects will be completed in 2020. Another large conversion project is underway at

Fredrikinkatu, and in the vicinity, at Annankatu, Varma has published to start converting its former head office into hotel use. Opposite to the main railway station, Ylva, who manages and develops the properties owned by the Student Union of the University of Helsinki, is renovating the Kaivopiha block, which will accommodate the first Hyatt chain hotel in Finland. The Grand Hansa Hotel, part of The Unbound Collection by Hyatt, will comprise 224 rooms and will be opened in 2022.

Prime retail area in the Helsinki CBD



Additions to the map by KTJ.
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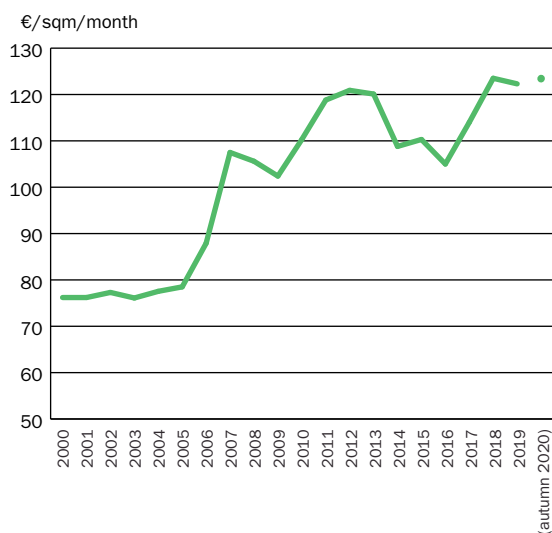


The main shopping centres in the Helsinki CBD include Kamppi and Forum in the Kamppi area, Kämp Galleria and Kluuvi in the Kluuvi area, and Citycenter next to the main railway station.

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

Demand for retail space remains strong in the CBD, and in the KTI rental database, the occupancy rate of retail space remained at about 95% in 2019. In the RAKLI-KTI Property Barometer, carried out in October, rent for a prime retail space was assessed at €122 per square meter. The outlook for rents also remains positive, whereas in all other areas, rents are expected to decline.

Prime retail rent in the Helsinki CBD



Source: RAKLI-KTI Property Barometer

However, also in the CBD, the tenant base of retail premises has changed in recent years due to the changing consumer demand and behavior. The supply of cafes and restaurants and other consumer services has increased, while some international fashion brands and local retailers have had to close their shops due to space occupancy affordability issues.

Ruoholahti – Salmisaari

Ruoholahti is a modern office area near the Helsinki CBD at the starting point of a major western radial route. Ruoholahti and the adjacent Salmisaari area accommodate a variety of businesses, such as high-tech and industrial companies, business consultancies, banks and insurance companies.

In the KTI database, the average office rent in Ruoholahti currently stand at some €24 per sqm per month, and the upper quartile has increased to over €26 per sqm. Because of the strengthening demand, the occupancy rate has increased markedly during the past year, and stood at some 90% in September 2019.

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, which is operated by Kesko Group.

In 2019, pension insurer Varma strengthened its position in Ruoholahti by acquiring a 7,000 sqm office property at Itämerenkatu, located next to another property it owns. Other transactions in the area included an office property acquisition by eQ's fund in Itämerenkatu and the office, retail and care property next to the metro station, which was acquired by Trevian's fund.

"Antilooppi acquired nine properties in Ruoholahti in early 2020"

In early 2020, Sponda sold nine commercial properties in Ruoholahti, comprising 100,000 of lettable space, to Antilooppi. The transaction is expected to be confirmed



Photo: Rolfi Rekolmaa / City of Helsinki Materialbank

during the spring, after the approval by competition authorities.

Office construction in Ruoholahti is currently limited to some major redevelopment projects in existing buildings. In the summer of 2020, NCC is to start the construction of an office building under its new We Land concept, where Deloitte's Finnish head office will be the main tenant. The property has a lettable area of 21,000 sqm and it is scheduled for completion in late 2022.

Jätkäsaari

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

By 2030, Jätkäsaari is planned to accommodate some 21,000 residents and 6,000 jobs. The area accommodates both subsidised and non-subsidised rental housing, as well as owner-occupied projects. Both residential and commercial property construction continues to be active in the area. For instance, the development of SRV's Wood City block is underway with the first residential buildings completed in 2019, and one office building being scheduled for completion in the latter half of 2020. The block will also comprise a hotel building, planned to be started in 2020. There are also four other hotel buildings being planned in the area.

"Several hotel projects are being planned in the Jätkäsaari area"

In the old dock and industrial Telakkaranta land area, next to Jätkäsaari, the new 17,700 sqm office property for the European Chemicals Agency was completed in late 2019. Skanska sold the project to HansaInvest Real Estate in 2019 for €135 million. The area will also accommodate residential buildings, as well as a promenade along the seashore with cafes and restaurants.

Next to Telakkaranta is the Hernesaari area, which is being transformed from traditional industrial and harbour space to a residential area that will also serve leisure and tourism. The area is planned to accommodate some 7,500 inhabitants and will be the main harbour for cruise ships visiting Helsinki.

Hakaniemi

North-east from the Helsinki CBD, the traditional Hakaniemi area is undergoing major redevelopment. Main players in the area include, for instance, property investment and development company Antilooppi and the Helsinki University Student Union's property arm Ylva. By the Hakaniemi square, Antilooppi is currently redeveloping the traditional Elanto department store. As part of the project, the adjacent old office building will be demolished and new premises will comprise retail, restaurant and office space. In the vicinity, the former office properties of the City of Helsinki are being demolished, and will be replaced by Ylva's project Lyyra. The project, which comprises office and retail premises, a hotel and accommodation premises for the university's foreign researchers, is planned to be completed by 2022.

"The traditional Hakaniemi area is undergoing major redevelopment"

Under the Hakaniemi square, Antilooppi is planning to develop parking facilities for 450 cars. Public traffic connections will also be strengthened through the completion of the Hämeenkatu renovation project, as well as the reconstruction of the Hakaniemi bridge. In the vicinity, at Haapaniemenkatu, Skanska is planning to start the development of a hybrid office, retail and residential property in 2021. The area's city plan is being renewed, with new hotel and residential properties being planned on the waterfront.

Pasila

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 will connect rail, metro and the new Kruunusillat high-speed tram line.

“Pasila is the key area for commercial property development in Helsinki”

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

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

“The Mall of Tripla shopping centre was opened in 2019”

Pasila is currently under major redevelopment. In the Central Pasila area, in the surroundings of the current railway station, the three-block Tripla project is currently being carried out by YIT. The 85,000 sqm Mall of Tripla shopping centre was completed in October 2019, and the adjacent Sokos Hotel Tripla comprising 430 rooms was opened in January 2020. The Tripla Workery offices, comprising a gross area of 50,000 sqm, will also be completed in early 2020. YIT remains as a co-owner in the shopping centre, together with some domestic institutions and funds. The hotel property is owned by a fund managed by Exilion, and the office properties have been sold to Commerz Real.

Next to Tripla, in the Central Pasila area, YIT has also won the design and construction competition of the “Helsinki High-Rise” project, with their proposal called Trigoni. In the western part of the project, there will be five buildings, the highest of which is planned to rise to some 200 meters, comprising residential, hotel, office and retail premises. The detailed plan should be confirmed in 2020, and construction is estimated to be started in 2022. The whole project is estimated to be completed by the end of the 2020s.

There are also major plans to develop the Ilmala and Northern Pasila areas north of the railway station. These areas will

accommodate both residential and office properties, and current new construction is concentrated on residential projects.

The amount of vacant office space continued to decrease in Pasila in 2019. Rental levels vary significantly between older and modern stock in the area. In KTI's rental database, the average rents stand at above €20 per sqm in 2019, and the occupancy rate was 94%. In 2019, the transactions in the Pasila area included, for instance, the acquisition of an office property in Western Pasila by a fund managed by Aktia, and the transaction of Sweco's head office in Ilmala, where GLL's fund was the buyer. In Western Pasila, eQ's care property fund acquired an €47 million multi-tenant Rubik property from NREP in December.

Vallila

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, head offices of banks and telecommunications companies. Vallila also accommodates a heterogeneous office stock with significant variation in rents in older and modern premises. There is plenty of vacant space in the older office stock, where the occupancy rate in the KTI database is below 80%, with rents standing at some €15 per square metre on average.

NCC is currently developing the second and third phases of their Fredriksberg project, comprising a total gross area of some 18,600 sqm. The buildings are due for completion in the second quarter of 2020, and KanAm's fund invested in the project in 2019. In the vicinity, a redevelopment project is underway in the S Group's head office Ässäkeskus. Varma sold the property in 2019 to a company managed by Pareto Business Management for €130 million.

The old VR machine workshop property area south of the Pasila railway station is also undergoing a major redevelopment, and in summer 2020, a 150-room Folks Hotel will be completed in the area. OP's fund has invested in the project.

In early 2020, OP Group sold its 74,000 sqm head office property, which was completed in 2017 in Vallila to a consortium comprising two South Korean investors – NH Investment & Securities (NHIS) and Shinhan Investment Corp – and the pension insurer Varma. AIP Asset Management and Avant Asset Management acted as co-investment managers in the transaction. The transaction price amounted to €480 million, which is the largest single-asset office transaction in Finland ever.

“OP Group sold its head office property in Vallila for €480 million”

Sörnäinen – Kalasatama

Next to Vallila is Sörnäinen, a traditional industrial and harbour area that also accommodates a heterogeneous office stock. In Sörnäinen, occupancy rates and rents for older offices remain rather low, whereas modern premises attract tenants also for higher prices.



In the first half of 2019, Skanska completed the 18,500 sqm K6 office project, which was sold to Senate Properties, and is now occupied by state agencies. Another construction project completed in the area in 2019 was the redevelopment of a former office property by NREP in Hämeenkatu, where they opened the second location of their Noli Studios, a concept offering serviced studios for short-term accommodation for home-seekers and travelers.

Next to Sörnäinen is the developing Kalasatama area. Kalasatama is another former harbour and industrial 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.

Residential stock in Kalasatama comprises both rental and owner-occupied dwellings. The area currently accommodates over 4,000 inhabitants.

Kalasatama accommodates the 60,000 sqm REDI shopping centre, which was opened in late 2018. In early 2020, the ownership of the centre was rearranged when the area's developer SRV sold its stake of the centre to the existing institutional investors.

Adjacent to the centre, the first 35-floor residential tower was completed in late 2019, and a second tower comprising 32 floors and 249 dwellings is due for completion in late 2021. SRV is also planning to start the construction of the 26-floor office tower Horisontti, due for completion in 2022.

"Modern office supply continues to increase in Kalasatama"

Office stock in Kalasatama increased in 2019 by the completions of the two phases of Varma's K-Kampus project, totaling some 35,000 sqm of lettable space, as well as by the second phase of the Rantatie Loikka project by Lindström Invest. In the vicinity, the City of Helsinki's Urban Environment House, comprising a gross area of 40,000 sqm will be completed in the first half of 2020. Union Investment Real Estate acquired the building in 2018. In 2019, there were no major transactions carried out in the Kalasatama area.

In the modern office premises of Kalasatama, rents and occupancy rates are higher than in, for instance, in the neighboring Sörnäinen area. However, also in Kalasatama's older office stock, there is vacant office supply, and in the KTI database, the area's occupancy rate stood at some 88% in autumn 2019.

Ruskeasuo, Käpylä

Next to Pasila, by Mannerheimintie, is the Ruskeasuo office area with mostly modern space supply. The area currently accommodates, for example, two phases of Skanska's Manskun Rasti project, as well as the two buildings of NCC's Aitio Business Park. In the vicinity, a 420-room Valo property combining premises for working and short-term accommodation is due for completion in the latter half of 2020.

North of eastern Pasila is the traditional residential area Käpylä. The surroundings of the Käpylä railway station accommodate a relatively modern office stock where a couple of company headquarters are located. In the plans of the City of Helsinki, Tuusulanväylä motorway is planned to be developed as a city boulevard, and some 20,000 new residents will be accommodated in the area. These plans would transform the current Käpylä railway station into an important transportation hub for train, bus and light rail connections. In the end of 2019, Nordika invested in the former Amer Sports head office in Käpylä.

Pitäjänmäki

Pitäjänmäki, situated seven kilometres north of the Helsinki city centre, is an old industrial area that was converted into mainly office use in the 1990–2000s. The investor base in the area is varied and comprises institutions, property companies and funds, foreign investors and corporations.

The amount of vacant office space has remained high in Pitäjänmäki for several years. In KTI's rental database, the area's occupancy rate continued to improve in 2019, but only stood at some 72%. In 2019, some major lettings were reported in the area, including, for instance the 4,000 sqm office premises rented to the construction company Consti in Varma's Valimo Park property.

"The occupancy rate of Pitäjänmäki offices continued to improve but still stands at only 72%"

Because of the heterogeneous space supply, rental levels vary markedly between the different areas and buildings in Pitäjänmäki. In older buildings in particular, investors have been forced to attract tenants through relatively low rents, whereas the modern buildings closer to the railway station have retained their attractiveness among, for example, IT and professional service companies. In the KTI rental database, office rents vary between 12 and 17 euros per sqm per month.

In 2019, Peab completed the second phase of the Ultimes Business Garden office project, and Conficap carried out one office transaction in Pitäjänmäki.

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.

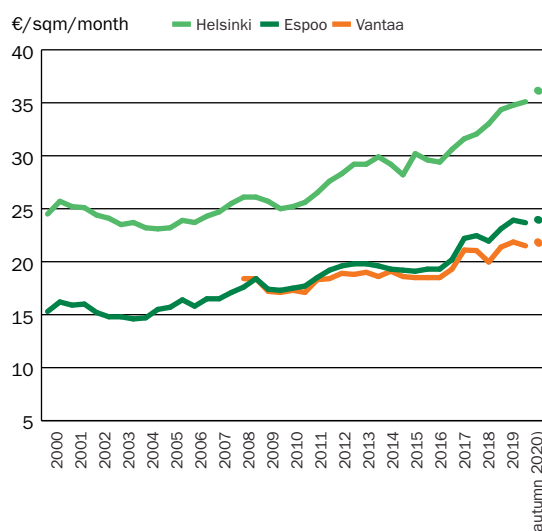
YIT and Hartela are currently constructing the local service centre Hertsi by the Herttoniemi metro station. The centre comprises some 20,000 sqm of lettable space and will be completed in the first half of 2020. Fennia and Aktia life insurance companies and Yleisradio Pension Fund are investors in the new centre, and eQ's fund is the investor in the existing part. Rental residential construction activity remains high in the area, comprising both subsidised and non-subsidised supply.

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

In the western part of Laajasalo is Kruunuvuorenranta, which is one of the largest city development areas in Helsinki. In order to connect the area to Kalasatama and the city center, a 10-kilometer tram connection will be constructed, comprising three bridges, the so called Kruunusillat project. The construction will be started in 2021 and is expected to be completed by 2026. The Kruunuvuorenranta area is planned to accommodate 13 000 inhabitants and 800 jobs by 2030.

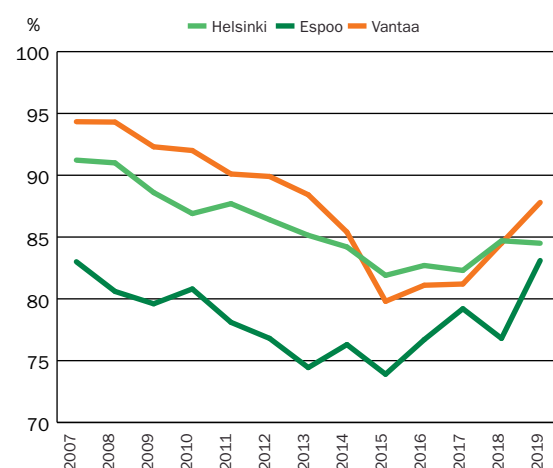
Further east is the Itäkeskus area. The area's location at the junction of Ring Road I and the eastern radial route, as well as by the eastern metro line, supports its development as an attractive area for both retail and living. It is also at the eastern end of the new Jokeri Light Rail line. The Itis shopping centre is one of the largest shopping centres in northern Europe with a gross leasable area of more than 100,000 square metres. Kesko's 20,000 sqm Easton shopping centre is located in the vicinity. Next to Itäkeskus is Myllypuro residential area, where the City of Helsinki has just completed an extensive new campus building for the Metropolia University of Applied Sciences, and plans to build premises for the vocational college and an ice rink.

Prime office rents in Helsinki, Espoo and Vantaa



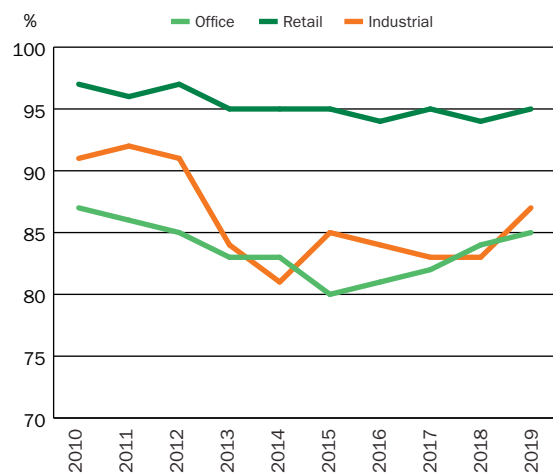
Source: RAKLI-KTI Property Barometer

Office occupancy rates in Helsinki, Espoo and Vantaa



Source: KTI Rental database

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



Source: KTI Rental database

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

5.1.2 Espoo

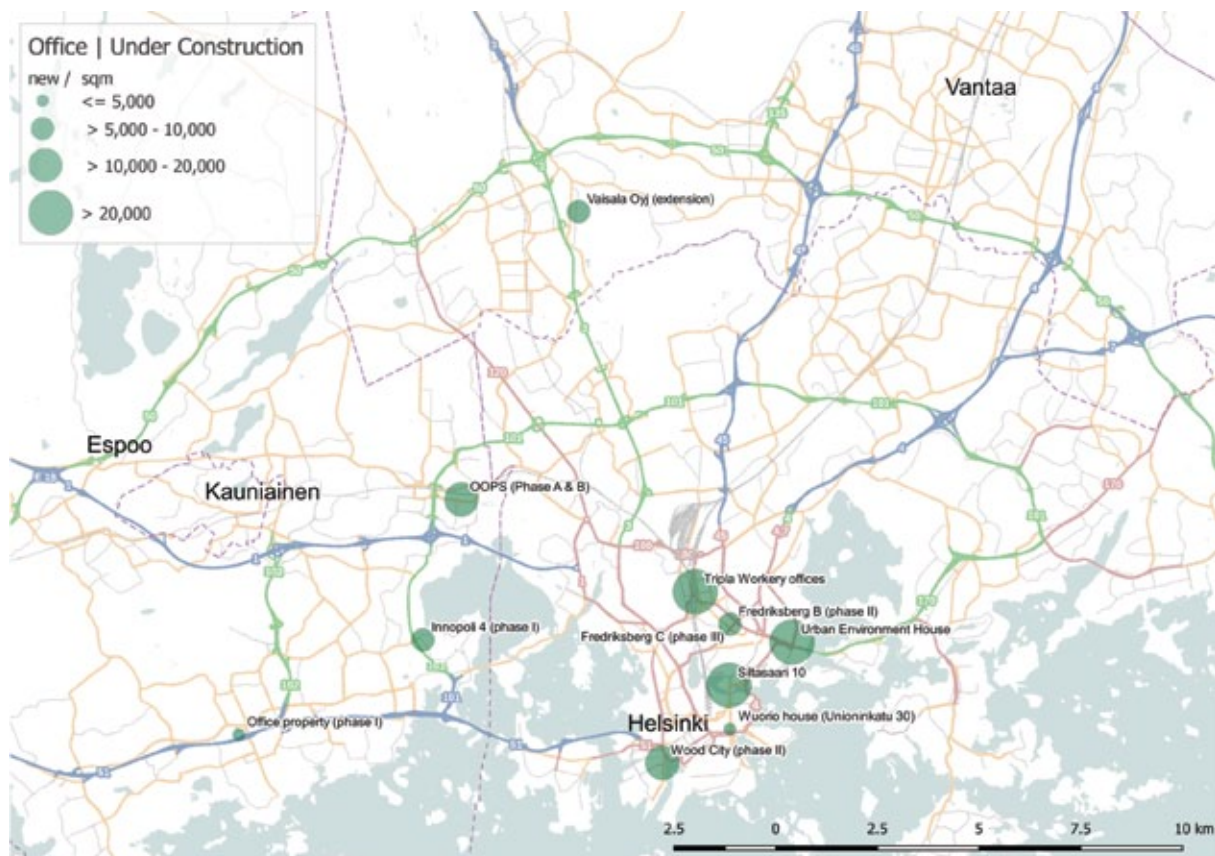
Espoo, Finland's second biggest city, has commercial property stock scattered within five regional centres: Leppävaara and Espoo centre are located by the western railway, and Tapiola and Matinkylä-Olari by the western metro line. The fifth centre, Espoonlahti, will also be served by the metro when the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

High office vacancy rates have been a problem for many areas in Espoo for the past few years. Areas suffering from high vacancies include, for instance, the Kilo-Mankkaa and Olari-Niittykumpu areas. Areas with high occupancy rates include Keilaniemi and Tapiola by the new metro line. In Leppävaara, located by the Ring Road I, the Turku motorway and the western railway, office demand has increased in the past two years and the occupancy rate has improved markedly.

"The office occupancy rate improved in Espoo in 2019"

In 2019, the occupancy rate for offices increased markedly, due to both healthy demand and the increasing volume of stock reduction through conversions. In the KTI database, office occupancy rate stood at 83% in September 2019.

New office projects under construction in the Helsinki metropolitan area



Additions to the map by KTI.

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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. Rents have increased in the area together with the modernization of the supply. Average office rents in the area stood at €25 per sqm in late 2019 in the KTI database, and prime rents are 3-4 euros above this. Occupancy rate has improved markedly in recent years, and stood at some 98% in September 2019.

"Rents and occupancy rates are increasing in Keilaniemi"

Property development activity remains high in the area, with several high-rise projects being about to be started or planned. The redevelopment of the so called Accountor Tower was completed in Keilaniemi at the end of 2019; the developer Regenero sold it, together with the two surrounding properties, to an unnamed international investor. Accounting firm Accountor is the main tenant in the building. Next to Accountor Tower, Regenero is planning to start another high-rise building, where elevator company Kone will move its headquarters. Also a Kämp Collection Hotel will be opened in the tower, which is scheduled for completion in late 2022. Also in the vicinity, NCC is about to start the construction of the Keilaniemi Next project, where Fiskars Group will move its headquarters in 2022. Next to the metro station, Varma is planning to start the construction of an 11-floor wooden office building Keilaniemen portti. In the border of Otaniemi and Keilaniemi areas, pension insurer Elo will develop a 6,200 sqm office and a 260-room hotel property, planned for completion in 2021 and 2022, respectively.

The current head office of Kone Oyj, also located in Keilaniemi, was sold to Evli Vuokratuotto fund in late 2019. eQ's commercial property fund also invested in two office buildings in the area in 2019.

"Several major office development projects in Keilaniemi"

The Otaniemi area is located next to Keilaniemi. Aalto University is located in Otaniemi, and it has centralised its main campus in the area through major redevelopment of existing buildings and development of new premises. The Otaniemi area also accommodates several business parks targeted at high-tech companies. Technopolis's Innopoli campus is now being extended by the fourth phase, the first building of which will be completed in late 2020 and the next planned to be started towards the end of the year. In the vicinity, Regenero completed the redevelopment of a 26,000

sqm office property and converted it partly into educational use. The property is rented to the City of Espoo, and owned by eQ's fund. Due to more diversified office stock, average rents in Otaniemi are clearly lower than in Keilaniemi, and there is also plenty of vacant space in the area.

Next to Otaniemi, by Ring Road I, is the Spektri Business Park, accommodating 35,000 sqm of lettable space. A group of domestic investors sold it to a fund managed by Tristan Capital Partners in late 2019.

Tapiola is a traditional retail, office and residential area, which is currently undergoing major redevelopment. The project includes major investments in both transportation infrastructure and existing and new property stock. The third and final phase of the Ainoa shopping centre was completed in late 2019, and the centre now comprises some 50,000 sqm of retail space. In the vicinity, Seafarers' Pension Fund is developing a retail and residential property, with some 5,700 sqm of lettable retail space. The traditional Heikintori shopping center is planned to be redeveloped, but the project has been postponed due to planning issues.

"The shopping centre Ainoa was completed in Tapiola in 2019"

The Tapiola area also accommodates a diversified office stock, where a large part of older properties has been either redeveloped or demolished and rebuilt to other purposes. Rents in Tapiola are typically some 2-3 euros lower than in Keilaniemi.

Matinkylä

Matinkylä, the final stop of the current metro line, is one of the most significant retail centres in Espoo, which also accommodates some modern office buildings. Matinkylä station is also a hub for the public traffic connections from the western and southern areas of Espoo. Citycon's Iso Omena shopping centre currently comprises over 100,000 sqm of lettable space, and it also accommodates the Matinkylä metro station.

Next to Iso Omena, a hybrid development project consisting of hotel, residential and parking facilities is currently underway. Lujatalo is the developer in the project, which comprises two hotel properties that are due for completion in late 2020. The pension insurance company Veritas has invested in one of the two properties. The City of Espoo will construct a swimming hall connected to the project, and is also about to start the construction of a new high school in the area.

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

Further west, along the extension of the metro line, is the Espoonlahti area. Citycon is carrying out a major project in the area, where the Lippulaiva shopping centre was demolished and replaced by a temporary 10,000 sqm Pikkulaiva centre. A new 42,000 sqm Lippulaiva centre is

currently under construction and scheduled for completion in 2022. The project also includes a metro station, bus terminal and some 550 residential apartments.

Leppävaara

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

The Leppävaara area is characterised by business park complexes with several buildings, which have been built in phases. At the moment, there are no ongoing extension projects in these business parks. The new head office building of the technical planning and consultancy firm Ramboll Finland was completed in early 2019. Keva is invested in the project. In late 2019, the first two phases of NCC's OOPS office project comprising some 18,500 sqm of lettable space was started in Perkkaa, adjacent to the Leppävaara area, and Varma acquired the project for €80 million euros. Trimble Solutions Corporation is the main tenant in the building, which is scheduled for completion in late 2021.

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

The office leasing market has strengthened in recent years in Leppävaara, with the occupancy rate exceeding 94% in late 2019, and the upper quartile of rents approaching 23 euros per sqm in the KTI database.

In 2019, several office property transactions were carried out in the Leppävaara area, where domestic funds were the most active buyers. For instance, funds managed by CapMan, eQ, Evli and UB invested in business park properties in Leppävaara in 2019. Antilooppi and Kiolo also invested in office properties in the 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 traditional shopping centres Espoontori and Entresse are located in Espoo centre. Next to Espoo centre, the Lommila area is situated at the junction of the Turku motorway and Ring Road III. The area mainly accommodates retail space taken up by car, furniture and electronics stores and other large retail units.

5.1.3 Vantaa

In Vantaa, the most important commercial property market areas are concentrated around the airport and its surroundings, as well as in the traditional Tikkurila centre, which also accommodates the administration of the city. The development of the Ring Rail Line has boosted property development around the station areas, including abundant residential projects and several retail and service properties.

Aviapolis

The Aviapolis area around the Helsinki-Vantaa Airport has developed rapidly during the past few years. The main players in the area include the City of Vantaa, Finavia, LAK Real Estate, all major property developers and several property companies.

There are currently almost 20,000 inhabitants in the area and there are plans for significant growth. The area accommodates about 37,000 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 property development has been active in the area in recent years, and this segment has also attracted investors. In 2019, the K3 Logistics West project was completed in Viinikkala.

The airport area is currently undergoing major development, where Finavia and LAK Real Estate are the main players. In late 2019, LAK Real Estate published a major hotel development project, to be started as soon as the ongoing terminal and parking facility construction projects allow. The hotel will be the largest in Finland, with 13 floors and more than 700 rooms. Nordic Choice Hotels will be the operator of the hotel. The project is scheduled for completion in 2023. Other hotel projects are being planned in the area by Marriott and NREP.

LAK Real Estate also plans to develop the Avia City office project at the Aviapolis station, with a scheduled completion in 2022. The area will also accommodate retail premises and residential properties. North of the station, the company's North Block area project, which will include some 20,000 sqm of office space, is in the planning phase.

**"The largest hotel in Finland
will be developed in the
airport area"**

South of the airport, by Ring Road III, several business park complexes are located. In 2019, two projects were completed in the area, one by Technopolis and another by NREP. Skanska's Aviabulevardi II project was completed and sold to Niam's fund, which is also invested in the first phase of the project. eQ's and CapMan's funds have also invested in one of the properties of the Plaza business park in the area.

In the vicinity, in the Vantaankoski area located in the junction of Ring Road III and Hämeenlinnanväylä and by the Ring Rail, SRV is developing the Pressi project. OP's fund invested in the STC Pressi industrial project, which was completed in late 2019.

Due to increasing supply and diversified stock, the amount of vacant space remains relatively high in the Aviapolis area. Rental range is rather wide with the upper quartile standing at some €22.50 per sqm in the KTI database.

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 that consists of hotel, office and leisure premises. In early 2019, pension insurer Elo increased its ownership in Jumbo by acquiring the almost €250 million stake from Unibail-Rodamco-Westfield. Later in the year,

Varma and Elo joined forces by rearranging the ownership of Jumbo and Flamingo in a newly established joint venture.

The Koivuhaka area, just east of Aviapolis, accommodates large retail units, some logistics and office properties, and is also an expanding 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 serves as a hub for rail connections between the airport, long-distance trains and Helsinki centre.

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 accommodates the Tikkurila train station and bus terminal. In 2019, the original owners Ilmarinen and NREP sold the properties in the complex. The 14,000 office property was acquired by Patrizia, and eQ's fund invested in the shopping centre.

In early 2019, Renor completed the first phase of an old industrial property conversion project in Tikkurilan Silkki,

whereby some 5,000 sqm of new office space and a parking facility were built. In the latter phases, the multi-use property will also accommodate, for instance, restaurant and service premises. The City of Vantaa is also carrying out extensive redevelopment projects in its administrative buildings. Residential development remains active in Tikkurila area.

Rents are varied in Tikkurila's diversified office stock. Upper quartile stood at some €25 per sqm, while lower quartile only amounted to €15 per sqm in late 2019.

Between the airport and Tikkurila, in Porttipuisto, by Ring Road III, the first phase of Helsinki Outlet was completed by the Norwegian Fortus AS in late 2019.

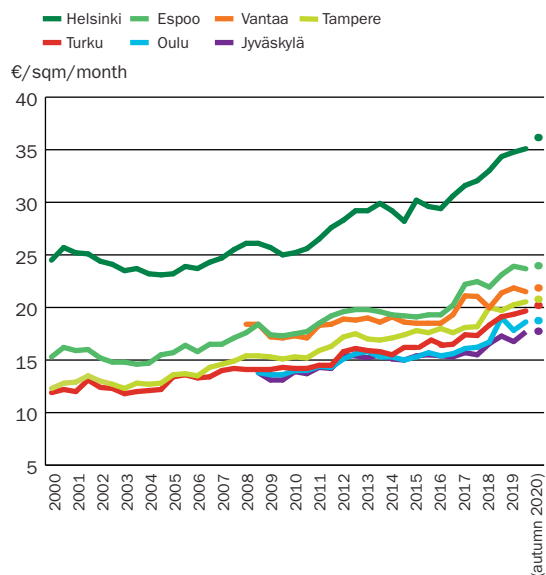
Kivistö

Kivistö is located close to Ring Road III and the Hämeenlinna motorway alongside the Ring Rail Line. Kivistö is a rapidly developing area, which currently accommodates some 14,000 residents, but is expected to grow to some 50,000 inhabitants and nearly as many jobs. Residential development has been abundant in the area in recent years.

At the Kivistö station, a shopping and service centre is being planned as a joint effort between Skanska, NCC, HOK-Elanto and Kesko. The start of the project has been postponed several times, and the final investment decision is yet to be made. The current plan only amounts some 15,000 sqm of retail and service space and the starting decision is expected to be made by April 2020.



Prime office rents in Finnish cities



Source: RAKLI-KTI Property Barometer

Myyrmäki

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

The 40,000 sqm Myyrmanni shopping centre is located in Myyrmäki centre, next to the railway 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. The pension insurance company Elo completed the refurbishment of a 44,000 sqm office property Virtatalo in 2019. NREP is currently developing a 322-room hotel in the area, which will include both normal hotel rooms and longer-term accommodation, as well as a spa, lounge and working facilities.

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

Tampere

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.

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. Unemployment in Tampere exceeds that of the whole country, and stood at some 11.2% at the end of 2019, according to the Ministry of Economic Affairs and employment.

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

The Tampere region consists of eight municipalities with a total population of some 390,000 inhabitants. By 2030, the city of Tampere itself is expected to accommodate more than 250,000 inhabitants. The growth of the city requires the development of new areas and the redevelopment of old industrial areas into new uses. Examples of these kinds of areas include Hakametsä sports campus, the old industrial Hiedanranta area and the Viinikanlahti area by Pyhäjärvi lake close to the city centre.

A new tramway is currently under construction in Tampere, scheduled to be completed in 2021. The two lines combine Hervanta in the south and the University hospital area on the eastern side of the city centre with Pyynikintori. In the city centre, new underground parking facilities are being planned along with a plan to turn the centre itself into mainly light transportation and pedestrian areas. Also, a fast rail connection to the Helsinki metropolitan area is under active discussion, but also requires the state's decisions and support.

Tampere office stock amounted to some 1.1 million sqm at the end of 2018. Modern office space is found in, for instance, Ratina, Hatanpää, Tulli and Kauppi areas. In the best office locations in modern buildings, rental levels are well above €20 per sqm per month, whereas in older stock the rents typically are at some €15 per sqm per month. Due to active development, the office vacancy rate has remained at approximately 10% in Tampere in recent years.

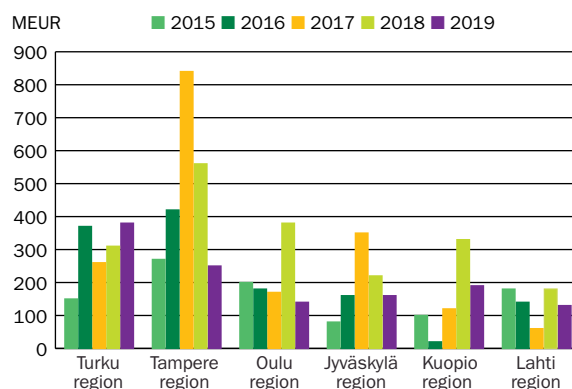
Property development remains active in Tampere. Next to the railway station, the construction of Tampereen Kansi (Deck and Arena) project is underway. Local Tapiola and OP Group's insurance companies have invested in the project and increased their shares in early 2020, when the developer SRV reduced its ownership in the project. The 120,000 sqm complex will comprise a multi-use arena for 13,000 people, five residential towers, a hotel, some office and retail premises as well as parking facilities. The City of Tampere is also involved in the multi-use Arena project. The project will be built in phases, the first of which is scheduled for completion in 2021, and the whole project by 2023.

"Property development is active in Tampere"

In the vicinity of the Tampereen Kansi project, Technopolis completed the first phase of the Asemakeskus Kampus office complex in late 2019, and the second phase of the 34,000 sqm project is scheduled for completion in late 2020. Sponda's 13,700 sqm office and retail property in Ratina is also due for completion in 2020.

The prime retail locations in Tampere include the main street, Hämeenkatu, and the Koskikeskus and Ratina shopping centres in the vicinity. The 115,000 sqm Ideapark

Transaction volume in cities outside the Helsinki metropolitan area



Source: KTI

shopping centre is located in Lempäälä, south of Tampere. In 2019, no new retail projects were completed in the area, and the ongoing projects are mainly connected to some larger multi-use property complexes.

In recent years, industrial property construction has been concentrated mostly in Pirkkala, south of Tampere and close to the airport, and in Ylöjärvi, west of the city.

Hotel stock continues to increase in Tampere. In early 2020, the 229-room Marriot hotel was opened next to Tampere Hall. The property is owned by Keva. Lapland Hotels will be the operator in the hotel of the Tampereen Kansio project, comprising 285 rooms and planned to be completed in 2021.

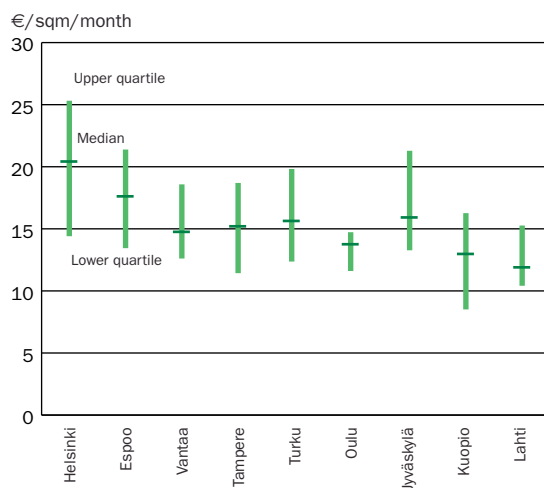
Residential development activity is also high in Tampere, which is one of the fastest growing city regions in Finland. There are numerous development projects ongoing, partly boosted by the developing transportation infrastructure. Domestic funds and property companies are investors in the residential projects in Tampere. Residential rents have continued to increase steadily in Tampere. In 2018, the construction of almost 4,000 new dwellings was started, and activity remained high also in 2019.

In the transactions market, Tampere typically holds the position of the second most active market area after the Helsinki metropolitan area. However, in 2019, the transaction volume only amounted to €250 million. The largest transactions were carried out by Hemfosa, who acquired the 33,000 sqm Mediapolis Kampus from Technopolis and NREP, who invested in the Duo shopping centre in Hervanta. OP-Rental Yield fund also continued to increase its investments in Tampere in 2019. Several domestic and foreign funds also invested in residential properties in Tampere.

Oulu

The City of Oulu has evolved markedly within the past decades, first due to the rapid growth in the high-tech sector, which created new jobs and attracted new inhabitants, 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. There are currently some 205,000 inhabitants in the city of Oulu, and slightly less than 260,000 in the whole region.

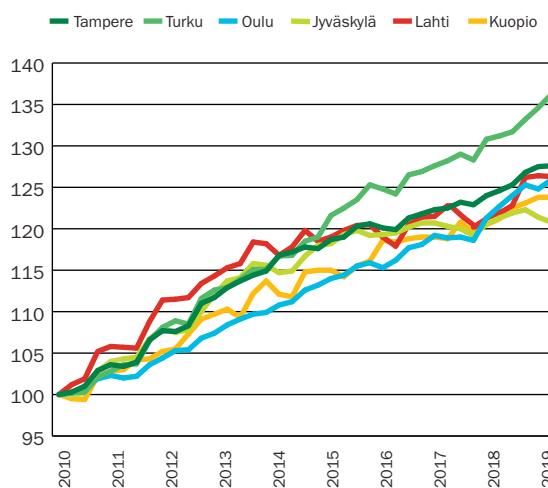
Office rents in major city centres (prevailing rents, upper and lower quartiles)



Based on lease agreements in KTI database.

Source: KTI Rental database

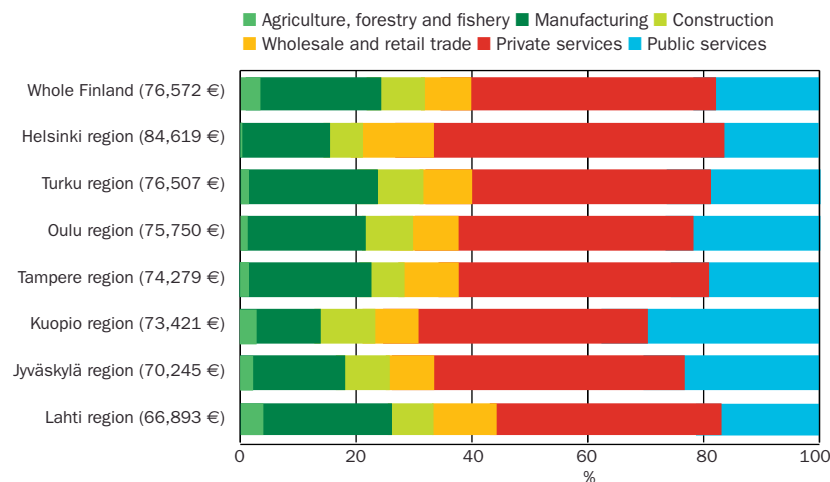
Residential rent indexes in Tampere, Turku, Oulu, Jyväskylä, Lahti and Kuopio index spring 2010 = 100



Source: KTI Rental database

Value added by sector and region 2017

Value added by employee (€) in parenthesis



Source: Statistics Finland

The emphasis of the Oulu region's economic structure is on information technology services, other technology sectors as well as life science services. Oulu is specialised in electrotechnical manufacturing and the services supporting it: for example, engineering, software and information services. In the vicinity of Oulu, in Pyhäjoki, a €6-7 billion nuclear power plant is being planned. The project would boost the employment and impact the region's economy markedly. The construction of some administrative buildings has already started, although the permit process for the plant is still underway.

Employment continued to develop positively in the Oulu region in 2019, although at a slower pace than in the previous year. Unemployment stood at 11.4% in the city of Oulu at the end of the year, having been 12.2% at the end of 2018, according to the Ministry of Economic Affairs and Employment.

Oulu's real estate market players include, for instance, domestic pension funds, domestic funds and also some specialised foreign investors. 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 650,000 sqm. The most important office areas include, in addition to the city centre, Peltola just east of the city centre and the Linnanmaa area north of the city centre, which accommodates several high-tech companies and Oulu University.

Like in other major cities, office demand has strengthened in Oulu, supported by the increase in employment, and the office occupancy rate approached 90% in 2019. In the best locations, office rents are above €20 per sqm per month. On average, office rents stand at some €15 per sqm.

In 2019, one office construction project was completed in Limingantulli, and Technopolis is about to complete the construction of an 8,400 sqm office building in the city centre. Also one office and industrial property construction project is underway in the Rusko area, north-east of the city.

Retail occupancy rate has remained lower than in other major cities, and stood at 82% in the KTI database in autumn 2019. There are some smaller retail construction projects underway or recently completed in the Oulu area.

In the city centre, the construction of a 130-room hotel property is underway. Public sector property development remains active, with, for instance, a new hospital, sports arena and university facilities being currently under construction. The Swedish Hemsö has invested in two fire station buildings in the region, scheduled for completion in 2021 and 2023.

Residential construction activity has remained high in Oulu, although the volume slowed down from the peak of 3,800 dwellings being completed in 2017 to some 2,600 in 2018. By the end of November 2019, approximately 2,400 new dwellings had been completed.

Property transaction activity slowed down in Oulu in 2019, with the total volume amounting to some €140 million. Many domestic funds, including, for instance, those managed by Trevian, OP, Evli and UB, invested in Oulu in 2019. Foreign investors active in Oulu in 2019 included, in addition to Hemsö, Corum and Hemfosa.

Turku

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, where the main player is Meyer Werft. In total, the sea cluster employs some 8,000 people in the region. Half of the Finnish medical industry is accommodated in the Turku area, and health industries employ more than 5,500 people in the area. Valmet Automotive, located in Uusikaupunki, some 60 kilometres north of Turku, employs some 6,000 people.

Thanks to the positive development in several industry sectors, employment has developed positively in Turku in recent years. At the end of 2019, unemployment rate stood at 11.2%, having been 12.2% the previous year.

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 has not, however, been made yet. The development of local public transport connections is also being discussed, and the decision between tram lines and fast bus connections is expected to be made in early 2020.

Healthy economic development is also supporting property development in Turku. In the city centre, the reconstruction of the main marketplace area is underway, including the construction of a parking facility for 600 cars. The project is scheduled for completion in late 2020 or early 2021. By the marketplace, the traditional Hamburger Börs Hotel has been demolished and will be replaced by a new 300-room hotel building in late 2021.

"Strong economic development is boosting property development in Turku"

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.

The Kupittaa area, located near the University area and next to the railway station, is the most active office market in the Turku area. This area is mainly targeted at high-tech, biotechnology and business-to-business service companies, and consists of office and high-quality manufacturing space. The area also accommodates the Turku Science Park, whose focus is to co-ordinate the business and innovation services in the Turku region, as well as to enhance co-operation between the local universities, companies and municipalities.

Turku Technology Properties is the major owner in Kupittaa, and in recent years has increased its portfolio through acquisitions and new development. The company is currently developing a new 28,000 sqm campus building for the Turku University of Applied Sciences, and is about to start the construction of the 7,000 sqm head office for Turku Energia, the city's energy supply company.

In the vicinity, the construction of a new University hospital building is scheduled for completion in 2021, and pension insurance company Veritas is constructing a new 10,000 sqm head office property, which is planned to be completed in late 2020.

"Several hotel development projects are underway in Turku"

Also in Kupittaa, a new 200-room hotel property is under construction, carried out by a local investor Rausanne and scheduled for completion in early 2020. Another hotel project is underway in the former prison area Kakolanmäki, located between the city centre and the harbour.

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

Office demand is strong in the Kupittaa area in particular, where the vacancy rate has fallen close to zero. In the whole of Turku, the office vacancy rate continued to decrease and currently stands below 7%, according to Catella. In the KTI database, the upper quartile for office rents in Turku stood at €23 per sqm in late 2019.

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 redevelopment project was completed in late 2019. Otherwise, retail property development volumes have remained low in the region in recent years.

Demand for logistics and manufacturing premises is currently supported by the healthy economic situation of the region. DB Schenker is currently developing a nearly 20,000 sqm logistics centre in Lieto, north-east of Turku. In addition, the City of Turku is currently planning an extensive Blue Industry Park manufacturing and innovation centre in the vicinity of the shipyard.

Next to the railway station, an over €500 million, and nearly 200,000 sqm entertainment and event centre is being planned, comprising a multi-purpose arena, sports facilities and a hotel. The financing of the project has not, however, been confirmed yet.

Residential construction activity slowed down in Turku in 2019. By the end of November, the construction of some 1,200 new dwellings was started, while the number of starts amounted to 2,800 in 2017 and 2,100 in 2018. Rental demand remains healthy, and, of the main cities outside the Helsinki region in recent years, the development of rents has been strongest in Turku.

The property transaction volume in Turku amounted to some €380 million in 2019, showing the strongest development outside the Helsinki metropolitan area. The largest transaction was carried out by Hemsö, who acquired a health care property portfolio from the city of Turku for €130 million in early 2019. Also Quadoro Doric made a significant investment in Turku by acquiring a 10,000 sqm office and retail property in the city centre. Many domestic funds were also active in Turku during the year.

Jyväskylä

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 75% of the workforce. According to the Ministry of Economic Affairs and Employment, the unemployment rate decreased from 12.3% at the end of 2018 to 11.8% in 2019, but is still among the highest in the largest cities.

The city centre is the most important office market area in the region. Other office areas with modern supply include the Mattilanniemi/Ylästönniemi area south of the city centre, and Tourula in the northern side, where old industrial properties have been redeveloped into office use. Some modern office supply can also be found in the Lutakko area, next to the city centre. The old paper mill area Kangas, next to Tourula, is a developing area for residential and office construction.

The first major office project in the Kangas area, the 10,000 sqm Optimes Business Garden, is scheduled for completion in early 2020. Fennica's fund has invested in the project. The old industrial property is planned to accommodate the 7,000 sqm Kankaan Arkki business park, which is planned to be completed in 2021. Residential construction has also started in the area, which is planned to accommodate approximately 5,000 inhabitants by 2040.

"The old industrial Kangas area is being developed in Jyväskylä"

The vacancy rate of offices stood at some 8.2% at the year end, according to Catella. Modern offices, in particular, have continued attracting tenants. In the very best locations and premises rental levels are almost at the same level as in Tampere and Turku.

In the city centre, the retail and office property Reimari is under construction and due for completion in the latter half of 2020. Also in the city centre, the renovation of the heritage building Valtiontalo (State House) was recently completed.

The Hippos area south of the city is another significant area under development in Jyväskylä. A €300 million development project is planned in the area, which will include a multi-purpose hall, sports facilities as well as retail and hotel properties. The main players in the project are the city of Jyväskylä and construction company Lehto Group. The project is planned to be financed mainly by private investors, but financing is yet to be confirmed. Another major public construction project underway is the 110,000 sqm central hospital property, due for completion in late 2020.

In the retail property market, the Seppälä area north of the city is, along with the city centre, the most significant retail area in the Jyväskylä region. The area accommodates, for instance, the 24,000 sqm Seppä shopping centre. Some

smallish retail construction projects are currently underway in the area.

The transaction volume in Jyväskylä continued to decrease in Jyväskylä in 2019 and amounted to some €160 million. The most active investors in the commercial property market in 2019 included Trevian's fund and IVH Kampus, who both acquired three office and retail properties. Otherwise, transaction activity mainly concentrated in the residential property market.

"Transactions activity slowed down in Jyväskylä in 2019"

Residential construction activity has been high in Jyväskylä in recent years; more than 2,000 new dwellings were completed in 2018. By the end of November 2019, some 1,900 dwellings were completed and almost 1,800 dwellings were started. These numbers indicate that the supply of residential dwellings will continue to increase. Relative to the city size, the supply of rental dwellings has increased rapidly, and rents have remained stable or even decreased slightly in some areas.

Lahti

Lahti is a traditional industrial city that is home to metal, woodworking, furniture and plastics industries. Recently, more jobs have been transferred to professional services.

The region'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%. Among the largest cities, unemployment remains the highest in Lahti, although it decreased from 14.1% to 13.1% in 2019.

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. A minor extension of Trio will be completed in early 2020. In the Karisto area, there is shopping centre Karisma with a leasable area of 34,000 sqm. Retail property development activity remained low in 2019, and at the year end, there was one ongoing 3,300 sqm project in the Renkomäki area.

In the old industrial Askonalu 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. In 2019, Renor sold the majority of the Askotalo office property to Trevian's fund. In addition to this, the only major published transaction in the area in 2019 was the acquisition of the 14,000 sqm shopping centre Syke by the local co-operative Hämeenmaa. The property was sold by pension insurer Varma's daughter company. Beyond this, transactions in Lahti included some smaller residential and care property deals in 2019.

Industrial and logistics property development has been rather active in Lahti in recent years. In 2019, an almost 20,000 sqm logistics property was completed in Kujala area, and the second phase of the project is underway. OP's fund has invested in the properties. Two industrial property construction projects were also underway in Lahti at the year end.

Unlike the other major cities, residential construction activity peaked in Lahti already in 2017 when almost 1,000 new dwellings were completed, which created an oversupply in some areas. In 2018, the volume slowed down to some 700 completed dwellings, and the number of starts decreased to 650. In January-November 2019, the construction of approximately 220 dwellings had been started. New construction activity has been mitigated by the modest growth of rents and prices.

Kuopio

Kuopio is a university city and the capital of the province of Savo, 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 the food, health, bio and environmental industry sectors. Unemployment has continued to decrease in Kuopio during the past year, although at a slower pace. The unemployment rate currently stands at a lower level than in other main cities outside the Helsinki metropolitan area, at some 9.9%.

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 close to the University and hospital areas. Technopolis used to have two campuses in the city, but in 2019, the company sold its share in the properties to the local investment company KPY Sijoitus, who used to be a minority shareholder in the campuses. The campuses comprise 70,000 sqm of office space and 17,000 sqm of new space is under construction and due for completion in 2020. The company was renamed as KPY Novapolis.

"Technopolis sold its business in Kuopio to a local investor in 2019"

The retail space market in the Kuopio city centre is competing with the newly constructed Matkus Shopping Center some 10 km outside the city. The city centre's attractiveness has been supported by the completion of an underground parking facility and the refurbishment of some retail properties. In the city centre, VR Group, the City of Kuopio and Lapti Group are carrying out the first two phases of the Kuopion Portti centre comprising some 9,000 sqm of office, retail and service premises as well as some residential dwellings. In total, the centre is planned to comprise some 47,000 sqm. Kuopion Portti parking facilities, as well as retail and office premises of the first phase of the project, were sold to a fund managed by Elite Alfred Berg in 2019.

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

The Kuopio transactions market was dominated by domestic funds in 2019. In addition to KPY and Elite Alfred Berg, funds managed by Trevian, OP and Evli made investments in Kuopio in 2019. In total, the transaction volume amounted to approximately €190 million.

The Kuopio rental residential market has also attracted investors in recent years, and construction activity has remained high. In 2018, a peak number of more than 1,800 dwellings was completed. However, the number of started dwellings decreased to less than 1,000.

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RAKLI

RAKLI, The Finnish Association of Property Owners and Construction Clients, is the most comprehensive and prominent association of professional property owners, real estate investors, corporate real estate managers and construction clients in Finland. The members represent both the private and the public sector, and member organisations number almost 220 in total.

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

Welcome to our website: www.rakli.fi.

SEB

SEB is a leading Nordic financial services group, guided by a strong belief that entrepreneurial minds and innovative companies are key in creating a better world. As a relationship bank, SEB in Sweden and the Baltic countries offers financial advice and a wide range of other services. In Finland, Norway, Denmark and Germany the bank's operations have a strong focus on corporate and investment banking based on a full-service offering to corporate and institutional clients. The international nature of SEB's business is reflected in its presence in some 20 countries worldwide. SEB has been present in Finland since 1984, and today has 320 employees based in central Helsinki.

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

www.sebgroup.com or www.seb.fi

SIRIUS

Sirius Capital Partners focuses on opportunistic and value-add real estate investments in Finland. The aim of the value-add approach is to turn our investments into attractive investment products. We make funds or club deals based on an investment theme. Our investors range from global institutions to multi managers and fund of funds.

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

Sirius has raised a total equity capital of some €450 million for four vehicles. Sirius currently invests on behalf of its third fund, Sirius Fund III, focusing on office properties in Helsinki. The strategy of the fund is to tap into the rent reversion created by growing rental levels in key office areas in Helsinki through active asset management. Sirius also continues being heavily involved in the management of Cibus Nordic Real Estate AB (publ), a company listed on Nasdaq First North Premier, that it created for the IPO of the two earlier funds, Sirius Fund I Grocery and Sirius Fund II.

www.sirius.fi

SKANSKA

Skanska is one of the world's leading construction and project development companies, focused on selected home markets in the Nordic region, Europe and USA. Supported by global trends in urbanization and demographics, and by being at the forefront in sustainability, Skanska offers competitive solutions for both simple and the most complex assignments, helping to build a sustainable future for customers and communities. The Group has about 34,000 employees. Skanska's sales in 2019 totaled € 16.7 billion.

Skanska's operations in Finland cover construction services and residential and commercial project development. Construction services include building construction, building services, and civil and environmental construction. Skanska Oy employed 2,179 people in Finland at the end of the year 2019.

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



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