



KTI Market Review

Autumn 2019

Real estate remains attractive in the investment market

Prime yields continue to compress

Residential rents increasing in major cities



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The slowing economy does not yet seem to be impacting the sentiment in the Finnish real estate investment or rental markets. Transaction activity remains high, although, due to the smaller average size of transactions, year-to-date volume is clearly lower than in the corresponding period in two previous years. Property market professionals expect investment demand to remain high as the period of extreme-low interest rates continues. Both foreign and domestic investors are expected to increase their investments in property. Due to the strong investment demand, prime property yields continue to compress.

Commercial property rental market conditions remain positive. In the Helsinki Central Business District (CBD) offices, rents have, again, reached new records, and the outlook is positive for the near future. Strong rental demand has spread from the Helsinki CBD to the surrounding areas, where occupancy rates and rents have continued to increase. The supply of high-quality, modern office space continues to increase also in other submarkets, due to active new development. However, despite the positive overall sentiment in the rental markets, the amount of vacant space remains high in secondary market areas and lower-quality properties.

Despite the challenging outlook of retail trade and shopping centre markets, property market professionals' expectations for retail rents are now more positive than in the spring. The increasing shopping centre supply in the Helsinki metropolitan area, is however, increasing the uncertainty in the market, and pressuring the outlook for rents and occupancy rates. Differences in the performance between shopping centres as well as between various retail sectors within the centres is expected to continue increasing. However, the total retail sales of Finnish shopping centres in the third quarter of this year increased significantly compared to last year.

Residential rents continue to increase in all major cities despite the rapid increase in supply. In 2020, a record number of new rental apartments will be completed in the Helsinki metropolitan area. Strong rental demand supports the attractiveness of residential properties in the investment market.

A couple of years ago, the construction sector triggered the growth of the Finnish economy after the long sluggish period. The high activity is now expected to slow down, and both construction volumes and the sector's employment is expected to decrease in 2020. Residential construction volume is expected to remain relatively high in the Helsinki metropolitan area, but to decrease significantly in all other major cities. Construction volumes of commercial properties are expected to slow down next year, as the currently ongoing large projects are completed.

The Finnish GDP growth is expected to slow down to one percent

The economic outlook started to deteriorate during the summer, and forecasts have been decreased in autumn. The most important trading partners of Finland, Germany and Sweden, have decreased their economic forecasts, which also pressures the outlook for Finnish exports. Altogether, Germany and Sweden account for one quarter of all Finnish exports, and their deteriorating outlook is reflected in the Finnish economy with a lag. The trade war between China and the US, as well as Brexit add to the uncertainty in the outlook of the Finnish exports. Of the domestic sectors, the slowing construction volumes create downward pressure for the economy.

The most recent GDP growth forecasts for 2019 vary between 1.1 and 1.5 per cent. In 2020, the growth is expected to slow down to less than one per cent, as the growth of both exports and investments is expected to continue compressing.

Also, the rapid decrease in unemployment that started in 2017 is now slowing down. In September, the unemployment rate stood at 6.7 per cent, which is 0.6 percentages lower than in September 2018. The number of employed increased by 40,000 people during the past year, and the employment rate increased to 72.8 per cent. However, going forward, the improvement in employment is expected to slow down or stop. The mismatch between the supply and demand for skilled workforce also prevents the unemployment rate from decreasing going forward. The weakening economic outlook is also reflected in the confidence indicators published by Statistics Finland and the Confederation of Finnish Industries EK in late October, where both consumer and industrial confidence indicators decreased markedly compared to the previous month.

The era of low interest rates continues and pressures property yields

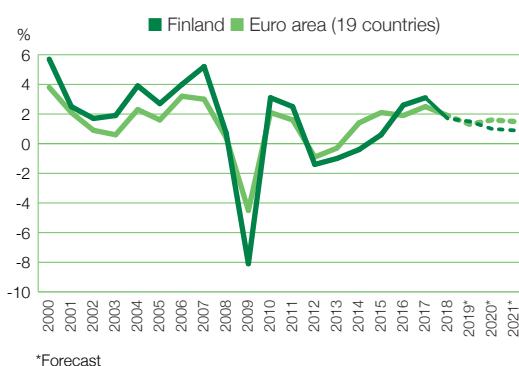
The European Central Bank decreased its policy rate to -0.5 per cent in September. Interest rates are expected to remain negative until inflation increases closer to the targeted level. Record-low interest rates and high liquidity are pushing more capital to the investment markets, and the amount of capital targeted to property investments remains high. Despite the continuous decrease in prime property yields, even the low cash flow presents itself attractive in the current investment market environment.

Construction volumes slowing down

Construction investments were the first drivers for the GDP growth that started in 2015. Construction activity has remained high in the past years, and have, for their part, contributed to the growth of GDP and employment. For 2020, however, the Confederation

- Low interest rates support investor interest in property
- Construction sector's contribution to economic growth decreasing
- Consumer and industrial confidence indicators decreased in October

GDP growth in Finland and in the Euro area



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

Commercial property building permits in the Helsinki metropolitan area



Source: Statistics Finland

of the Finnish Construction Industries RT expects the volumes to decrease significantly. Professional investors' strong investment demand is supporting residential construction activity in the largest cities, although the demand from homeowners and private investors is slowing down from their top levels. In the Helsinki metropolitan area in particular, the decrease in residential construction activity is expected to be moderate. According to the Confederation of the Finnish Construction Industries RT, some 38,000 dwellings are expected to be started in 2019, and some 32,000 in

2020, which represent a significant drop from the peak level of 45,000 starts in 2018. However, even these volumes clearly exceed the lowest annual levels seen in early 2000's. Commercial property construction activity is expected to slow down markedly as the ongoing large shopping centre and office projects are completed in the Helsinki metropolitan area. High levels of industrial property development, public sector investments and repair construction are, however, expected to maintain construction activity in the coming years.

The transaction market remains active

Demand for property remains strong in the investment markets. During the first three quarters of 2019, transaction volume amounted to some €4.7 billion. In the corresponding period in 2017, total volume amounted to €7.4 billion, and in 2018, to €5.7 billion. The lower volumes of 2019 do not, however, reflect any kind of decrease in investor interest, but, unlike in the two previous years, there has not been any exceptionally large transactions carried out this year.

Several mid-sized transactions carried out

The largest individual transaction carried out in 2019 so far, was the acquisition of the €250 million share of shopping centre Jumbo by pension insurer Elo in the first quarter. Other transactions exceeding €100 million include, for example, SBB i Norden's and Hemsö's care property portfolio acquisitions, the purchase of the new ECHA office by Hansainvest, the sales of office property entity in Keilaniemi by Regenero and residential portfolio transactions carried out by joint ventures of Ålandsbanken and YIT, as well as Starwood Capital Group and Avara.

According to KTI's transaction statistics, the average size of significant property transactions has amounted to €23 million in 2019, having stood at €28 million in 2018 and €34 million in 2017. The number of transactions recorded during the first three quarters of 2019 amounted to 205 transactions, which is slightly lower than in the corresponding period in 2018, but higher than in 2017.

Foreign investor interest remains strong

The share of foreign investors of all transactions carried out in January-September amounted to 45 per cent. Foreign capital has targeted mostly office, residential and care properties. The uncertain outlook of retail trade reduces the attractiveness of retail properties in the investment market. Although foreign investors are active also in selling properties, the net investments of non-Finnish investors amount to more than €1 billion in the first three quarters of 2019.

- Properties continue to attract foreign and domestic investors
- Office, residential and public use properties preferred by investors
- Prime property yields at record-low levels

Offices still the most traded property type in the transaction market

The share of office properties amounts to 35 per cent of the total volume of the first three quarters of 2019. Supported by some exceptionally large portfolio transactions, office properties have been the most traded property sectors also in 2017 and 2018. The share of retail properties of this year's transactions is as low as 18 per cent, which is the lowest level since 2011. Residential property portfolios account for one quarter of all transactions. The total transaction volume of care properties carried out so far exceeds €0.5 billion, which increases their share to 11 per cent of the total volume.

Prime property yields continue to compress

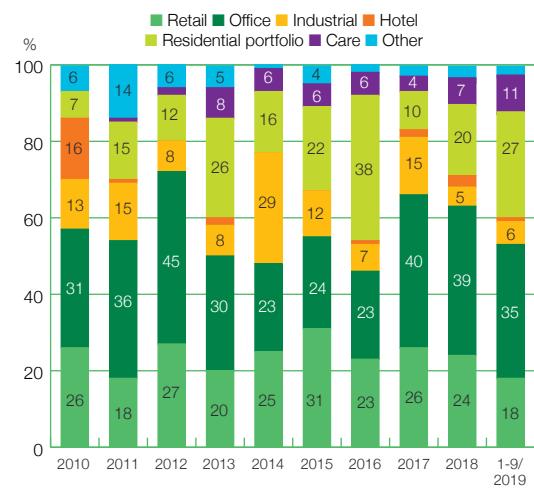
Strong investment demand and record-low interest rates have compressed prime property yields for several years already. In the RAKLI-KTI Property Barometer carried out in October, prime office yield in the Helsinki CBD was now quoted at below 3.8 per cent on average, which is 0.2 percentages lower than in the previous survey in April. The median and lower quartile of the responses now stood at 3.5 per cent, which indicates

Transaction volume in the Finnish property market



Source: KTI

Distribution of transactions by property sector



Source: KTI

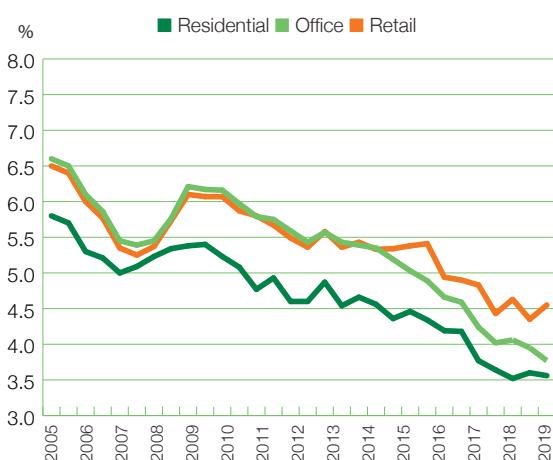
that the very best properties are traded even below that level. On the other hand, prime retail property yield in the Helsinki CBD is now 0.2 percentages higher than six months ago, which reflects the overall uncertainty associated with retail properties in the current market. Residential property yield has remained stable at 3.6 per cent for the past two years.

Investment demand set to remain strong

As the interest rates are not expected to increase in the foreseeable future, the attractiveness of property remains high in the investment market. The majority of

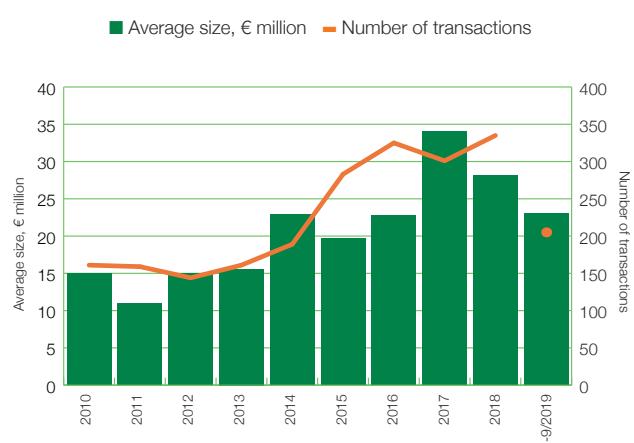
the respondents in the RAKLI-KTI Property Barometer expects foreign investor demand to continue increasing within the next year, and almost one third also expects domestic investor demand to increase. The outlook for investor demand is now even stronger than in the previous survey carried out in spring. Office and industrial properties in particular are expected to attract investors, whereas transaction volumes of retail properties are expected to decrease. The respondents assess the availability of debt finance having improved and the margins decreased within the past year.

Prime property yields in the Helsinki CBD



Source: RAKLI-KTI Property Barometer

Number and average size of property transactions



Source: KTI

Office market remains attractive

Offices have remained the largest sector in the transaction market. During the first three quarters of 2019, office property transaction volume amounted to over €1.6 billion, accounting for 35% of the whole transaction volume in the Finnish property market. Investment demand is still focusing mostly in the Helsinki metropolitan area where the transaction prices of prime office properties have been high. In 2019, office property transactions have been signed in almost every significant office submarket in the Helsinki metropolitan area. The activity has been especially high in the Leppävaara district where about ten office properties have been sold during this year.

Foreign investors acquire large office properties

Foreign investors have acquired several large office properties in the Helsinki metropolitan area during the summer and autumn. For example Hansainvest acquired a new office property development of European Chemicals Agency in the Telakkaranta area in Helsinki for €135 million, Pareto's Fleming Properties acquired SOK's head office in Vallila for €130 million and GLL's fund bought Sweco's head office in Ilmala. In addition, an unnamed foreign investor bought Accountor Tower and Keilalampi office properties in the Keilaniemi area in Espoo.

In other large cities, the largest office property transaction of the first three quarters of the year took place in Kuopio in September. Technopolis divested all of its operations and properties in Kuopio by selling its 60 per cent stake in the Technopolis Kuopio Oy to local

- Record-high rental levels in the Helsinki CBD
- Many office property transactions in Leppävaara
- Office construction volumes decreasing

investor KPY Sijoitus Oy who already owned 40 per cent of the company. Technopolis has now withdrawn from both Kuopio's and Jyväskylä's property markets within the past two years.

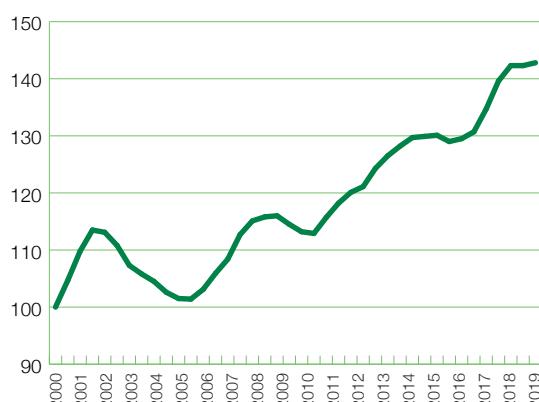
The investment demand for office properties is expected to remain strong also in the near future. For example, in the RAKLI-KTI Property Barometer there were more respondents who expected office property transaction volume to increase than to decrease.

The Helsinki CBD Office rent index increased by 0.4 per cent

Office rents have continued to increase in the Helsinki CBD, although the growth has slowed down. The KTI Office rent index for new agreements in the Helsinki CBD increased by 0.4 per cent during the past year and by 0.3 per cent during the past six months. Especially the rents of the best premises have continued to increase, and the median rent for new agreements started during March-August exceeded €30 per sqm per month for the first time ever. The upper quartile increased strongly to almost €37 per sqm per month. Also in the other Helsinginniemi area outside the Helsinki CBD the rental levels of new office agreements have increased. In other key office submarkets in the Helsinki metropolitan area the development of rental levels has been diversified and the regional differences remain large.

For example in the Leppävaara district in Espoo, the office rents have recently increased steadily. In new agreements started during March-August the median rent amounted to €21.3 per sqm per month, while in the previous periods the corresponding figure has been below €20. Office rents have increased also in the Ruoholahti and Keilaniemi areas where the median office rent is currently about €25 per sqm per month. On the other end, median office rents for example in the Pitäjänmäki and Kilo-Mankkaa office areas remain at about €14 per sqm per month.

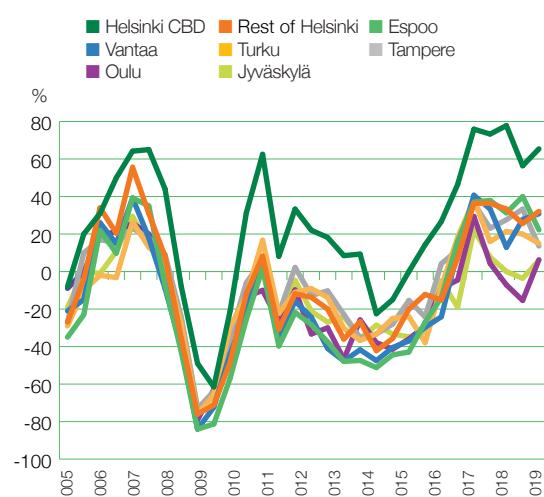
KTI Office Rent Index
Helsinki CBD offices, new agreements,
index 2000=100



Source: KTI

Outlook for office rents

Balance figures



Source: RAKLI-KTI Property Barometer

Office rents are expected to increase in the near future

The respondents of the RAKLI-KTI Property Barometer, conducted in October, also estimated that prime office rents have increased in Helsinki. The assessed prime rent in the Helsinki CBD has increased by two per cent during the past year, to €35.1 per sqm on average. Also in Tampere, Turku, Oulu and Jyväskylä the prime office rents have increased, according to the Barometer. In the prime office submarkets in Espoo and Vantaa, the assessed average rent has decreased slightly from the previous survey last spring.

In all major cities, however, the respondents expect office rents to increase. The expectations are strongest in the Helsinki CBD where 65 per cent of the respondents expect office rents to grow during the next six months.

Office stock keeps growing

The office stock still continues to grow fast in the Helsinki metropolitan area although the construction volumes have turned to decrease. According to KTI statistics, 92,500 sqm of new office space was completed in the Helsinki metropolitan area during the first three quarters of 2019, and some 157,000 sqm of new office space was under construction at the end of September. The volume will decrease when the ongoing projects will be completed, since only a few new projects have been started this year, and the volume of office construction permits is also decreasing.

Several conversion projects have, on the other hand, decreased the older office stock. During 2019 already almost 80,000 sqm of old offices have been either demolished or converted to other use in the Helsinki metropolitan area.

Office construction decreases in Helsinki, grows in Espoo

Office construction has recently been most active in the Pasila-Vallila-Kalasatama axis in Helsinki. There are

still many projects under construction but the volumes are about to decrease within the next year. In the near future, office construction volumes are expected to grow in Espoo where the amount of vacant office space has been large and office construction volume has been rather low in recent years. Currently there are, however, many new office projects under planning and under construction especially in the Keilaniemi-Otaniemi area. Also this year's largest new office project in the Helsinki metropolitan area has started in Leppävaara in Espoo where the construction of the first phase of NCC's OOPS project started in September. Varma has acquired the 18,500 sqm office property project for some €80 million. In total, as much as almost 40 per cent of all new office building permits during H1/2019 in Finland took place in Espoo.

In other major cities, the office construction is currently most active in Tampere and Kuopio. In both of these cities there are over 30,000 sqm of new office space under construction. Some significant office projects are also underway in Turku, Oulu and Jyväskylä.

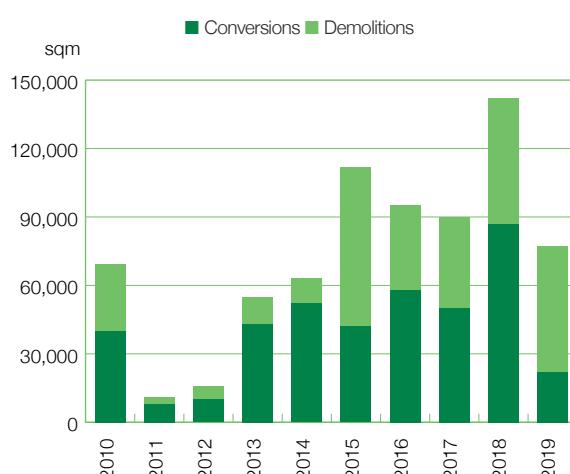
Vacant office space expected to decrease in the Helsinki metropolitan area

The amount of empty office space is still large in the Helsinki metropolitan area, but due to the several conversion projects the vacancy rates have not increased recently. In the KTI Rental Database, the office occupancy rate in Helsinki has remained stable compared to the last autumn, at about 85 per cent. In Espoo and Vantaa the occupancy rates have improved by a couple of percentage points.

The respondents of the RAKLI-KTI Property Barometer are rather optimistic about the development of office occupancy rates. Almost half of respondents expect the amount of vacant office space to decrease during the next six months in the HMA, and the outlook is positive also elsewhere in Finland.

Office stock reduction in the Helsinki metropolitan area

Rentable area



Source: KTI

Outlook for retail property markets weakening

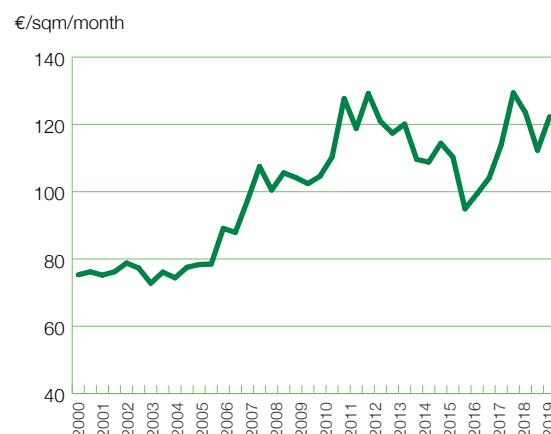
The retail property transaction volume amounted to some €830 million during January-September, representing only 18 per cent of the total volume. Several retail property transactions have been, however, completed across Finland. The transactions have comprised many different kinds of retail properties, such as shopping centres, hypermarkets, hardware stores and grocery store properties. During the summer and autumn, for example, shopping centres Arabia and Dixi in the Helsinki metropolitan area, Duo in Tampere, Kapteeni in Oulu and Syke in Lahti have all been sold. Also in the smaller cities, a few significant retail property transactions have been completed. For example, Corum AM's fund acquired K-Citymarket properties in Hämeenlinna and Kajaani.

This year's retail property transaction volume will most likely remain lower than in 2017 and 2018. In both years the volume has exceeded €2 billion due to some very large transactions. Also in the RAKLI-KTI Property Barometer 45% of the respondents expected retail property transaction volume to decrease within the next year, while only 16% expected the volumes to increase.

Retail rents increased in the Helsinki CBD

In the Helsinki CBD, the median rent for new retail agreements started during March-August increased from the previous periods to €90 per sqm per month. Also the upper quartile increased to €120 per sqm per month. The average size of the new agreements was lower than in the previous periods, which partly explains the higher figures.

Prime retail rent in the Helsinki CBD



Source: RAKLI-KTI Property Barometer

- Retail rents increase in the Helsinki CBD
- Differences between shopping centres are growing
- Retail construction volumes slow down

In the RAKLI-KTI Property Barometer the assessed average prime retail rent in the Helsinki CBD has fluctuated between €95-€130 per sqm during the 2010's. In the latest survey, the average rent increased to €122 per sqm per month after having decreased in two previous surveys. Helsinki was the only city where the respondents evaluated that prime retail rents had increased during the past six months. Some 35% of the respondents expect retail rents to continue increasing in the Helsinki CBD also within the next six months, while only some 10% assessed that rents will decrease. In all other major Finnish cities the balance figures of rental outlook are negative. However, in Turku, Espoo and Vantaa the clear majority of the respondents expect rents to remain stable. In Tampere, Oulu and Jyväskylä the outlook is more negative, and about one third of the respondents expect retail rents to decrease.

Rents and occupancy rates are expected to decrease in shopping centres

In shopping centres, the future outlook is more pessimistic, according to shopping centre professionals. In the recent Shopping Center Barometer of the Finnish Council of Shopping Centers, the rental outlook was more negative than in the corresponding survey last year. In large shopping centres in the Helsinki metropolitan area as many respondents expect retail rents to increase than decrease within the next three years. Outside the Helsinki region, as well as in the smaller centres in the Helsinki metropolitan area, the outlook for rents is negative. The expectations for the development of occupancy rates are similar to the rental outlook. The expectations are most negative in small and mid-sized shopping centres outside the Helsinki region, where as much as 80% of the respondents expect rents to decrease, and almost as many expect occupancy rates to decrease within the next three years.

Construction volumes slowed down in whole Finland

Retail construction volumes in the Helsinki metropolitan area have been very high during the past couple of years. In both 2017 and 2018, more than 100,000 sqm of new retail space was completed in the region, and this year the figure will exceed 150,000 sqm. According to KTI statistics, some 182,000 sqm of new retail space was under construction at the end of September, but during October-November the figure has already decreased to less than 70,000 sqm due to three significant completions. During the past few weeks the shopping centre Mall of Tripla in Pasila, the third phase of shopping centre Ainoa in Tapiola as well as the Helsinki Outlet in Kuninkaala, next to the border of Helsinki and Vantaa, were all completed.

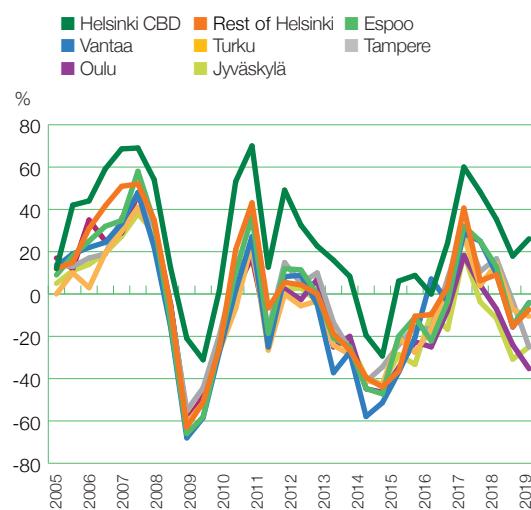
In 2019, no new significant retail projects have been started in the Helsinki metropolitan area, and the schedules of many planned projects are uncertain. For example, in the Kivistö district in Vantaa, the planned shopping centre project is once again postponed, and the size of the planned centre has gradually decreased.

Some older retail properties have been demolished across the Helsinki metropolitan area. Compared to offices, the reduction of older retail property stock has been much smaller, because the demolished properties have mostly been smallish shopping centres or other retail buildings, occupied by one or a few tenants.

In the rest of Finland, the retail property construction volumes are already low, and will decrease even more when Ideapark shopping centre will be completed in Seinäjoki in mid-November. In the Tampere region some 25,000 sqm of new retail space, comprising several smaller projects, was under construction at the end of September. In other major cities, the volumes are even lower.

Outlook for retail rents

Balance figures



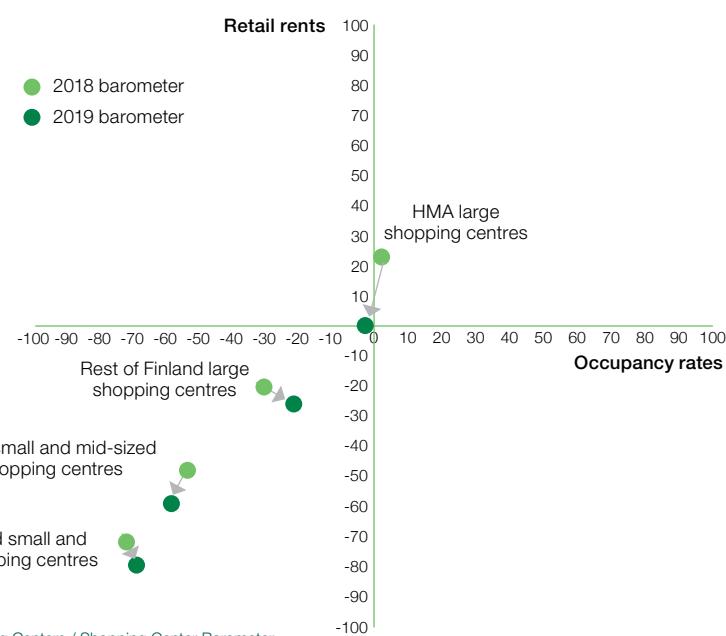
Source: RAKLI-KTI Property Barometer

Shopping centre sales climbed in the third quarter

The total retail sales of Finnish shopping centres increased by 4.4 per cent in the third quarter of 2019, compared to the corresponding period last year. The number of visitors increased by 1.4 per cent. The growth of sales was highest since 2012 when the index was

Outlook for retail rents and occupancy rates in shopping centres during the next 3 years

Balance figures



Source: Finnish Council of Shopping Centers / Shopping Center Barometer

started. Due to the exceptionally high figures of third quarter, the total sales of the past 12 months also increased by 1.6 per cent compared to the previous year. The number of visitors has increased by 0.2 per cent during the past 12 months. The sales increased in almost all retail sectors. The strongest performance was recorded in the sales of leisure and entertainment services, furnishing, home decor, cafés and restaurants, as well as in health and beauty goods. The figures are based on the indices published by Finnish Council of Shopping Centers, in co-operation with KTI.

Market shares of cafés, restaurants and other services are increasing

Different kinds of services have remained in the top positions of sales figures and their shares of used space are also increasing. More than 90 per cent of the respondents of the Shopping Center Barometer estimate that the sales of leisure and entertainment services as well as cafés and restaurants will increase within the next three years. More than 80 per cent of the respondents also expect that space usage of these branches will grow in shopping centres. The outlook is positive also for health and beauty goods, for example.

Space usage of retail premises is expected to decrease as different kinds of services, social premises and meeting spaces are increasing their shares in shopping centres.

Differences grow between shopping centres and retail sectors

The outlook for fashion and accessories remains challenging. In the Shopping Center Barometer, almost 80 per cent of the respondents expect sales to decrease, and even more expect the space usage of fashion branch to decrease in shopping centres. However, in Q3/2019 the sales of fashion increased by 1.6 per cent after having decreased in the several previous periods. The sales of leisure goods increased by 0.6 per cent.

Despite challenges in the retail market, more than 60 per cent of the respondents expect the number of visitors in shopping centres to increase, and almost half of the respondents expect total sales to increase as well. The differences in the performance of shopping centres are, however, expected to continue increasing, and the gaps in sales between different sectors are expected to continue widening.

Residential properties continue to strengthen their position in the investment market

In recent years, residential properties have increased their attractiveness in the investment market throughout Europe. Urbanisation, smaller average household sizes and the change in the overall approach towards home ownership support the demand for rental residential in all major cities.

A couple of years ago, residential became the largest sector in the Finnish property investment market, and the sector continues to grow briskly. High volumes of new construction increase the stock and market values continue to increase. In the transaction market, the volume of residential property portfolio transactions amounted to €1.3 billion during the first three quarters of 2019, and in 2018, the total volume amounted to almost €1.9 billion.

Foreign investors increase their investments

Foreign investors only started to increase their visibility in the Finnish residential investment market a couple of years ago. In total, they currently hold some 15,000 rental apartments. In 2019, the largest newcomer is Starwood Capital Group, who, together with the Finnish Avara, acquired almost 2,200 dwellings from pension

- Residential rents continue to increase in all major cities
- Professional investors boost housing development volumes
- Foreign investors increase their investments in the Finnish residential market

insurer Elo and OP Group's insurance companies. Other foreign investors who have entered this market in 2019 include funds managed by Catella, AEW and DWS. Of the other investors, for example, NREP and Olo Asunnot, who manages the portfolio of Round Hill Capital, have increased their portfolio this year. The most significant domestic new investor is a joint venture of Ålandsbanken and YIT, who acquired more than 500 new dwellings upon its establishment.

Housing construction activity remains high in the Helsinki metropolitan area

Although residential construction volume is expected to decrease in 2020, construction activity is expected to remain relatively high in the Helsinki metropolitan area in particular. In 2018, the construction of some 16,000 new dwellings was started in the Helsinki metropolitan area, and also in the first half of 2019, the volume exceeded 8,000 dwellings. Outside the Helsinki metropolitan area, residential construction volume remains the highest in Tampere, where some 4,000 dwellings were started in 2018, and more than 1,700 during the first half of 2019. In other major cities, the volume of residential construction starts decreased in 2018 compared to the previous year.

The rental residential sector boosts construction volumes

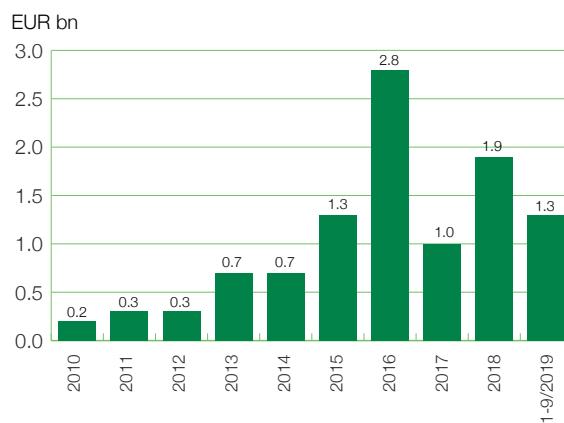
The role of large investors is significant in residential construction. In KTI statistics, there were some 10,000 dwellings under construction in the Helsinki metropolitan area that are being developed 100 per cent for rental use at the end of September. Altogether, some 4,700 dwellings will be completed in 2019, which is clearly more than in two previous years, which were also characterised by the high construction activity. In 2020, more than 5,000 new dwellings will be completed. In other major cities, some 2,600 new dwellings will be completed this year, while in 2020, the number is expected to be lower. KTI statistics do not capture the individual rental dwellings in newly developed apartment buildings acquired by, for instance, property funds or private investors.

The share of large landlords who develop properties targeted 100 per cent for rental use, has in recent years varied between 31 and 38 per cent of the total housing construction in the Helsinki metropolitan area. If some 40 per cent of the remaining housing construction is assumed to be acquired by different kinds of investors for rental use, this would mean that as much as some 60 per cent of all housing construction between 2015 and 2018 is targeted at rental markets. However, the share of rented dwellings of construction companies' residential development projects is not captured by statistics.

Rents continue to increase in the largest cities

The KTI rental residential index for new agreements increased by 3.3 per cent in the Helsinki metropolitan area between September 2018 and September 2019. In Espoo and Vantaa, rents increased slightly more than in Helsinki. Within the city of Helsinki, rents increased more in the cheaper residential areas, whereas in the most expensive submarkets, rents only increased by 2 per cent. In other major cities, rents increased by 2.4 per cent on average. Rents increased the most in Turku, by 3.7 per cent. Also in Lahti, where rents have remained quite stable in recent years, rental index increased by 3.7 per cent. In Tampere, Oulu and Kuopio, rents increased by 2-3 per cent, whereas in Jyväskylä, rents decreased slightly within the past year.

Volume of residential portfolio transactions



Source: KTI

Rental apartment projects completed and under construction



Other major cities: Tampere, Turku, Oulu, Jyväskylä, Lahti and Kuopio regions

Source: KTI, RPT Docu Oy

Share of completed rental residential buildings of the total housing construction in the Helsinki metropolitan area

Including only the buildings targeted 100% for rental use



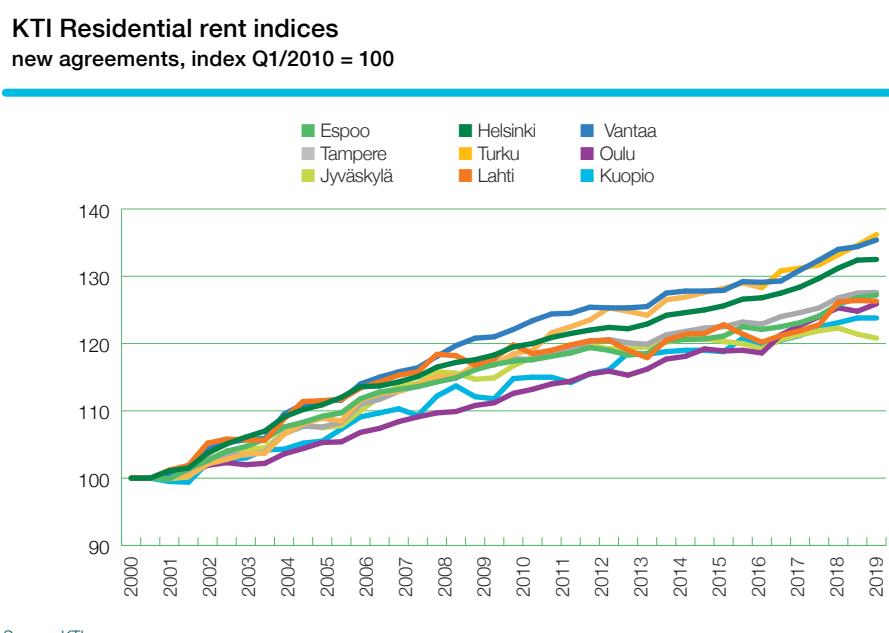
Source: KTI, RPT Docu Oy, Statistics Finland

KTI revises Residential rent index calculation methodology

KTI has revised the calculation methodology of its residential rent indices. In the first phase, a new method has been used to produce indices for new rental agreements. The data for index calculation only includes those rental residential buildings where new agreements have started in two consecutive quarters. The change in rents between two consecutive periods is calculated for all apartment types separately, and the indexes are calculated by multiplying the average change by the previous index score. The average change used in the calculation is weighted by the number of apartments in the buildings included in the index data.

The indices are calculated separately for studios, one-bedroom apartments and larger dwellings (in Lahti and Kuopio the combined index is produced for studios and one-bedroom apartments). City-level indices are weighted by the shares of different apartment types in the KTI rental database.

Since the calculation of the new index is based on the tracking of the same properties, it better reflects the actual change in the rental rates in the market than the previous index model, where all new agreements were included. In the new methodology, new buildings will not be included in the indices until the second leases following their completion are being done, and their impact cannot thus exaggerate the actual change in the market. KTI's objective is to start quarterly updates for the indices instead of the previous half-year frequency in tracking new leases.



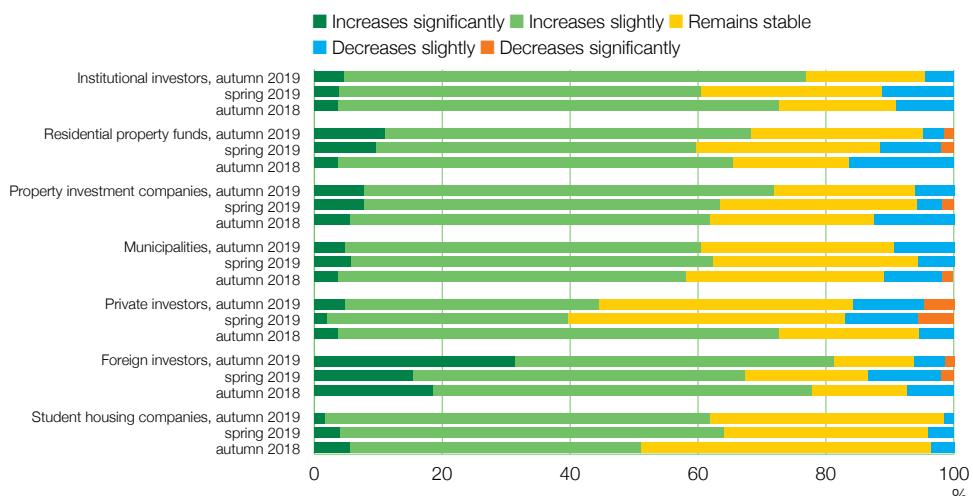
Investor confidence remains strong in the residential property market

In the RAKLI Rental residential barometer survey carried out in August, residential market professionals assessed the outlook for the residential investment market to remain positive. A clear majority of the respondents expect all professional investor groups to increase their residential property investments within the next year. Foreign investors in particular are expected to strengthen their presence in the market. Rental residential construction activity is expected to remain high, although the availability of plots as well as

limitations set by construction regulations are assessed to continue causing challenges for new development. On the other hand, increase in construction costs, as well as scarce availability of workforce are expected to ease within the next year as the economic growth slows down. Strong rental demand supports the increase in rents also going forward. Rents in small apartments are expected to continue increasing in all major cities. In the Helsinki metropolitan area, Tampere and Turku regions, rental growth is expected to be positive also for larger apartments.

Development of rental apartment supply

How do you expect the rental residential portfolios of the following investor groups to develop?



Source: RAKLI Rental Residential Barometer

Hotels and public use properties attract investors

The supply of hotel rooms is strongly increasing in the Helsinki metropolitan area due to both new construction and conversion projects. The sizes of new hotel projects have also increased. LAK Real Estate is developing Finland's largest hotel in the Helsinki-Vantaa airport area. The hotel will comprise over 700 rooms, and it will be operated by Nordic Choice Hotels. The construction will start in 2020, and the project is due for completion in 2023. Another major project under planning is a 660-room hotel and conference centre located in the Keilaniemi district in Espoo. The project is planned by Norwegian AB Invest that has earlier developed the Clarion hotel in Jätkäsaari, and which is also planning another new hotel in the Hakaniemi area. In the Helsinki CBD, Varma and Exilion are developing large hotels that will both be operated by Scandic.

New concepts and operators

New operators and concepts are shaping the Finnish hotel business. For example, NREP has launched the Noli Studios concept, which combines living and shared working spaces with the amenities of a hotel. Two Noli Studios hotels have been completed during this autumn in the Sörnäinen and Katajanokka districts in Helsinki. Both of the new hotels have been developed in old head office properties. In the Ruskeasuo area in Helsinki, Valo

- Size of hotel projects growing
- New concepts enter into hotel markets
- Number of players investing in the public use properties increases

Hotel/Work is a kind of combination of a hotel and an office. Valo will be completed in 2020, and it comprises over 400 rooms. Also private investors can invest in the shares of the property.

The fastest growing operator in the Finnish hotel market is the Norwegian company Nordic Choice Hotels that acquired the business of Kämp Collection Hotels from CapMan's funds this autumn. Nordic Choice Hotels currently operates about a dozen hotels in the Helsinki metropolitan area, and it will also become the operator for LAK Real Estate's large airport hotel.

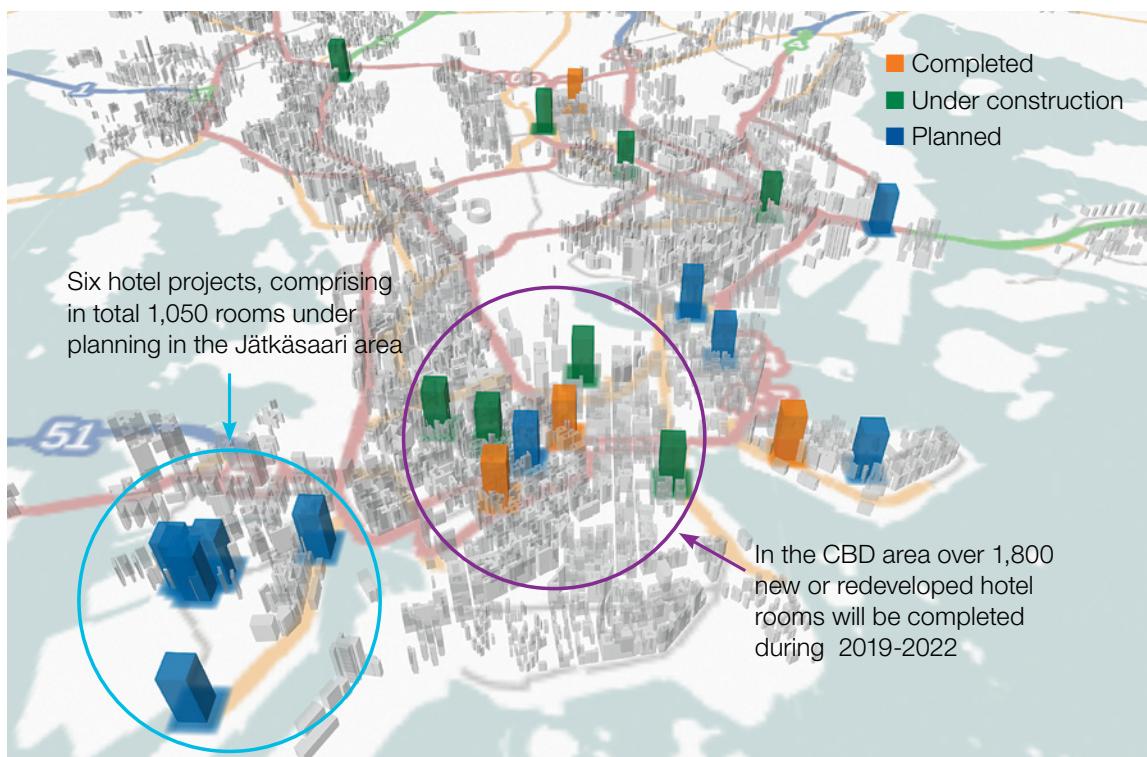
Public use property transaction activity increasing

In recent years, investor interest in so called public use or community service properties has been growing fast. This broad property sector has no clear definition, but it comprises for example care, educational, culture, sports and courthouse properties. Office properties that are leased to public sector tenants can also be included in this property sector.

The largest player in the Finnish public use property sector is currently special investment fund eQ Care, which has continued to increase its property portfolio

in 2019 by acquiring care and educational properties across Finland. In addition to many domestic players, a few foreign investors are active in this market. For example, Swedish investors Hemsö Fastighets, Hemfosa and SBB i Norden have actively invested in Finnish public use properties. In summer 2019, Hemfosa acquired an educational property and five office properties that are leased to public sector tenants in the Helsinki metropolitan area. Hemsö Fastighets has increased its Finnish portfolio heavily during the past couple of years. The latest investment of Hemsö is the development project of two fire station properties in Oulu.

Hotel projects in central Helsinki





KTI Finland is an independent research organisation and service company providing information and research services for the Finnish real estate industry. KTI maintains extensive databases on returns, rents, transactions, operating costs and customer satisfaction measures in the Finnish property market. Based on these databases, various kinds of benchmarking and analysis services can be provided. KTI's clients comprise major property investors, managers, occupiers as well as service providers in the Finnish market. KTI is owned by the Finnish Real Estate Federation and RAKLI, the Finnish Association of Building Owners and Construction clients.

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