



The Finnish Property Market | 2017

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Preface

The Finnish Property Market 2017 discusses the structure, players, market practices and conditions in the Finnish property investment market. The report aims to satisfy the information needs of international investors and other players interested in the Finnish market.

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

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

This publication is sponsored by 10 companies and organisations representing the Finnish property investment, development, management, finance and advisory sectors. KTI wishes to thank our sponsors: The City of Helsinki, KIINKO Real Estate Education, LocalTapiola, Newsec, Ovenia, RAKLI, SATO, SEB Group, Sirius Capital Partners and Skanska.

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

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

Hanna Kaleva
KTI Finland

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

Basic facts about Finland

GEOGRAPHY	
Total area	338,000 square kilometres
Distances	1,160 km north to south 540 km east to west
PEOPLE	
Population	5.50 million Density: 18 inhabitants per square kilometre Helsinki 2,933 per square kilometre Uusimaa region (southern Finland): 178 per square kilometre Lappi region (northern Finland): 2 per square kilometre
Languages	Two official languages: Finnish, spoken by 88.7% Swedish, spoken by 5.3% Foreign languages spoken by 6.0%
Religions	Lutheran 73.0% Orthodox 1.1%
Capital city	Helsinki, 635,000 inhabitants Helsinki region, 1.5 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo, 274,000 Tampere, 228,000 Vantaa, 219,000 Oulu, 200,000 Turku, 188,000 Jyväskylä, 139,000 Lahti, 119,000 Kuopio, 118,000
ECONOMY	
GDP per capita	€38,162 (2015)
Most important exporting industries	Chemical industry products Forest and paper industry products Metal and engineering products Machinery and equipment Electronics and electrotechnical goods
Currency	Euro (since 2002)
History and governance	Independent democracy since 1917
	Member of the European Union since 1995
Head of State	President of Republic, Sauli Niinistö (since 2012)
Parliament	One chamber, 200 members, elected for 4 years. Current parliament elected in 2015. Biggest parties: The Center Party (49 seats), The Finns Party (37), The National Coalition Party (37) and The Social Democratic Party (35).

1 The Finnish economy

1.1 The structure of the economy

Finland is an open, well-functioning and stable economy, where industrialisation started later than in most other OECD countries but has proceeded rapidly during the last few decades. Strong growth, innovation and structural reforms transformed Finland into one of the world's most competitive economies during the late 1990's and early 2000's.

Services are currently the biggest sector of the Finnish economy. In 2015, services accounted for some 70% of the Finnish GDP. Private services make up some two thirds of all services, the most important sectors being trade, transportation, information and communication, as well as real estate services.

"Services account for some 70% of the Finnish GDP"

Due to its great importance for Finnish exports, industrial production has had a great impact on the growth of the Finnish economy. However, during the past years, the share of industrial production has decreased, while that of services has increased. In 2000, industrial production accounted for some 30% of the Finnish GDP. By 2015, its share has fallen to some 20%.

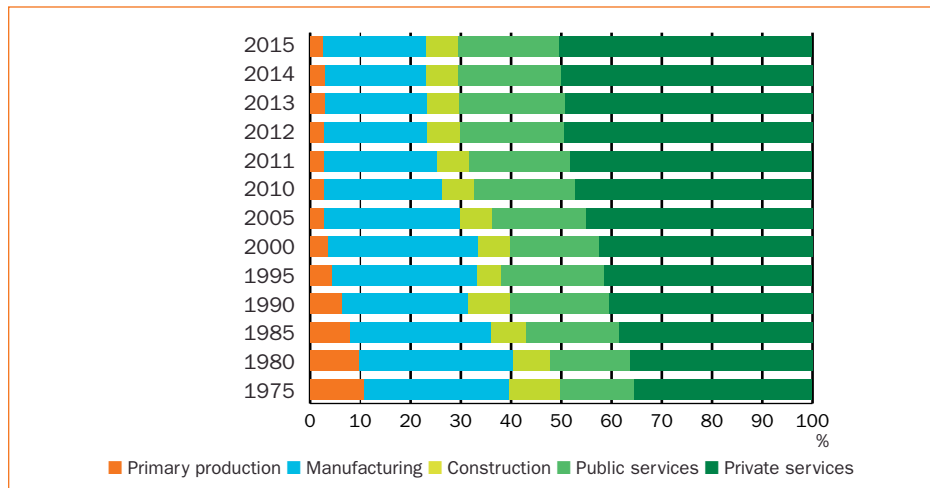
The biggest industrial sector in 2015 was metal industries, which accounted for some 41% of the total industrial production. The biggest categories within metal industries include mechanical engineering, electronics and electrotechnical industry, metals industry and information technology industries. Chemical and forestry industries both accounted for approximately 20% of total industrial production. Of the main industrial sectors, forestry and electrotechnical industries have decreased in importance during the past decade, while the share of chemical industries has increased.

The importance of foreign trade for the Finnish economy is crucial, and changes in exports have a profound impact on economic growth. Exports played an important role in the strong growth of the Finnish economy in the 1990's and early years of 2000's. At its highest, the share of exports of the GDP was some 45% in 2008. Since the global financial crisis, however, the international competitiveness of Finnish industrial production has deteriorated, and the share of exports has declined.

"The Finnish economy is dependent on exports"

During the past years, a big share of investment goods in Finnish exports has brought about difficulties, as demand for investment goods has been depressed by weak economic

Finnish economic structure



Source: Statistics Finland

conditions in many important target markets. In 2015, investment goods represented some 29% of the total exports.

The share of services of all exports has increased steadily in recent years. In 2015, services represented almost one third of all exports. Services requiring high technology and engineering skills are characteristic for Finnish service exports.

In 2015, exports accounted for some 38% of the Finnish GDP. The biggest exporting industries included chemical industries (some 19% of total exports), pulp and paper industries (17%) and metal industries (15%).

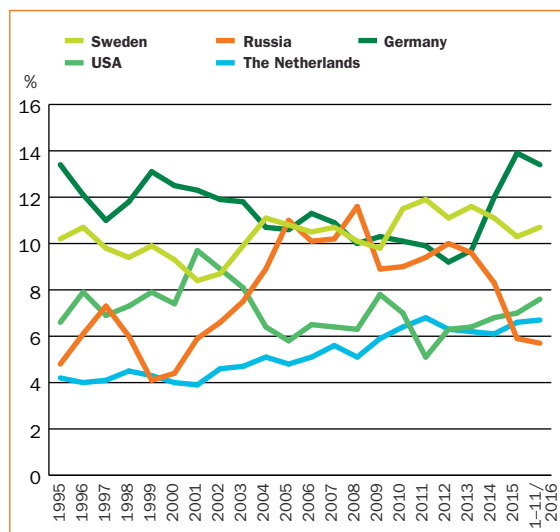
In 2016, the total volume of the Finnish exports of goods decreased by some 4% compared with the previous year. However, the decrease was mostly caused by the decline in the exports of transport vehicles, due to the temporary break in the production of cars in the Valmet Automotive factory in Uusikaupunki. In 2017, the production will accelerate again

and this is expected to support the total volume of Finnish exports to turn to a significant growth in the coming years. Valmet Automotive's growth has, in recent years, supported the economic growth and employment in Western Finland, and the company is currently one of the largest contract manufacturers in the vehicle industry in the world.

"Outlook for the Finnish exports turning more positive"

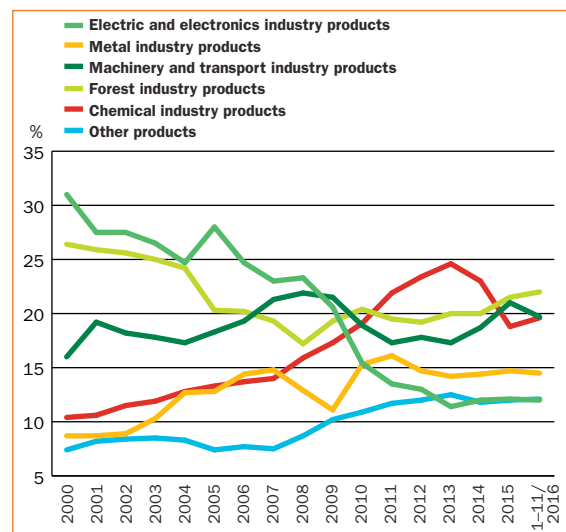
Also on several other important industrial sectors, the volume of exports is expected to accelerate in 2017. There are, however, significant risks associated with the outlook for the Finnish exports, caused by, for instance, uncertainty and risks for increasing protectionism related to Brexit and the recent US presidential election.

Finnish foreign trade by target area



Source: Finnish Customs

Finnish exports by industry sector



Source: Finnish Customs

The majority of Finnish exports go to other EU countries, accounting for 59% of total exports in 2015. The two biggest target countries are Germany and Sweden with shares of some 14 and 10%, respectively. The share of Russia has declined steadily in recent years, and was less than 6% in 2015. The USA accounts for some 7% of Finnish exports.

1.2 Outlook for the Finnish economy

Finnish GDP growth has remained sluggish ever since the global financial crisis: in 2009, the GDP collapsed by 8.3%, after which years 2010 and 2011 showed only slight growth. Between 2012 and 2014, the total production decreased every year, and in 2015, the GDP growth ended just slightly in positive territory, at 0.3%. Due to this, the absolute volume of production has still not reached the peak level of 2008. The short-term competitiveness has deteriorated due to the increase in costs and structural changes in the economy. In the longer term, however, competitiveness is stronger, thanks to the well-functioning infrastructure and education system.

"Finnish economy showing positive signs"

During 2016, the economy started to show positive signs. According to the latest estimates, the GDP growth was some 1.6% in 2016. Towards the end of the year, the outlook became more positive, and economic forecasts for the coming years were increased.

In 2016, the growth of the Finnish economy was mainly based on private consumption and construction. According to the latest estimates, private consumption increased by

some 2.1%. Both retail trade and sales of services increased, supported by improving employment and low inflation.

The volume of Finnish exports decreased slightly compared to the previous year, but the decrease is expected to be temporary. Private investments increased in all categories: investments in construction, infrastructure, machinery and equipment, as well as research and development all showed positive development. In total, private investments increased by some 3% in 2016.

"Construction sector is boosting the Finnish economy"

Growth in construction was one of the main drivers of the growth of the Finnish economy in 2016, with construction investments increasing by some 6.5% compared to the previous year. Construction was boosted by the active residential construction in particular, as the demand for housing remains strong in all major cities.

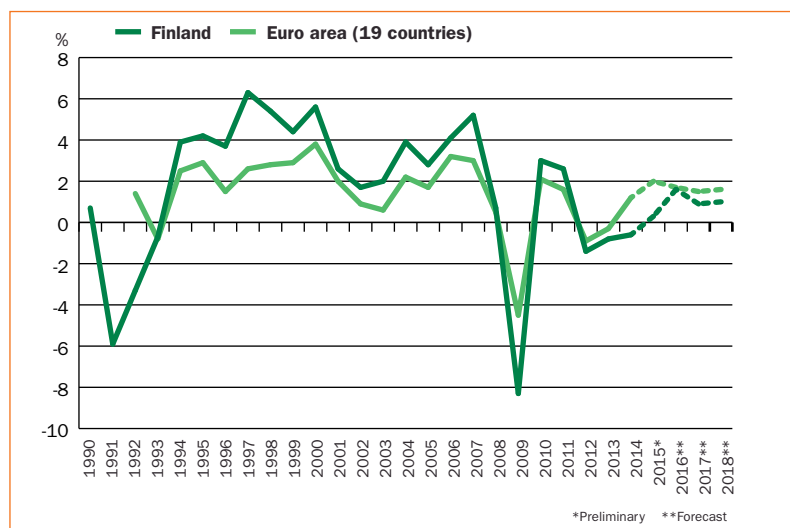
In a recent Business Tendency Survey of Confederation of Finnish Industries EK, the general business outlook was expected to improve gradually. The companies responding to the survey anticipated moderate growth for their sales and production output for the first half of 2017. Also in this survey, construction sector had the most positive expectations. Also service and industrial sectors' outlook indicators had improved markedly between October 2016 and January 2017.

For 2017 and 2018, a stable but moderate growth is forecasted, with annual GDP growth figures varying between 1 and 2%. The growth will be more broadly based than in recent years. Private consumption will continue to grow moderately



Photo: City of Helsinki

GDP growth in Finland and in the Euro area



Source: Eurostat, OECD, IMF, Ministry of Finance

and growth in exports is expected to accelerate. According to EK, corporate investments are expected to continue increasing by some 4%. Growth in construction is expected to continue, although at a slower pace than in 2016. There are, however, various risks associated with the Finnish GDP growth. The positive outlook is dependent upon growth in exports, and if this does not materialise, domestic confidence might also deteriorate.

"Unemployment decreased in 2016"

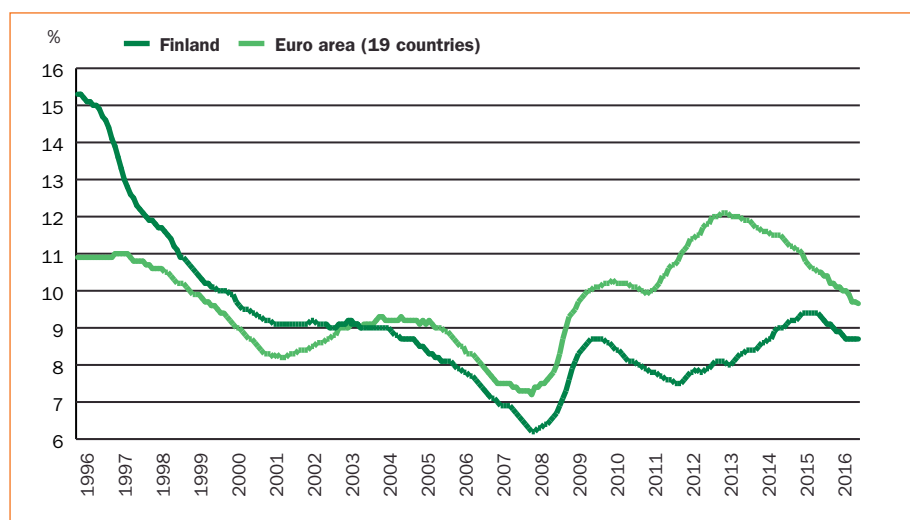
Employment improved in 2016, with the overall employment rate ending at close to 69%. Unemployment rate stood at some 8.6%. Employment increased in the construction sector in particular. The unemployment rate is expected to continue decreasing in 2017; however, any rapid decline in

unemployment is unlikely, as the demand is mainly targeted at skilled workforce, and the supply does not meet the demand.

Due to weak economic conditions, inflation has remained very low in recent years. Together with the improving outlook, inflationary pressures are starting to increase slightly. Consumer prices are also supported by the stabilised oil price. However, inflation rate is expected to remain moderate, at some 1.5% in both 2017 and 2018.

The indebtedness of Finnish households has increased markedly in recent years, but it still stands at a moderate level compared with many other countries. At the same time, the financial assets of households have grown, and the net wealth has thus increased. At the end of the third quarter of 2016, the total amount of loans of the Finnish households stood at €142 billion, which represents 126.9% of disposable income. The vast majority of all debt is housing loans. Due to the rapid growth of indebtedness, the Bank of

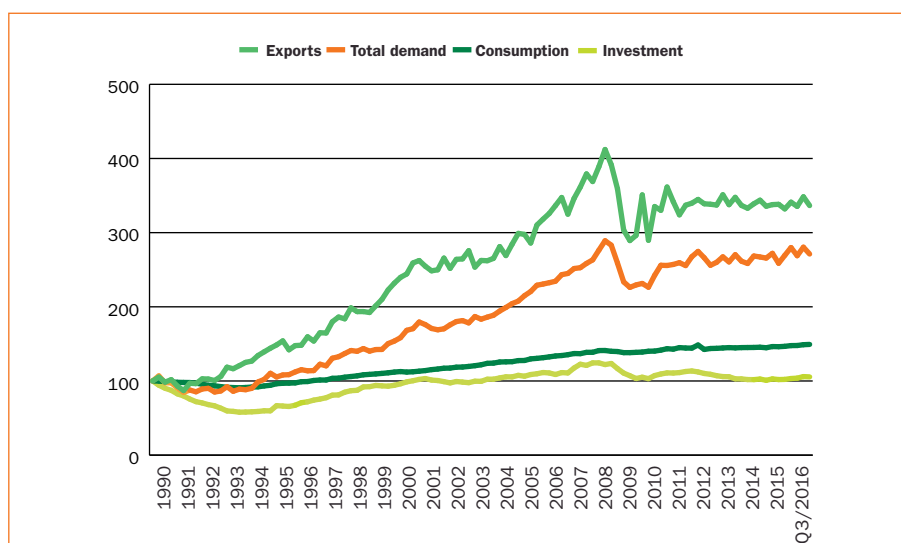
Unemployment rate in Finland and in the Euro area



Source: Eurostat, Bank of Finland and Statistics Finland

Main components of demand

Volume index 1990=100, seasonally adjusted



Source: Statistics Finland

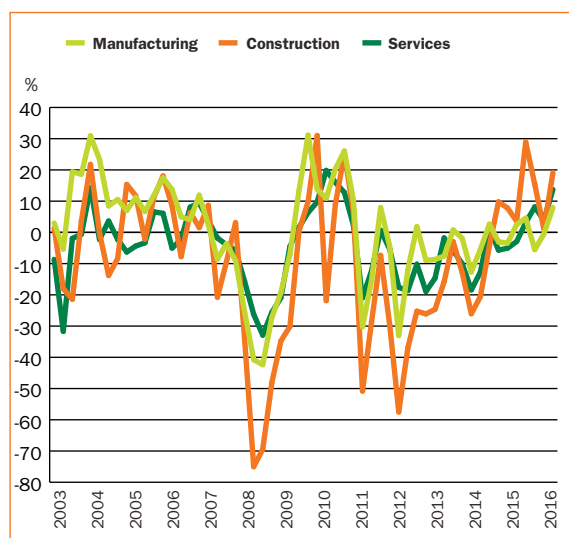
Key figures – Finnish economy

	2009	2010	2011	2012	2013	2014	2015	2016	2017**	2018**
GDP (change in vol), %	-8.3	3.0	2.6	-1.4	-0.8	-0.6	0.3*	1.6**	0.9	1.0
Change in exports, %	-20.1	6.2	2.0	1.2	1.1	-2.7	2.0*	1.0**	2.4	3.2
Inflation, %	0.0	1.2	3.4	2.8	1.5	1.0	-0.2	0.4	1.3	1.3
Unemployment rate, %	8.2	8.4	7.8	7.7	8.2	8.7	9.4	8.8	8.5	8.1
Private consumption growth, %	-2.7	3.1	2.9	0.3	-0.5	-0.6	1.5	1.2	0.7	0.6

*Estimate **Forecast

Source: Statistics Finland, Ministry of Finance

Business tendency indicators



Source: EK

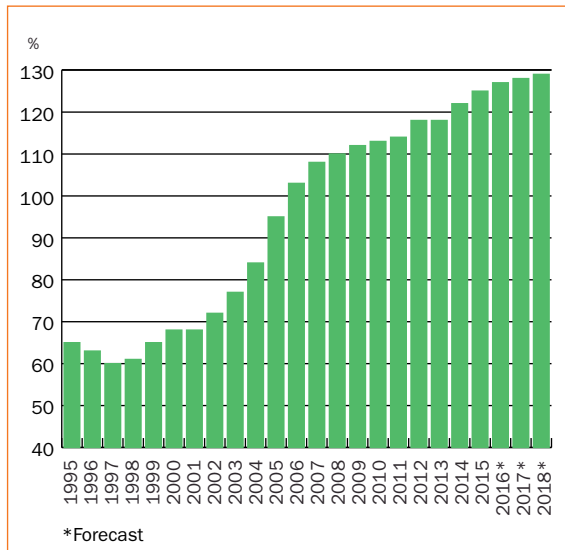
Finland now considers the amount of housing loans as a risk for the stability of the financial markets.

In recent years, the Finnish economy has been pressured by both domestic and global drivers. The competitiveness of Finnish exporting industries has deteriorated, mainly due to the increase in labour costs and weak development of productivity compared with most peer countries.

"Competitiveness Pact aims at supporting the Finnish exporting industries"

In 2016, the Finnish government initiated a Competitiveness Pact, the main objective of which is to support the competitiveness of the Finnish exporting industries and thereby boost economic growth and support fiscal adjustment. The key contents of the Pact include the lengthening of working hours by 24 hours per year, zero wage increases for 2017 and the transfer of some employer

Indebtedness ratio of Finnish households



Source: Statistics Finland

contributions to employees. In return, the government has committed to cutting some income tax and refraining from cutting any further public expenditures. Through the main trade unions and employers' federations, the Pact covers more than 90% of the Finnish workforce. The Pact is expected to support Finnish economic growth, although only in the longer run. In the shorter term, the Pact's impact will be even slightly negative as it limits the growth of both private and public consumption.

1.3 Finnish public finances

Challenges faced by Finnish public finances have increased significantly during the past few years due to the weak economic conditions and the structural change of the economy. The government budget has been in deficit since 2009, and is likely to remain negative until the end of this decade. This means that the general government debt continues to increase even though substantial fiscal consolidation is pursued in order to reduce the deficit.

General government in Finland consists of the central government, local government, and social security funds.

Of these three areas, the central government has shown the most negative development in recent years due to its sensitivity to cyclical fluctuations in tax revenue. Local government balance has also turned negative and is expected to remain so until the end of the decade. Of the social security funds, pension related funds remain in a slight surplus thanks to their consistent revenue from both pension payments of the Finnish workforce and investment income. However, this surplus has decreased due to both increasing amounts of pensions paid out and a challenging investment environment. Other social security funds show a deficit due to increasing public costs of unemployment.

Finland's general government deficit exceeded the 3% reference value for the first time in 2014. In 2015, the deficit was pushed under the threshold by the government's savings measures. Public investments were cut, the number of public sector workforce was decreased and the growth of pensions and social security benefits was reduced. In 2016, the economic growth supported the contraction of the deficit, which was estimated to end at some -2.3%. However, in 2017, the public sector's financial position will be pressured by the Competitiveness Pact, as some social security payments as well as income taxes are cut, and the improving economy is not expected to cut the deficit. In the longer term, the Pact's impacts will be neutralised through the improving employment situation.

"General government deficit is expected to decrease"

The public debt has continued to increase in recent years. The amount of government debt exceeded the threshold of 60% of the GDP in 2015, ending at some 63%. At the end of the third quarter of 2016, the amount of general government debt stood at €131 billion. However, due to both the slightly decreasing amount of debt and the GDP growth, the debt ratio decreased slightly, to some 61.6%. Despite the increase in recent years, the amount of general government debt still remains clearly lower than in most other EU countries.

Achieving the 60% debt ratio requires some structural reforms. Public spending will be increased as the ageing of

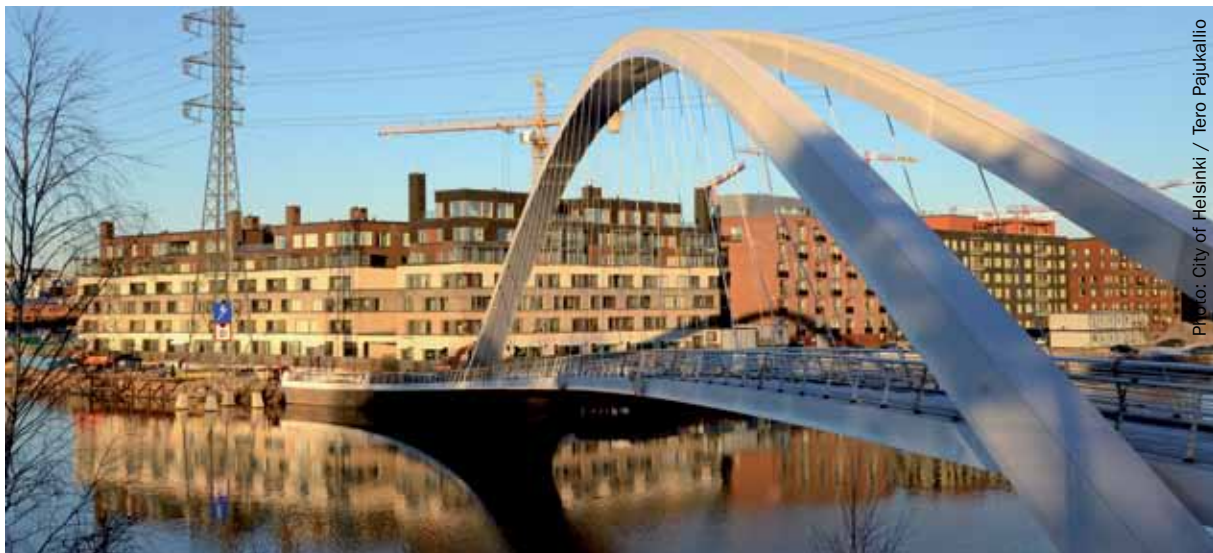


Photo: City of Helsinki / Tero Pejukallio

the population increases pension payments. Therefore, other public expenses have to be cut, or, alternatively, income must increase. Public sector employment costs are currently being reduced through the reduction in the workforce, which means that productivity needs to be increased. Other means of supporting the public finances include, for instance, structural reforms in public service provision, changes in social security payments and boosting the economy through public sector support.

"The welfare society is based on a comprehensive supply of public services"

The Finnish welfare society is largely based on a comprehensive supply of public services, including, for instance, free education and healthcare, social support for families in the forms of child allowances for all families and municipal day-care provision, which is widely used in all income categories. Extensive public responsibility and tax funding are the cornerstones of the Finnish social welfare society. As a result, government expenditure as a share of GDP is the highest in the OECD, and accounts for some 58% of total production.

Funding of the welfare society is largely based on a high level of taxation. The tax rate in Finland is among the highest in the OECD countries, and stood at 44% of GDP in 2015. This was only exceeded by Denmark, France and Belgium.

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

There are currently 311 municipalities in Finland. Municipalities differ from each other significantly with regard to their size, economic structure and financial position. Significant differences are seen in the development of the size of the municipalities: most significantly, the biggest economic challenges are faced by the smaller municipalities that face 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.

"Current government is pursuing their program through six focus areas"

The current government, which started after the parliamentary election in 2015, defined in its program six focus areas, under which they pursue various so called leading projects. The focus areas include competitiveness and employment, knowhow and education, welfare and health,

bio / clean economy, reforms in regulation and digitalisation of public services, as well as reforms in public service provision. Some of these leading projects will increase public spending in the short term, but are expected to benefit the public economy in the longer term.

One of the most significant reforms in the current government's agenda is the restructuring of the management and provision of social and healthcare services. The reform also includes profound development of the regional government structure. The organisation of healthcare and social services will be transferred from municipalities to 18 self-governing counties in the beginning of 2019. The reform is one of the biggest ever administrative restructurings in the Finnish history. In addition to healthcare and social services, the new counties will be responsible for rescue services, environmental issues, regional development duties and tasks related to the promotion of business enterprise, planning and steering of the use of regions and promoting the identity and culture of the counties.

"A major regional government reform is underway"

The main objectives of the healthcare and social service reform include improved control over the increasing costs as well as increased freedom of choice for citizens between public and private sector service providers. Productivity of the services is expected to increase through centralised management, increased competition, as well as digitalisation and improved information systems for healthcare service providers. The aimed annual cost saving is some €3 billion.

"New counties will be responsible for healthcare and social services"

The legislation concerning the reform is expected to be submitted to the Parliament in early 2017, and to come into force on 1 July. The first county councils are planned to be elected in early 2018, and counties will start operations in the beginning of 2019. One of the most important pieces of regulation in the reform is the bill concerning the client's freedom of choice. The bill outlines the framework for choosing the healthcare service provider among the accepted social and health centres, which will comprise both public and private providers.

"Due to the reform, a proportion of healthcare properties will be left vacant"

The reform will also impact the ownership and financing of public healthcare properties, the current technical value of which is estimated to be some €4-5 billion. Most of these properties are currently owned by the Finnish municipalities or municipal federations. A separate company has been



established to own and manage the properties currently owned by municipal federations, comprising mainly large central hospitals. The company will also manage all lease agreements of the properties that municipalities have rented from private landlords.

In addition, the counties will rent all the properties currently owned and operated by the municipalities for a transition period of three years. After this, the counties will define the premises needed for their service provision in the longer term. It is expected that a part of the current properties will not be needed by the counties, and would thus be left vacant after the transition period. However, the amount of excess space and its impact on the municipalities' finances is yet to be defined.

1.4 Finland's international competitiveness

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

The long-term credit ratings for Finland remain strong, although they have deteriorated slightly recently. Standard & Poor's, Moody's, as well as Fitch have all rated Finland in the second best category, at AA+ / AA1. Both Moody's and Fitch state that the outlook for Finland is stable, whereas, according to Standard & Poor's, the outlook is negative. The recent downgradings of the ratings were based on the weak economic outlook and increasing public indebtedness. On the other hand, Finland's strong institutions and highly skilled

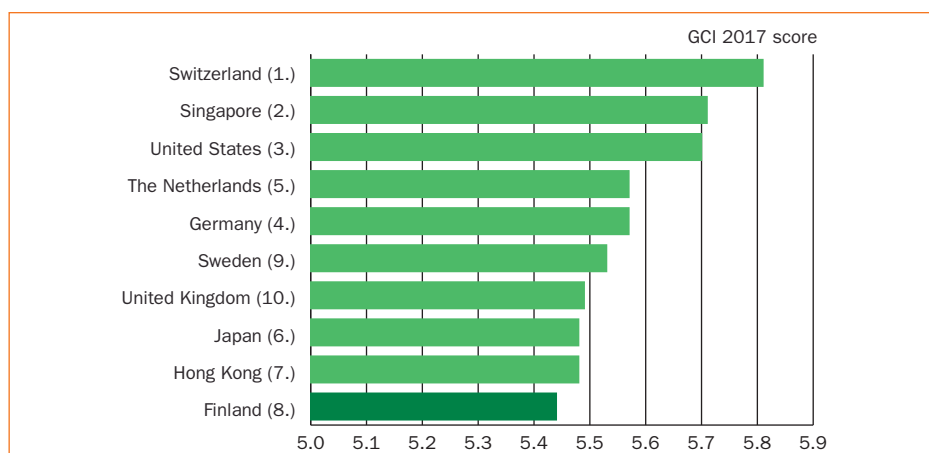
workforce are appreciated by the rating agencies. Despite the deteriorated ratings, the Finnish government continues to be able to acquire funding at a very low cost.

**"Strong credit ratings
guarantee funding at a low
cost"**

In the latest World Economic Forum's Global Competitiveness Report, published in September 2016, Finland's position deteriorated slightly compared to the previous year. Finland was now ranked tenth among the 138 evaluated countries, after having been in eighth place in 2015. Of the other Nordic countries, Sweden now improved its position and, for the first time in several years, outperformed Finland.

In the ranking, Finland continued to perform well with regard to the functioning of the institutional framework. Other Finnish strengths include health and primary education, higher education and training as well as the development of the financial market. In the availability of scientists and engineers, Finland was ranked number one, and in the quality of math and science education, number two in the world. The drop in Finland's ranking was mainly due to the weak macroeconomic development. Restrictive labor regulation is identified as the most problematic factor for doing business, although the report acknowledged the government's planned reforms in this area.

The most competitive national economies in 2017 (ranking in 2016)



Source: World Economic Forum

"World Economic Forum's Global Competitiveness Index ranks Finland 10th in the world"

In IMD's World Competitiveness Ranking of 2016, Finland retained its 20th place. This ranking emphasises business efficiency, which is evaluated through, for instance, productivity of companies and labour market flexibility. In this ranking, Sweden, Denmark and Norway were all included in the top 10.

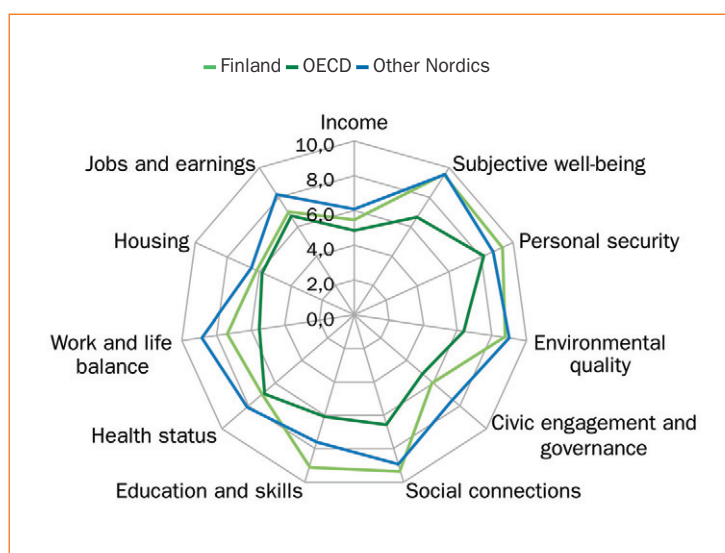
Finland is known as one of the least corrupt countries in the world. In Transparency International's Global Corruption Perceptions Index for 2016, Finland was ranked third among 176 countries, after Denmark and New Zealand. The report identified strong access to information systems, rules governing the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

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

Other rankings assessing economic conditions where Finland performs well include Fund for Peace's Fragile State Index, where Finland ranked number one among 178 countries, as well as Legatum Prosperity Index, where Finland was 3th among 149 countries. Also in a recent study of political rights and civil liberties by the US Freedom House, Finland was ranked number one, together with Sweden and Norway.

"The Finnish education system is highly appreciated in international comparisons"

OECD Better Life Index 2016



Source: OECD Economic Survey of Finland 2016

Finland typically also ranks well in reports comparing the quality of living in various countries. In OECD's Better Life Index 2016, Finland was ranked at the eighth place. In this comparison, the strengths of Finland include, for example, the quality and accessibility of the education system, environmental quality, safety and overall life satisfaction of citizens. Also in Eurostat's comparisons of quality of life, the Finn's overall life satisfaction was ranked high, at the 2nd place among 28 EU countries.

Helsinki also ranks well among the global cities. In Economist Intelligence Unit's Global Liveable Cities, Helsinki was ranked 2nd among 140 cities. The comparison looks at 30 factors related to safety, health care, education, infrastructure and the environment. In the Cities in Motion comparison, conducted by IESE, Helsinki was ranked 25th out of 181 cities globally. In this ranking, Helsinki was number one in "social cohesion" and 2nd in "environment".

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.

"Well-functioning institutional framework and stability are seen as key strengths of the Finnish economy"

The overall business environment is also reflected in the comparisons conducted in the property markets. The Finnish property market is regarded as one of the most transparent in the world. JLL's Global Real Estate Transparency Index of 2016 ranked Finland among the six "highly transparent" European markets.

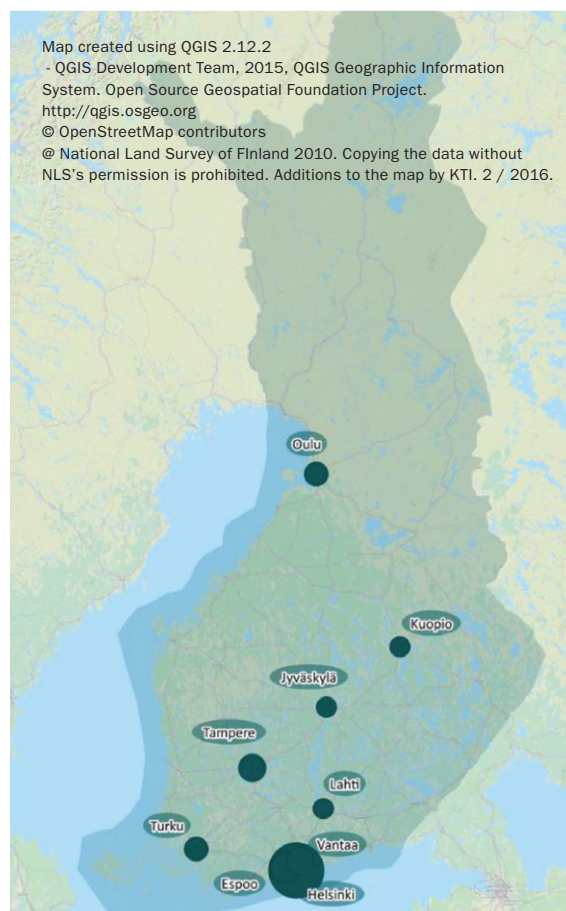
Pricewaterhouse Cooper's and Urban Land Institute's report *Emerging Trends in Real Estate Europe 2017* ranked Helsinki on the 18th place. The prospects for investment remain rather strong, whereas those for property development are regarded as "fair". Even in development prospects, the ranking improved compared to 2016.

1.5 Main city regions in Finland

Urbanisation has proceeded fast in Finland in recent years. In 1990, some 60% of the Finnish population lived in urban areas, and by 2015, some 69% of the Finnish population lived in the 14 biggest city regions. By 2040, their share is expected to increase to at least 75%. These 14 biggest city areas currently represent some 75% of the Finnish GDP and 70% of all jobs.

"Urbanisation proceeds in Finland"

Main city regions in Finland



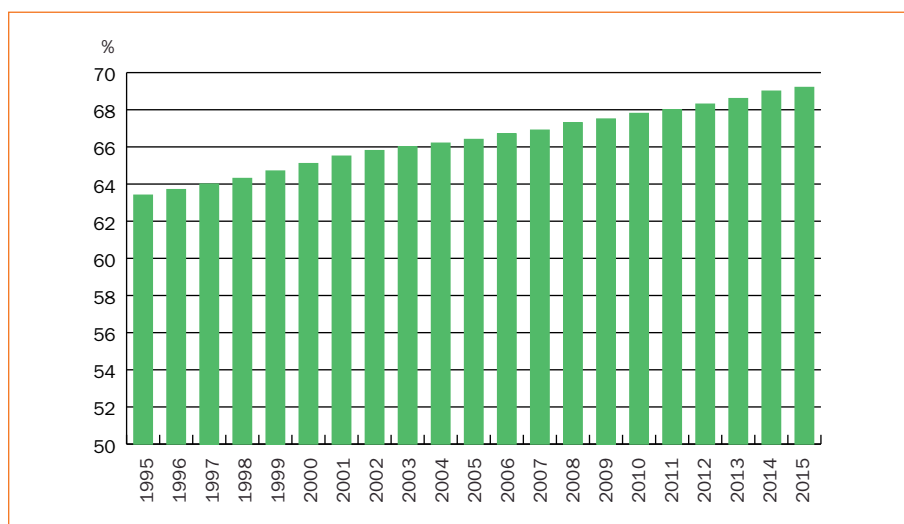
Urbanisation has been and will be a result of both internal migration and immigration. Within Finland, moves are weighted towards the young or working-age population, which increases the challenges for, for instance, maintenance of public service provision in regions suffering from negative migration.

Growth has and is expected to be fastest in the Helsinki region, which currently accommodates some 1.4 million inhabitants. The main cities in the region include Helsinki, Espoo and Vantaa, which, together with the smaller city of Kauniainen, form the Helsinki metropolitan area. In recent years, the population of the Helsinki region has been increasing by 17–19,000 inhabitants per annum, and, by 2050, the population is forecasted to increase to 1.7–1.8 million. On average, the population in Helsinki is clearly younger than in the whole country. The Helsinki region currently represents some 26% of the population, 36% of the GDP and 31% of all jobs even as the land area only represents only 1.2% of the whole country.

Residential demand in main city regions

Increasing urbanisation, demographic development and changes in housing preferences have a profound impact on housing markets in Finland. The demand for small, well-located apartments has increased both in owner-occupied and rental housing markets, whereas the need for single-family houses and large apartments has decreased. Currently, some 90% of the residential construction is concentrated in the 14 biggest city areas.

Share of population living in urban areas



Source: Statistics Finland

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

	Helsinki region	The regions of Tampere, Turku and Oulu	14 biggest city regions
Population (2015)	27.3	17.5	68.3
Jobs (2014)	32.0	17.5	71.7
Private-sector jobs (2014)	35.1	17.9	74.3
GDP (2013)	36.4	17.1	74.1
Research and development expenditure (2013)	46.8	28.6	89.7
Completed dwellings (2010-2015)	30.4	21.1	76.1

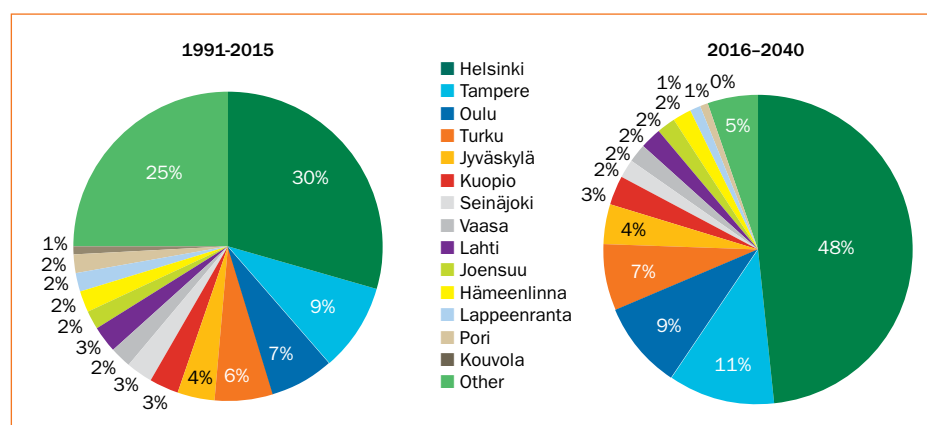
Source: Statistics Finland

In its study on residential demand by 2040, published in 2015, the VTT Technical Research Centre of Finland bases its forecasts on two different scenarios. In both scenarios, the Finnish population is estimated to grow to 5.8 million by 2040. In the "conservative" scenario, population growth estimates are based on current regional structure. In the "urbanisation" scenario, migration to 14 main city regions is estimated to accelerate, and result as an increase of some 625,000 inhabitants by 2040.

"Urbanisation increases housing demand in main city regions"

In the latter scenario – which, according to VTT is more likely – the need for new dwellings would concentrate in

Geographical distribution of housing production in main city regions



Source: RT

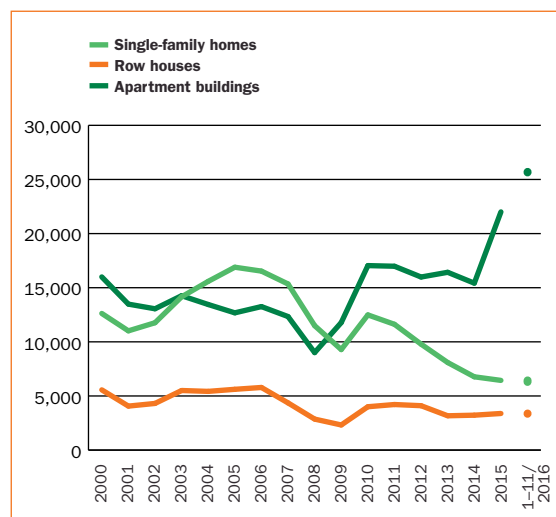
14 main city regions, where almost 29,000 new dwellings would be needed annually. In this scenario, the increase in residential demand would be heavily weighted towards the largest cities. The Helsinki region alone would represent almost half of the increase.

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

The increasing need seems to have been apprehended by developers; in 2016, residential construction starts increased significantly and amounted to some 36,000 dwellings, which is some 10% more than in 2015 and even 40% more than in 2013–14. New development was concentrated on main cities, and smaller apartments in apartment houses. New development is boosted by strong investment demand, which will result as increased supply of private rental housing in main cities. Of the starts of apartment building construction in 2016, the Helsinki region alone accounted for some 45%.

"Growth of the Helsinki region boosts residential development"

New construction starts 2000–2016



Source: Statistics Finland



Photo: City of Helsinki

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 property company is a commonly used structure to organise property ownership"

The Housing Companies Act and Decree regulate mutual real estate companies that operate in the housing sector (*asunto-osakeyhtiö*). These regulations are always applied when

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

"In MRECs, rental agreements are made between the shareholder and the tenant"

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

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

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

The other type of real estate company is a standard limited company (*kiinteistöosakeyhtiö*), founded for the purpose of owning a certain property or properties. In these companies,



Photo: Skanska CDF Oy

the shares are not connected to any specific premises. Rental agreements are made between the tenant and the company, and the company is responsible for maintenance and operating costs, which it covers with the rental income. The real estate company can pay out dividends to its shareholders.

Impact on market practices

Owning property through a mutual real estate company is a more flexible form of ownership, for example in cases where the ownership of a building is divided among several owners. The transfer tax rate is also lower: 2% on the shares of the limited company versus 4% on direct property. Transactions are also less complicated compared to direct ownership of real estate.

The decision-making and management procedures of a mutual real estate company are defined in the company's articles, which have to fulfil certain requirements set by law. An individual owner's degree of control depends on their share of ownership, unless otherwise agreed in the company by-laws.

Due to its flexibility and transparency, the mutual real estate company is a common way to organise the ownership and management of property. In practice, the majority of commercial property transactions in the Finnish market are made by transacting the shares of real estate companies. These transactions are not public by law.

Legislation concerning renting and transactions

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

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

"The Finnish legislation concerning renting and transactions is simple and liberal"

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

2.2 Market practices of property investment and renting

Property investment

Developments over the last decade in the Finnish property market – which includes the emergence of new players, increased internationalisation, professionalism and more sophisticated analysis – have resulted in new practices in property investment processes. This has also increased the demand for specialist services in property transactions.

The ways transaction processes are carried out partly depend on the market situation. In 2015–2016, high investment demand has encouraged the sellers to carry out extensive auction processes in order to find the best solution. Before that, during the quiet years in 2009–2013, tailored approaches to identify the potential individual buyer were more common.

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

The current market conditions have also brought about new types of players in the market. During 2015 and 2016, some new companies have been established, offering both advisory and management services as well as sometimes acting as co-investors with foreign investors.

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

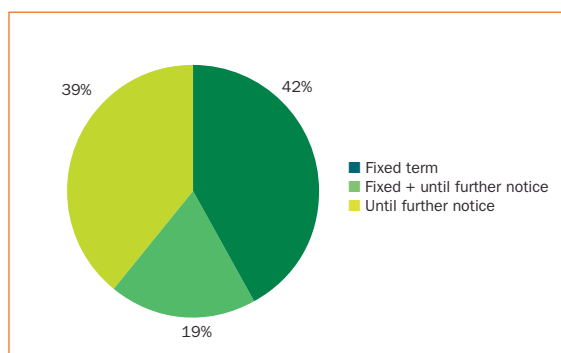
Rental practices

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

"Finnish rental agreements are typically short and provide flexibility for tenants"

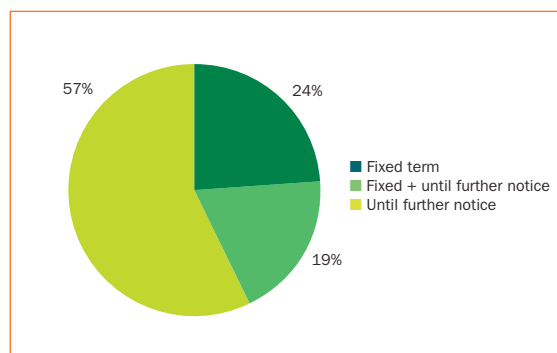
A common term in Finnish lease agreements is "until further notice": an indefinite contract is valid until either the tenant or the landlord wishes to terminate it after an agreed notice period, which is typically three, six or twelve months. These indefinite lease terms are especially popular in multi-tenant office buildings and smaller spaces. The landlord must, however, have an acceptable cause to terminate the contract. Rent adjustment, tenant mix changes, or rearrangement of the property portfolio are among the conditions used to justify lease termination. In KTI's rental database, measured by the number of agreements, some 68% of all office agreements in Helsinki are indefinite. Measured by total space area, their share is 63%. Despite their flexibility, indefinite leases often last for long periods.

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



Source: KTI Rental database

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



Source: KTI Rental database

"Indefinite lease terms are common"

When fixed terms are used, the contract periods are typically quite short compared with many other countries. In multi-tenant office buildings, a typical fixed term is from three to five years. In the commercial property market, it is also common to agree on a fixed-term lease, which then continues automatically for an indefinite period – with an agreed notice period – until one party wishes to terminate it.

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

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

Traditionally, rental agreements are for "gross rent", which includes net rent plus a service charge covering typical operating costs and minor repairs.¹ Gross rents are very common in multi-tenant buildings in all property types. Measured by number of agreements, some 80% of office agreements in the KTI rental database are for gross rent. In some cases, the landlord recharges the maintenance cost separately to the tenant. This kind of agreement is typically called a "shared rent". When, for example, some business services are included in the agreement, the total rent includes the base (net) rent as well as a separate service charge.

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

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

Rents can be indexed freely in all indefinite leases and in fixed-period leases where the term exceeds three years. The Consumer Price Index is the most commonly used index. In recent years, as operating costs have increased more rapidly than overall inflation, some landlords tend to index their rents to operating cost indexes.

Turnover-based rents are sometimes, but not very commonly used in shopping centres, and they usually consist of a minimum base rent supplemented by an agreed share of turnover. However, the turnover-based part of the rent is typically quite low, as the landlord wants to secure a stable base for their cash-flow.

In over-supply situations, various means to attract and retain tenants have been applied. For instance, rather than decreasing the rent levels, landlords tend to offer rent-free periods, stepped rent increases and tenant improvements, among other things. This has been clearly seen, for instance, in the Helsinki metropolitan area office markets in recent years, when increase in supply has coincided with decreasing demand.

2.3 Planning

Land use in Finland is regulated by the Land Use and Building Act. The system has three levels of land use plans: a regional land use plan, a local master plan and detailed local plans. Regulations and guidelines that complement the legislation in the Land Use and Building Act are included in the National Building Code. More detailed regulations and controls on land use and construction are included in the Land Use and Building Decree.

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)

National principles for land use and regional structure are defined by the Council of State. These national principles of land use are reflected in the regional plans, which embrace structural, functional and environmental considerations. Regional plans are drawn up and approved by Regional Councils, who, since the beginning of 2016, also have the powers to confirm the plan.

Regional plans and steering of land use is one of the tasks that will also be moved to the new 18 counties in 2019. They will take over the tasks of the current ELY centres, which currently promote and steer planning and land use.

"Regional reform will also impact land use and planning"

The local master plan is an instrument for guiding and coordinating land use at a general level. It is produced by local authorities, but needs to follow the guidelines of the regional plans. Detailed local plans are used to regulate the building and formation of the physical townscape. In addition, every local authority has its own building ordinance, the content of which is defined according to local needs. In the current act, local authorities have extensive powers to make independent decisions in land use planning matters.

The Land Use and Building Act obligates municipalities to adopt an open and interactive approach to planning. The local planning process is aimed at facilitating the involvement of all those concerned in planning: landowners, residents and businesses in the area.

Building permits are approved by municipalities. A building permit may be granted if the plan allows the type and size of building that is being applied for. Special permits to exceed the building right or change the use of the property can also be granted, although these are typically difficult to obtain, and permit processes typically take a long time.

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

The current government is aiming to simplify the regulation concerning land use and planning and thereby speed up the planning and construction permit processes. First steps were taken in the beginning of 2016, when the authority for confirming regional plans was moved from the Ministry of the Environment to Regional Councils.

"The current government is simplifying and speeding up planning and building permit processes"

In late 2016, some 20 reforms regarding the Land Use and Building Act were submitted to the Parliament. Most of the changes are minor, and deal with sparsely populated areas, where, for example, permanent use of second homes is being made easier. The complaint processes will also be made faster and rights for complaints will be limited. Business-wise, the most significant reform concerns regional control and coordination over the plans and building permits for large retail units.

The current legislation emphasises the position of city centre as the location for retail; outside this, large retail units can only be developed in locations with good public traffic connections, which have to be designated in the plan. In the legislation, the concept of "large" is defined at 2,000 sqm for units with local coverage area. The new proposed legislation increases the hurdle to 4,000 sqm, which 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.

2.4 Taxation in Finland

Taxes in Finland are levied on behalf of the government, municipalities (local government), the Social Insurance Institution and various social security funds listed under some forty different headings.

The bulk of taxation in Finland is derived from two categories: taxes on income, profits and capital gains on one hand, and taxes on goods and services on the other. In 2016, the total tax revenue amounted to €56.7 billion, which shows an increase of 2.8% compared to the previous year. Personal income taxes accounted for some 54% of the total tax revenue, while value added taxes' share amounted to some 26%.

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

Some deductions are allowed in individual taxpayers' taxation. Part of the deductions are made from earned income (for example, part of housing loan interests and costs of journeys to and from work), whereas some are made directly from taxes (eg. costs of domestic help). For capital income, there are different deduction rules, and typically expenses related to investments (for example, management fees, interests and refurbishment costs) are fully deductible. Deduction rules also differ between municipal taxation and central government taxation.

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

The highest state tax rate is 31.5% of earned income. Municipal tax rates for 2017 vary between 17% and 22.5%. As a part of the Competitiveness Pact, the government committed to lower the income taxation. However, as part of the Pact, employees' social security contributions were increased, whereas those of employers were decreased in order to lower the hurdles for employment.

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

The level of taxation in Finland is clearly above the average for OECD countries. The Finnish ratio of total taxes to GDP in 2015 was 44%. In the OECD, the average stands at 34.3%.

Regional government reform will have a major impact on taxation. Currently, healthcare and social services are the biggest expense category of the municipalities. In the future, these expenses will be transferred to counties, which will get their funding from the central government.

"The regional government reform will impact the structure of taxation"

In the reform, taxation is planned to be reformed to reflect the transfer of duties from municipalities to counties. It is estimated that municipal tax rates will be lowered by 12.3 percentage points on average. At the same time, central government tax rates will be increased accordingly. The reform is planned to be implemented in accordance with the Government's policy outlines in such a way that taxation on labour will not be increased and the overall tax rate will not rise. Therefore, the government plans to set an upper limit for municipal tax rates for a transition period following the reform.

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).



² For tax purposes, persons present in Finland for a period of less than six months are considered non-residents. They pay tax in Finland only on income received from Finland. Finnish employers collect a 35% tax at source on wages, unless they have received a tax-at-source card instructing otherwise. The earned income of persons staying in Finland for more than six months is taxed according to the same rates as that of permanent residents of Finland. However, foreign "key employees" may qualify for a special tax at the flat rate of 35% during a 24-month period if they receive any Finnish-source income for duties requiring special expertise. For these "key employees", specific rules concerning work and salary levels apply. See www.vero.fi

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 about 70% of the market value of the property. The revenue goes to the municipality where the real property is situated. Land used in forestry or agriculture is exempt from real property tax.

Minimum and maximum tax rates are regulated by the parliament, and municipalities decide the rates within this range. The minimum property tax rate currently stands at 0.8% and maximum at 1.55% of the taxable value per annum, and is set at 1.06% on average. Tax rates for permanent residences can vary between 0.37% and 0.8%. The average rate is currently 0.49%.

A special tax rate of 1.0–4.0% is levied on unbuilt lots. In the Helsinki metropolitan area, this tax rate is set to be at least 1.5 percentages higher than the general property tax rate.

Property taxes typically represent some 20% of the total annual operational costs of office properties, and some 7–8% of those of residential properties. Their share has increased constantly during the past couple of years, as pressures for increasing property taxes have continued.

Capital gains taxes

Tax on investment income (interest, net rental income and capital gains) currently stands at 30%. Capital income exceeding €30,000 is taxed at 34%. Financial costs, such as interest expenses that are directly related to the investment income, are deductible. Capital loss made on investment is deductible from capital gains in the year of the loss, or, if not possible in that year, during five following years.

Non-residents have a limited tax liability on capital gains in Finland. Rental income is typically taxed at 30% also for non-residents. Of dividends, interests or royalties received from Finland, the payer withholds a final source tax. For dividends, a 30% tax rate is applied on the disbursement to non-EU and non-tax-treaty countries. Finland has special tax treaties with several countries, which normally set a lower percentage for this tax. If the shares fall into the category of direct investment, and the beneficiary company fulfils the requirements of the Parent-Subsidiary Directive, no tax at source is levied.

Taxation of dividend income is partially double-taxed in Finland. The tax consequences depend on the type of company that pays the dividend – whether it is publicly listed or not – and also, for non-listed companies, on the net assets of the company.

Transfer taxes

Tax on the transfer of real property is 4% of the transfer price. Transfer tax for transactions made by buying shares in a housing or real estate company is 2.0% of the transfer price.³ The tax base covers the total transaction price, comprising both the actual sales price and potential debt of the mutual real estate company.

The transfer of securities is tax exempt if the transaction takes place through the stock exchange or if both the buyer and seller are non-residents. Shares in a real estate or housing company are, nevertheless, always subject to transfer tax.

Transfer tax is usually imposed on the purchaser.

Corporate taxation

Income-tax obligations of a company or organisation are largely determined by the form of corporate entity. In the case of limited companies and cooperative societies, the profits are taxed as income attributable to the entity itself. The corporate income tax rate currently stands at 20%.

According to the current legislation for the taxation of dividends, shareholders of a limited liability company will be taxed as provided by specific rules, depending on, for instance, the tax status of the shareholder-beneficiary and whether the company is publicly listed or not. In a non-listed company, the taxation of dividends is also dependent on the mathematical value of the company. Of the dividend income from a listed company, 15% is tax-free, and 85% is taxed as capital income at a 30% / 34% tax rate. The total tax rate of dividends paid by listed companies is thus either 25.5% or 28.9%.

Of the dividends from a non-listed company, 25% are taxed as capital income. 75% of the dividends are tax-free, provided that the amount of dividend does not exceed the level of 8% return calculated on the mathematical value of the shares. If the dividends exceed this 8% threshold, 75% of the exceeding amount is taxed according to the progressive income tax rate. For dividends exceeding 150,000 euros, 85% are taxed as capital income even though the 8% limit is not exceeded.

In the case of a self-employed professional individual, a self-employed business entrepreneur or a general or limited partnership, the profits are fully taxable as income of the owner-shareholder.

Companies residing in Finland are liable to pay tax on their worldwide income. Non-resident companies are taxed on their income derived from Finland and all income attributable to a permanent establishment in Finland. In principle, a company from a non-tax-treaty country is liable to tax, regardless of any permanent establishment.

The concept of income considered in corporate taxation is rather broad because it covers several income types, such as proceeds from selling merchandise, rental income, fees and compensation for work or services and the profits from investing in financial assets. Expenses incurred in acquiring or maintaining a business are, with certain limitations, mostly deductible. According to Finnish accounting rules, income and costs are registered in the year of delivery (not payment) of goods or services.

Costs for acquiring fixed assets are deducted by depreciation in taxation. The declining balance method applies to the depreciation of buildings and other structures. Depreciation for each building is calculated separately, with a maximum

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.

rate varying from 4% up to 25%, depending on the type of building or structure.

Taxation of partnership structures

Taxation issues are of great importance in structuring real estate fund structures. In real estate funds targeted for domestic investors, limited partnership structures are most commonly applied. In principle, partnership is a pass-through structure from a taxation point of view, and income and capital gains are taxed according to the investor's own tax status. This is very important, for instance, for Finnish pension funds, which receive special treatment in taxation and do not pay any taxes on their investment income.

"Limited partnerships are pass-through entities in taxation"

The interpretation of a partnership's tax status might depend on the organisation and the type of activities of the fund. Taxation of a partnership's income generated by property business can be taxed either according to income taxation rules or as business income. Therefore, the tax authorities should be consulted when the fund structure is set up. However, Finnish partnership structures cannot be beneficially applied for funds targeted at foreign investors. These kinds of funds, are, therefore, typically domiciled outside Finland.

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

Value added tax

Value added tax (VAT) is another tax that is relevant for property investment. The standard VAT rate currently stands at 24%. VAT is calculated on the total charge for goods and services. There are some lower VAT rates for

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	0.8–1.55% 0.37–0.8% (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

specific groups of goods and services. For food products the VAT rate is 14%, and for books, medicine and certain services, the rate is 10%.

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

Under Finnish VAT legislation, a taxable entity is also entitled to deduct VAT included in the costs for the construction of a new building as well as the restoration of an existing building, provided that the relevant property is intended for the use of a VAT taxable business activity. This deduction will then be revised if the use of the property entitled to a deduction decreases or if the ownership of the property is transferred within a set revision period. In some circumstances, an increase of taxable use could also lead to a revision that is proportionate to the lapse of time. This means that the full amount of deducted VAT will not be subject to revision but only a decreased amount in accordance with and proportionate to the time lapsed under the revision period. The revision period has also been extended from a five-year period to a ten-year period.

Due to the regulation, the VAT liability of the tenant is of great importance for the owner. Tenants who are not VAT liable typically need to compensate the impact of "lost" VAT deductions with higher rent. Examples of non-VAT-liable organisations include associations, charities and companies in the banking and finance sector.



Photo: Skanska CDF Oy

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

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

2.5 Legislation for indirect property investment

Property funds

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

"Property funds are often structured as limited partnerships"

The Finnish legislation also enables the establishment of special investment funds 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. These funds are open-ended structures managed by a separate fund management company. Provisions for investments in and redemptions from these funds are stipulated in the fund rules. The rules may include limitations on the redemption and subscription frequency, and relatively long redemption periods may be applied. The long-term gearing level of these funds is restricted to 50% of the total value of the fund. These funds are not taxable entities and are considered as fully transparent for Finnish tax purposes.

"Special investment funds targeted at private investors have grown significantly in recent years"

The first fund under this framework was launched in late 2012. Since then, several more funds with varying strategies have been launched by various banks and investment management companies. These funds are, to large extent, targeted at private investors. They have grown substantially in recent years as low interest rates and the strong performance of property investments have attracted capital to these funds.

The largest special investment funds investing in property include those managed by eQ (one fund investing in care properties and another in commercial property); Ålandsbanken (two residential property funds and one investing in residential building lots); and OP Property Management (a fund investing in residential and commercial properties).

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. There are currently three significant property companies listed in main list of the Nasdaq Helsinki exchange: Sponda plc, Citycon plc and Technopolis plc. Smaller listed companies include Investors House and Suomen Hoivatilat.

A limited liability structure is also widely used in non-listed companies investing in real estate. There are, for example, major residential property investment companies that are organised as normal limited liability companies. In recent years, the limited liability company structure has also become more common in joint venture structures.

The possibility for tax-exempt listed property companies, the structure resembling internationally known REIT-structures, has currently been given only for companies investing in rental residential properties. The provisions for tax transparency for these kinds of companies require the companies to invest only in rental residential properties, to limit its debt capital to a maximum of 80% of the balance sheet, to pay out 90% of the profit as dividends and to comply with strict accounting rules. The company needs to be listed within three years of its foundation. Due to the limiting provisions set by the legislation, the framework has not become very popular.

Orava Residential REIT, managed by Orava Funds plc, is currently the only company operating under this specific regulatory framework. The shares of Orava Residential REIT have been listed on the main list of the Helsinki Stock Exchange since 2013.

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

3.1 Investment market in 2016

Property transactions volume reached a new record level of €7.4 billion in 2016. Compared to the previous year, this represents a growth of some 35%. It is also some 18% higher than the previous record of 2007. In every quarter of the year, transactions volume exceeded €1.5 billion.

"Record amount of transactions carried out in 2016"

In 2016, both the number and average size of transactions increased compared to the previous year, reflecting the multifaceted investment demand. The biggest transaction of the year was carried out by Sponda, who acquired the Forum block, including the 40,000 sqm shopping centre Forum, for €576 million. This is the third largest property transaction in Finland in the past three years.

Another exceptionally large transaction was the acquisition of ICECAPITAL Housing Fund II by VVO, accounting for more than 2200 residential apartments being sold. VVO also sold some 8500 subsidised housing units to Y-Foundation. These transactions, together with some major portfolio acquisitions of SATO and continuous growth of residential investments of property funds and pension funds, contributed to the large share of residential properties in transactions volume, which increased to some 38%.

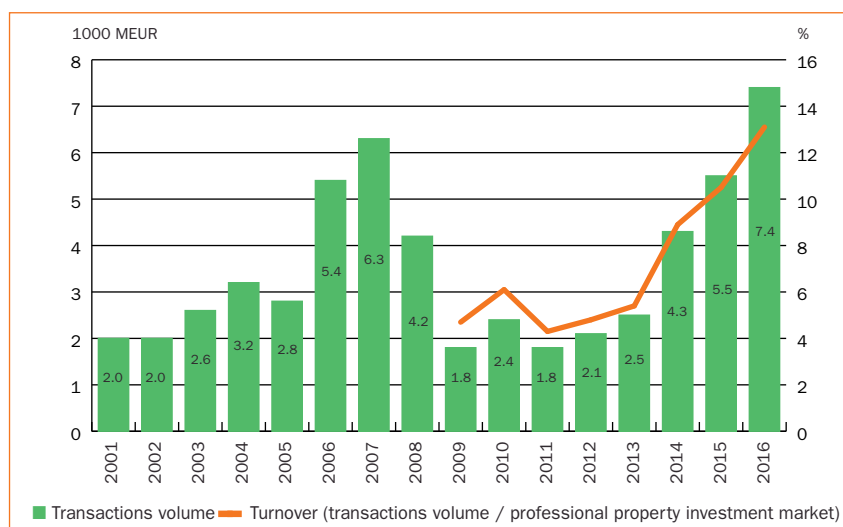
Office and retail properties' combined share of all transactions was clearly lower than in recent years, ending at 45%.

Foreign investors accounted for some 28% of all transactions. While the absolute amount of foreign investments increased from the past couple of years, their relative share was lower than in the past, and the growth in transactions volume was mainly boosted by domestic players. At its highest in 2007, foreign investors accounted for 60% of all transactions. In 2016, foreign investors sold some €1 billion worth of properties, with their total investments in Finland continuing to increase. According to the KTI statistics, eight new foreign investors entered the Finnish market in 2016. Many of these new investments were characterised by new types of partnerships or co-investment structures with domestic players.

The increased activity in the transactions market contributed to the proportional turnover in the property markets. In relation to the total market size, transaction volume increased to some 13.1% of the invested property stock, which is the highest relative volume within the past couple of years.

"New foreign investors continued to enter the Finnish market in 2016"

Transactions volume and turnover in the Finnish property market



Source: KTI



Photo: City of Helsinki

3.2 Ownership structure

At the end of 2016, the size of the Finnish professional property investment market amounted to some €58.2 billion. Compared to the previous year, this represents a growth of 3.7 billion euros or 6.8%. The increase in the market size was mainly a result of newly developed properties in investors' portfolios, in the residential sector in particular. Through corporations' and public sector's property sales to investors, some €400 million worth of properties came into the investment market. The overall capital growth of investment properties contributed to the growth of market size by some 0.6%.

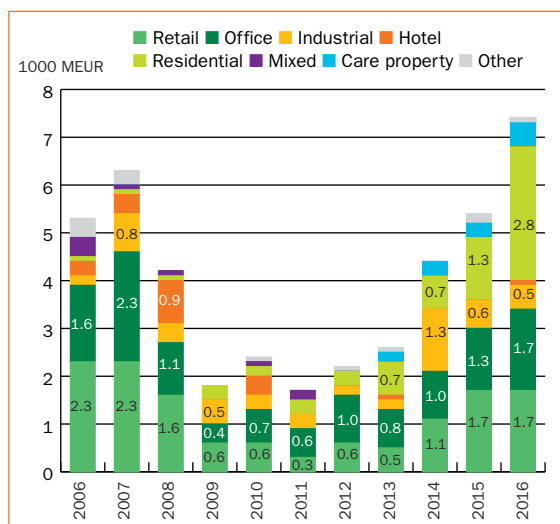
"In 2016, the Finnish invested property investment market grew by 6.8%"

Institutional investors' share of the total investment universe declined slightly, to some 27%. In 2016, institutional investors sold fewer properties than in the previous year, and, due to some major acquisitions, they became net purchasers in the transaction market. At the same time, they continued investments in residential property development. As a result, their absolute investments grew slightly, while their share of the total investment market continued to decrease.

The share of non-listed property companies increased from some 20 to 22% in 2016. Also listed property companies carried out some major acquisitions, which increased their holdings to €6.9 billion or 12% of the total market. Domestic property funds were active in both selling and acquiring properties, and their share of the total market remained unchanged.

The list of the biggest property investors has changed markedly in the past years. Property companies' and funds' portfolios have increased while those of institutions have

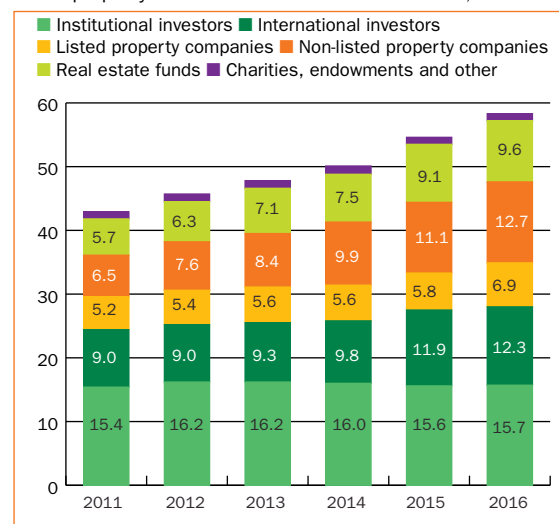
Transactions volume by property sector 2006-2016



Source: KTI

The structure of Finnish property investment market by investor group

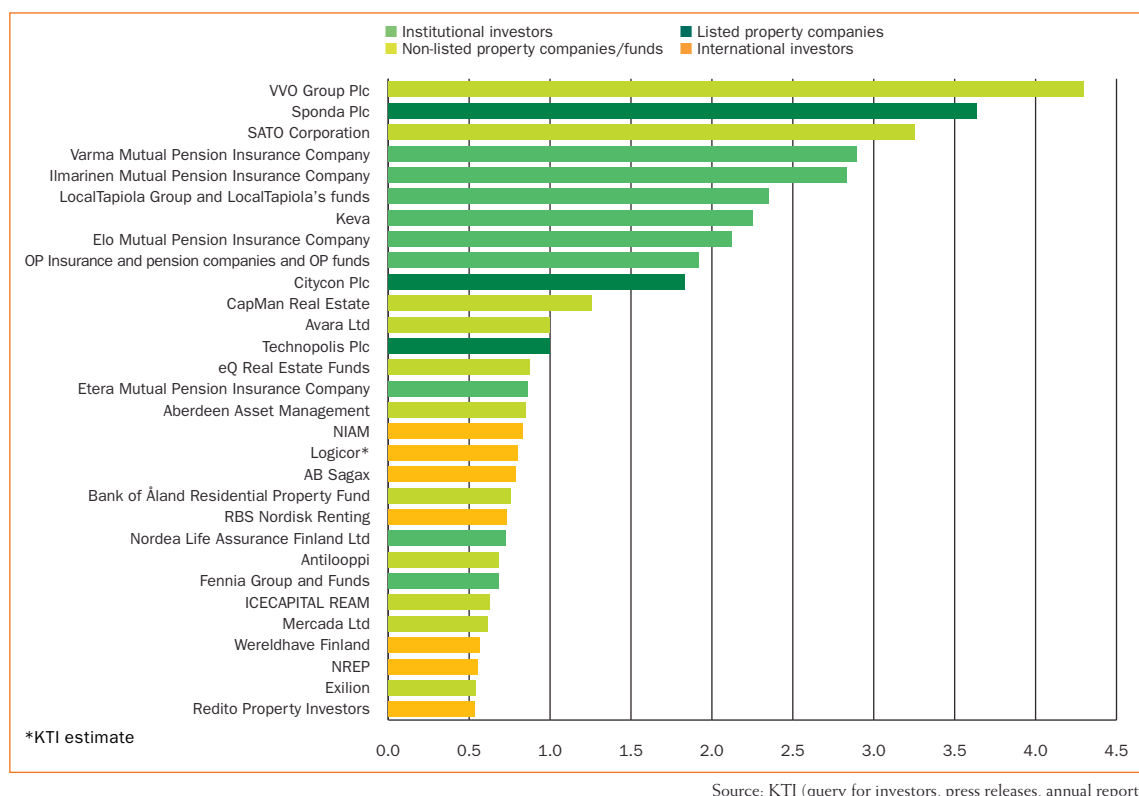
Direct property investments in Finland 2011-2016, EUR billion



Source: KTI

Direct property holdings of 30 biggest property investors in Finland

Property assets under management at the end of 2016, EUR billion



decreased or remained unchanged. Several new international players have also entered the top-30 list in recent years. The average portfolio size has also increased significantly: at the end of 2016, the portfolio on the 30th place in the ranking of largest investors amounted to more than €530 million. At the end of 2015, the same ranking was reached with a portfolio of some €430 million. At the same time, the value of the portfolio ranked on the 10th place increased from €1.5 to €1.8 billion.

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 €184.5 billion at the end of the third quarter of 2016. Since the end of 2015, the assets had increased by some €3.6 billion. The increase was mainly a result of the strong performance of the equities market.

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. The increase in pension funds' investment assets is thus currently based on returns on existing investments.

Calculations on the long-term pension money flows are based on the assumption of a 3.5% annual real return on investments. However, due to the challenging investment environment, the return expectations have been lowered to 3% for the next 10 years, after which the expectation will be increased back to its original level. According to TELA, the real return on private sector pension institutions' investments has amounted to 4.2% per annum on average in the past 20 years. In the past ten years, the return has been clearly lower, at about 3%.

Finnish public sector pension institutions operate under a different solvency framework than private sector institutions, and thus have different investment strategies and allocations. They typically have a larger equity exposure, resulting in slightly higher investment returns. In the private sector pension insurance companies' portfolios, the share of listed equities was 30.3%, while that of public sector institutions' portfolios was 37.6%, at the end of the third quarter of 2016.

Pension insurance companies are the biggest players in the private pension sector. There are currently five major companies: Varma, Ilmarinen, Elo, Etera and Veritas. In the public sector, there are two major pension funds, Keva and the State Pension Fund. In addition, there are several smaller company or industry specific pension funds.

At the end of the third quarter of 2016, 48% of the pension institutions' assets were invested in listed shares or other equity investments. Some 44% of the assets were invested in bonds and money market instruments.

"Property represents some 8.1% of pension institutions' investment portfolios"

At the end of third quarter of 2016, the share of property investments in Finnish pension institutions' portfolios was 8.1%, amounting to €14.9 billion. Both absolute and proportional amounts of property investments decreased during 2016, having been €17.1 billion or 9.5% at the end of 2015. This change is, however, mostly explained by the change in data collection and grouping, where pension institutions' loans to their own property companies were previously categorized as property investments, but are currently included in the investment loan category.

The vast majority, some 77% of pension institutions' property investments, are invested in Finland. Of all investments in Finland, property represents some 23%. In 2016, direct domestic investments increased slightly.

Finnish pension institutions' property portfolios are dominated by direct domestic investments. Their share has, however, decreased in recent years, and currently stands at 72% in all institutional portfolios on average.

Of pension institutions' all property investments, some 26% are indirect. Indirect investments are made through both funds and different kinds of investment companies. Pension institutions are major investors in many domestic property funds. In several recent transactions, property holdings have typically been restructured in joint venture investment company structures.

During the first three quarters of 2016, the amount of foreign property investments by pension institutions increased from €2.9 billion to €3.5 billion. Foreign investments are made predominantly through non-listed funds. In recent years, the

biggest pension institutions have also made direct or joint venture investments outside Finland. Ilmarinen, for instance, has invested in several large office properties around Europe and the US together with other pension funds. Varma and Keva have invested in shopping centre properties in Sweden, and, most recently, Elo and Varma made a joint investment in a major office tower in Frankfurt in late 2016.

The majority of foreign investments are in Europe, but some institutions, for example Ilmarinen and Keva, have also invested in Asian and US property markets.

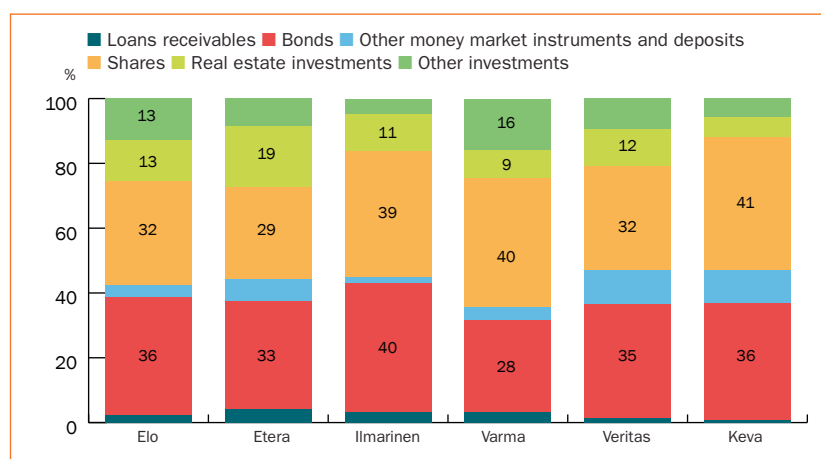
"Finnish institutions have made joint venture investments in foreign property"

Varma and Ilmarinen are the two biggest pension insurance companies in the private sector, with total investment portfolios of €42.9 and €37.2 billion, respectively. Both are also major property investors, and have implemented major restructurings in their portfolios in recent years.

At the end of 2016, Varma's direct domestic property portfolio amounted to €2.9 billion (€3.3 billion at the end of 2015). In the past years, Varma has been active in transferring parts of its property investments into indirect structures by selling assets to property funds and companies. In late 2016, Varma continued this strategy by selling a €130 million office portfolio comprising 15 properties to a fund managed by Tristan Capital Partners. Varma remained a 19% shareholder of the portfolio. Varma invests abroad through both non-listed funds and joint venture structures. In total, Varma's property holdings amounted to €3.6 billion at the end of 2016.

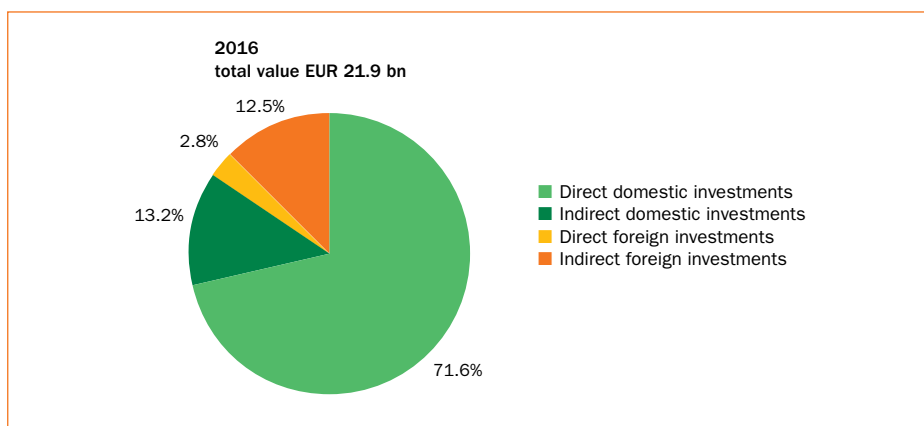
"Large institutions continued restructuring their property portfolios in 2016"

Investment portfolios of pension insurance companies



Source: The Finnish Pension Alliance TELA

Real estate exposure of the Finnish institutions



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

After having been a major player in several large transactions and restructurings in 2015, Ilmarinen was not involved in any major deals in Finland in 2016. At the end of 2016, the total value of Ilmarinen's direct domestic property portfolio amounted to €2.8 billion (€3.0 billion at the end of 2015). Ilmarinen continued to increase its investments outside Finland, and entered into two joint venture investments in Germany and one in the Netherlands. The total value of Ilmarinen's property investment portfolio amounted to €4.2 billion in 2016.

The third biggest private sector pension insurance company is Elo with a total investment portfolio of some €21.5 billion. At the end of 2016, Elo's property holdings amounted to €2.9 billion (€2.8 billion at the end of 2015). In 2016, Elo made a major residential acquisition in Finland comprising some 1,800 dwellings. It also sold commercial properties in several transactions with a combined value of some €250 million. Elo also entered its first major joint venture investment outside Finland by acquiring the Taunus Turm tower in Germany together with Varma, Qatar Investment Authority and Tishman Speyer.

"Pension institutions increased their domestic residential portfolios in 2016"

The biggest player in the pension sector is Keva, which handles the pension matters of people employed in the state and local governments and the Evangelical Lutheran Church of Finland. At the end of 2016, Keva's investment portfolio amounted to €48.5 billion (€44.2 billion). Due to a different solvency regulation framework, Keva invests more in shares and less in bonds and property compared to private sector pension institutions. At the end of 2016, Keva's property investments amounted to some €3 billion. Keva is an active investor in non-listed property funds both in Finland and internationally. It has also started direct foreign investments through acquiring two shopping centres in Sweden in late 2015.

Of the large institutions, the only one that focuses solely on indirect property investments is the State Pension Fund (Valtion Eläkerahasto), which manages an investment

portfolio of €18.5 billion at the end of the third quarter of 2016 (€17.9 billion). The fund's statutes prevent them from making direct property investments.

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. The management of property maintenance is most often outsourced to service providers.

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

Finnish pension funds are not typically allowed to use leverage in their investments. In 2014, however, a new temporary legislation was introduced, whereby pension insurance companies can leverage their residential property investments up to 50% until 2022. The purpose of this legislation is to enhance the supply of rental residential property in the main cities. Many of them 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; their combined value amounts to some €28 billion.

Life insurance companies offer life insurances as well as voluntary pension insurances to both private individuals and corporations. They also offer investment opportunities to their clients through so called capitalisation agreements. The biggest life insurance and insurance companies are managed by the large financial institutions OP Group, Nordea, Sampo Group and LocalTapiola Group. Other life insurers investing in property include Fennia Life and Aktia Life insurance. At the end of 2015, life insurance and insurance companies' total property investments amounted to €2.5 billion, according to the Federation of Finnish Financial Services FFI.

Listed property sector

The Finnish listed property sector's combined property investments in Finland amounted to some €6.9 billion at the end of 2016. At year end, their combined market value in the Nasdaq OMX Helsinki stock exchange amounted to €4.1 billion. Compared to 2015, this shows an increase of some 10%. The growth was mainly based on the increase in the market value of Sponda, which grew significantly through the purchase of the Forum block, financing the deal partly through issuing new shares.

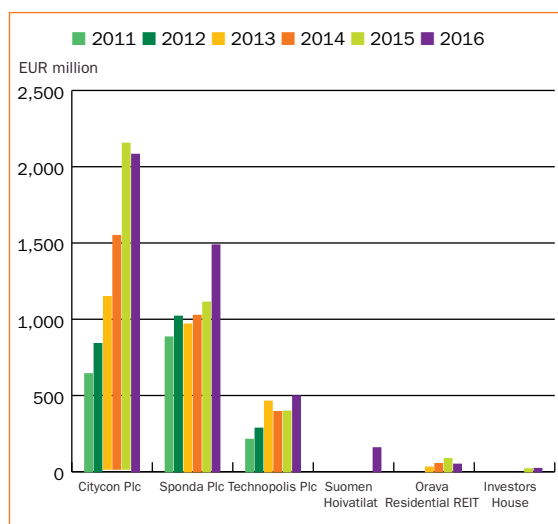
Of the six listed companies, three are significant players with large property portfolios and good share liquidity. The property investment portfolio values of the three smaller companies' vary between some €36 (Investors House) and €211 (Orava Residential REIT) million.

Citycon is a property company specialising in shopping centre investment, development and management in the Nordic and Baltic countries. In the past few years, Citycon has established its position as the biggest property company listed in the Helsinki stock exchange with its market value exceeding €2 billion. The value of Citycon's property portfolio was €4.4 billion at the end of 2016. Measured by market value, about 41% of Citycon's property assets are currently located in Finland. In total, the company currently owns 52 shopping centres, of which 20 are located in Finland. Of the market value of Citycon's properties, some 42€ are located in Finland. Shopping centre Iso Omena in Espoo is the largest of the company's shopping centres, with a gross leasable area of 83,000 sqm. The centre is currently being extended, with the first phase of the extension being completed in August 2016 and the last phases expected to be completed in spring 2017. The centre is located by the new western metro line, which is scheduled to start its operations in summer 2017.

"Citycon concentrates on shopping centres in the Nordic and Baltic countries"

Market values of the Finnish listed property companies

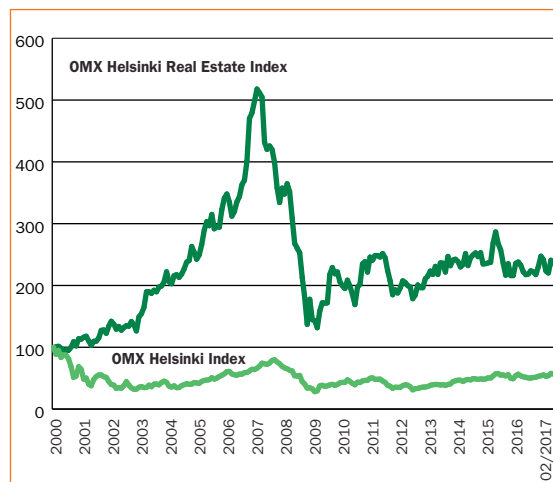
Market values at the end of year



Source: NASDAQ OMX Helsinki

Share performance of Finnish listed property companies

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



Source: Nasdaq OMX

The second biggest listed property company measured by market value, Sponda, currently focuses on office and shopping centre investment and development in the central areas of Helsinki and Tampere. In early 2016, Sponda markedly increased its portfolio by acquiring six properties in the Helsinki CBD for €576 million, comprising the Forum shopping centre and office properties in its vicinity. The company has also continued to implement its current strategy by some disposals in the Turku region and in Russia. Following the acquisition of the Forum block, the total value of Sponda's property portfolio increased to €3.8 billion at the end of 2016 (3.1 billion at the end of 2015). Sponda's most significant development project currently under construction is the 52,000 sqm shopping centre Ratina in central Tampere, scheduled to be completed in 2018. It is also developing a 9,500 sqm mixed-use property in Tikkurila, Vantaa.

Technopolis owns, develops and manages a chain of business park campuses, which combine services with modern office space. The company currently operates in 7 cities in Finland, after having disposed of its assets in Lappeenranta in 2016. Technopolis entered the Swedish market in 2016 by acquiring the Gårda campus in Göteborg for some €126 million. The company also has one campus each in Norway, Estonia, Russia and Lithuania. At the end of 2016, the fair value of Technopolis' property portfolio amounted to €1.6 billion (€1.4 billion at the end of 2015), and of these, some €998 million are located in Finland.

The share performance of the listed property companies was rather weak in 2016. The OMX Real Estate Sector price index showed a decrease of some 7.5%, while the overall OMX Helsinki index decreased by 4.6%.

Orava Residential Real Estate Investment Trust is the only listed property fund operating under the Finnish property fund legislation, which provides tax transparency for listed real estate investment companies investing in rental residential properties. The company was listed in late 2013, and at the end of 2016, the fair value of the company's portfolio stood at €211 million (€196 million at the end of 2015). The company owns some 1,700 rental residential dwellings.



Photo: Skanska CDF Oy

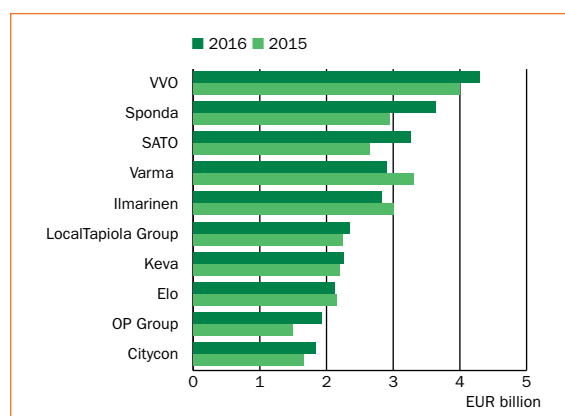
Suomen Hoivatilat is specialised in developing and leasing out care properties, including nursing homes, children's day care centers and more extensive service blocks. The company's tenants include both municipalities and private sector service operators. The company was listed in the First North marketplace in 2016 and in the main list of Nasdaq Helsinki Stock Exchange in March 2017. At the end of 2016, the fair value of the company's property portfolio amounted to €155 million, and it targets to grow to some €200–220 million by the end of 2017.

Non-listed property companies

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

Direct property holdings of 10 biggest property investors in Finland

Property assets under management at the end of 2015 and 2016



Source: KTI (query for investors)

VVO is the biggest private sector rental residential company, currently owning some 35,000 rental dwellings. At the end of 2016, the fair value of VVO's property portfolio amounted to €4.3 billion (€4.0 billion at the end of 2015). Finland's two largest private sector pension insurance companies, Varma and Ilmarinen, are VVO's largest owners. VVO's shareholders also include some major Finnish labour market organisations. Having earlier been a major owner of state-subsidised residential properties, the company currently focuses only on market-based dwellings under the housing brand Lumo.

During 2016, VVO executed several transactions to restructure its portfolio. Early in the year, the company completed the sales of some 8,500 subsidised dwellings to Y-Housing, which is a mutual residential property company administered by Y-Foundation. At the end of the year, VVO sold a portfolio of more than 1,300 apartments to a newly established property company managed by Avant Capital Partners. In the summer, the company purchased the ICECAPITAL Housing Fund II, the portfolio of which comprises more than 2,200 apartments. VVO also continued investing in new development. During 2016, VVO also announced that it had entered into a preliminary agreement to acquire some office and educational properties in central locations in Helsinki, which it plans to redevelop into residential use.

SATO's current holdings comprise some 25,300 apartments. At the end of 2016, the fair value of SATO's property portfolio stood at nearly €3.4 billion (€2.8 billion at the end of 2015). Almost 80% of the portfolio is located in the Helsinki metropolitan area, 17% in other major cities in Finland and 4% in St Petersburg, Russia. The Swedish Balder owns currently the majority – some 53% – of the company. Other major shareholders include the Dutch pension fund APG and domestic pension insurance company Elo.

SATO continued to grow in 2016. In the spring, it increased its portfolio by two major acquisitions both comprising more than 1,000 apartments, and it also acquired several smaller portfolios throughout the year. SATO also continued active new development in larger cities, and divested some properties that were not compliant with its current strategy. As a result, the net increase in the number of apartments was some 1,800 in 2016.

The third large residential investor, Avara Oy, currently owns and manages some 7,500 rental apartments with a total worth some €1 billion, mainly concentrated in the larger cities. Avara's shareholders are major Finnish institutions, with the pension insurance company Elo being the biggest shareholder in the company. According to the company's current strategy, they also pursue growth through private equity funds as well as joint venture structures. It currently manages one limited partnership, Avara Asuinkiinteistörahasto I Ky, with an investment capacity of some €250-300 million.

In the commercial property markets, the largest non-listed domestic property companies include Antilooppi and Mercada, which were both founded in 2015. In addition, the sector has grown in recent years through the establishment of several smaller companies. Many of these companies have been founded as a result of the restructurings of the pension funds' property portfolios.

"Several new investment companies have been established in recent years"

Antilooppi Oy invests in office properties in the Helsinki Metropolitan area. The company was established in 2015 and is owned by the Finnish pension insurer Ilmarinen and the Swedish AMF Pensionförsäkring. In the beginning, the company bought an office property portfolio worth some €400 million from Ilmarinen. During 2016, the company continued to increase both its staff and property portfolio through several acquisitions. Antilooppi's largest acquisition was the purchase of Merikortteli office block for some €100 million.

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

"Many companies are joint ventures between Finnish and foreign investors"

In 2016, a new investment and asset management company, Avant Capital Partners, was established. The company's primary focus is on acting as a local operator and joint

venture partner for mainly international investors. It carried out several transactions in 2016 and acquired one shopping centre, more than 3,000 residential apartments and an office portfolio. In all cases, the company brought new foreign investors to Finland as their investment partners.

Other non-listed property companies investing in commercial property include some major foreign investors that have either established an office in Finland or bought a Finnish company with an existing organisation. These include, for instance, Genesta and IVG Polar. Turun TeknologiaKiinteistöt, Renor and HYY Real Estate are examples of domestic specialised property investment companies.

Real estate fund management companies

The supply of non-listed property funds has increased significantly during the past years. The first fund products were mainly targeted at domestic institutional investors. Currently there are also several funds offered to private investors.

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

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

Finnish property fund management companies have diverse backgrounds, which also significantly affects their strategies. CapMan, which manages one Nordic and three Finnish property funds, is originally a Finnish private equity company for whom property investment is one of the business areas. In 2016, it expanded its business, and advised a German pension fund BVK in the acquisition of a residential portfolio in Finland. CapMan also manages the portfolio. Later in the year, CapMan announced that BVK had awarded them a €400 million investment mandate into Nordic residential properties.

Aberdeen Asset Management is a global investment management company that manages three Finnish property funds and also invests in Finland through its European funds. In addition, it executes alternative investment strategies on behalf of its clients.

Northern Horizon Capital is a company managing 6 property funds and 3 separate accounts. The company has 7 offices in Nordic and Baltic countries as well as in St. Petersburg and in Berlin.

"Fund management companies expand to new service areas"

OP Property Management and LocalTapiola Property Asset Management are traditional Finnish institutional investors'

property management companies that have also expanded into the fund management business. Both companies manage several funds targeted at different investor groups comprising both institutional and private investors. LocalTapiola's funds are also active in property development in both residential and commercial sectors. Their most significant development project is the Ainoa shopping centre and other properties in Tapiola in Espoo. At the end of 2016, OP Property Management's direct property assets under management amounted to €1.9 billion, and LocalTapiola managed some €2.4 billion of property assets.

ICECAPITAL, Auratum and Taaleri are examples of Finnish investment banking companies that currently offer property funds for their clients as one alternative asset class. ICECAPITAL is the largest of these managers, and its real estate funds are structured as limited partnerships and specialised in residential investment.

Trevian Asset Management is a specialised property fund management company that manages funds investing in, for example, retail and healthcare properties. They also offer asset management services to some foreign investors. In late 2016, the company established a new fund management company with the aim of managing special mutual property investment funds.

Catella Asset Management, formerly known as Amplion Asset Management, is part of Catella Group. It is a boutique Nordic real estate investment and asset management company that manages some international investors' portfolios in Finland. In 2016, the company established a new investment company, CTV Properties, which acquired a portfolio comprising 29 industrial and warehouse properties.

Sirius Capital Partners is a fund and investment management company that was established in 2015. The company manages property funds and makes co-investments on a deal-by-deal basis. Sirius' two funds invest in grocery store and daily-goods properties. All the fund's investors are international institutional investors. During the first two years of its operations, the company has carried out more than 20 transactions.

"Property funds sector continues to grow"

The mutual property fund sector has increased rapidly in recent years. Mutual funds have lots of households as investors, and their emergence has thus opened a new source of capital for the professional property investment market. The most significant managers in this sector currently include eQ Bank, Ålandsbanken, OP Property Investment, insurance company Fennia and Titanium Fund Management.

eQ Bank manages two special real estate investment funds. One of the funds is specialised in care properties and another invests in commercial properties. Both funds carried out several major transactions during 2016, and eQ almost doubled their assets under management, with the total property portfolio value amounting to some €875 million at the end of the year.

OP-Rental Yield invests in both commercial and residential properties. The fund continued to grow rapidly in 2016, and had some €1 billion of assets at the end of the year. Ålandsbanken's fund is specialised in residential property investment, and had a total capital of more than €750 million at the end of 2016. Titanium Fund Management manages one property fund investing in care properties, and another in residential properties. The combined value of the funds amounts to some €240 million. Fennia's fund Fennica Toimitilat I invests in commercial properties.

Many of the Finnish funds can be considered as club-deal-like or joint venture arrangements where a limited number of investors join forces to establish a property fund for specific purposes. Examples of these kinds of arrangements include Exilion and VVT. Exilion is a joint venture of four Finnish pension funds, and their fund has invested in office properties in the Helsinki metropolitan area. Exilion also manages a fund established to organise the ownership of Shopping Centre Hansa in Turku. VVT is a joint venture of Varma, State Pension Fund and Tradeka.

International investors

At the end of 2016, the total holdings of foreign property investors amounted to some €12.3 billion, which represents a growth of some 3.4% compared to the previous year. Foreign investors account for some 21% of the total Finnish property investment market. In 2016, foreign investors purchased some €2.1 and sold €1.1 billion worth of Finnish properties.

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

"Foreign investors made new acquisitions worth €2.1 billion in 2016"

Measured by market value of the property portfolio, the biggest foreign investors in Finland include Niam, Logicor, Ab Sagax, RBS Nordisk Renting, Wereldhave and NREP.

Niam has increased its investments in Finland in recent years. In 2016, funds managed by Niam acquired, for instance, an office property portfolio from Elo, as well as the Keilaniemi Life Science Center from Commerz Real.

Logicor specialises in logistics and manufacturing properties, and currently has 79 assets in Finland. The company is part of Logicor Group, which operates in 18 countries throughout Europe.

The Swedish listed property company Sagax has markedly expanded its operations in Finland in recent years, and has currently 279 assets in Finland. The company focuses on warehouse and manufacturing properties, but it also made some significant retail property acquisitions in Finland in

late 2015 and early 2016. RBS Nordisk Renting has mainly invested in sale-and-leaseback type of assets with long triple-net lease agreements. The company increased its Finnish portfolio through two acquisitions in 2016. Wereldhave only has one asset, the Itis shopping centre, in its Finnish portfolio. NREP is a Nordic private equity firm managing several funds with differing strategies. NREP was one of the most active investors in Finland in 2016. It made several acquisitions to its Nordic Strategies II fund, and – after having earlier focused only on commercial property sectors – also entered the residential investment market in 2016.

"Foreign investors increased their investments in the Finnish residential property market"

Some other new foreign investors also entered the Finnish residential property market, which has traditionally been dominated by domestic players. The German Bayerische Versorgungskammer BVK acquired a residential portfolio worth some €80 million in the spring. An unnamed US based investment firm was involved in two large residential property transactions together with Avant Capital Partners.

The German funds Union Investment and Deka Immobilien are major players in Finland with portfolios of several hundreds of millions. During 2016, Deka expanded its portfolio through the acquisition of a hotel property in the Helsinki CBD from CapMan's fund. Other active German investors in Finland include, for instance, PATRIZIA and Hansainvest.

The Swedish Redito is another example of Nordic investors currently active in Finland. Redito currently manages a property

portfolio worth more than €500 million in Finland, mainly comprising smallish retail assets. Of the portfolios managed by Redito, Trophi is owned by the Swedish pension fund AP3, whereas the main owners of Serena Properties include the Finnish Varma and the Swedish private equity firm Ratos.

In recent years, foreign investors have also entered the Finnish care / public use property sectors. Investors in these sectors include, for instance, the Swedish companies Hemsö and Hemfosa, who both continued to expand their businesses in Finland in 2016. Also the Norwegian Pioneer Property Group and a fund managed by AXA entered the Finnish healthcare property markets in 2016.

"New foreign players in the care property market"

In addition to BVK and Pioneer Property group, other new investors in Finland in 2016 included, for instance, the Swedish investors Alma Property Partners and CTV Properties, as well as the UK company M7 Real Estate. Also, European Property Investors Special Opportunities 4 (EPISO 4), a fund managed by Tristan Capital Partners, made an investment in the Finnish office market together with Avant Capital Partners and Varma. Goldman Sachs entered the Finnish market in December 2016 by acquiring a portfolio of 22 office, industrial and retail properties in partnership with Valad.

International capital is also invested in the Finnish property market indirectly through the Finnish property companies and funds. Large companies with significant foreign ownership include, for instance, SATO, Antilooppi and Mercada. Of the Finnish non-listed funds, for instance, CapMan's and Sirius' vehicles have mostly foreign investors.

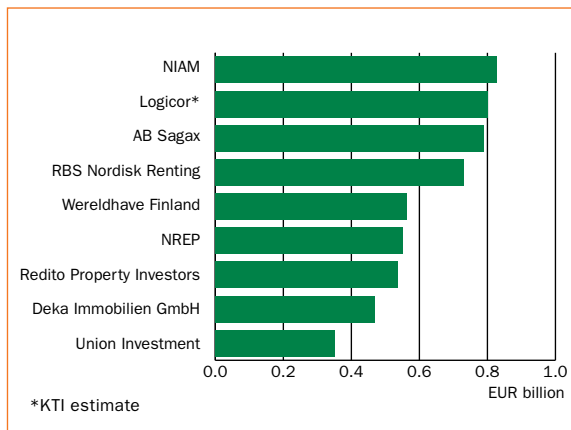
Largest direct property transactions of foreign players in Finland in 2015-2016

ASSET / PORTFOLIO	DATE	PRICE (M€)	PURCHASER	SELLER
22 retail properties	2015Q4	191.5	Serena Properties AB (managed by Redito)	Varma Mutual Pension Insurance Company
97 retail, office and hotel properties in Sweden and Finland	2016Q1	180 in Finland (total 450)	Partners Group	Sveafastigheter Fund III
Six office properties in the Helsinki metropolitan area	2016Q1	160	NIAM	Elo Mutual Pension Insurance
15 office properties	2016Q4	130	EPISO 4 fund (managed by Tristan Capital Partners) & Avant Capital Partners	Varma Mutual Pension Insurance Company
Three postal centres, one warehouse and one logistics centre property	2015Q2	120	Ness, Risan & Partners (NRP)	Posti Group Oyj
Three industrial properties, Helsinki	2015Q4	100	Logicor	Sponda Plc
EY Finland head office property, Helsinki CBD	2015Q1	93.3	Union Investment Real Estate GmbH	Etera Mutual Pension Insurance Company
186 retail properties	2016Q2	90	AB Sagax	n/a
Shopping Centre Kaari, Helsinki	2015Q3	n/a	NIAM	HOK-Elanto
Life Science Center Keilaniemi, Espoo	2016Q4	n/a	NIAM	Commerz Real Investmentgesellschaft MBH
Omega portfolio (22 office, retail and industrial properties)	2016Q4	n/a	Valad Europe & Goldman Sachs	n/a

Source: KTI

Biggest foreign property investors in Finland

Property assets under management at the end of 2016



Source: KTI (query for investors)

"The establishment of new investment managers and co-investors enable the market entry of new foreign players"

In recent years, the market entry of foreign investors has been smoothened by the establishment of new types of companies offering advisory and investment management services, and also acting as co-investors with foreign investors. The most significant new player of this kind is Avant Capital Partners. CapMan also expanded its services in 2016 when it advised BVK in its residential property investment, and also started to manage this portfolio. Trevian is another investment manager which also sometimes acts as co-investor with foreign players.

Public sector

Public sector entities are very important players in the Finnish property market. The Finnish state has concentrated most of its property holdings on a government-owned

enterprise called Senate Properties, whose task is to develop, manage and let the state's property holdings. It also acts as an intermediary in lease agreements between state agencies and private sector property investors.

Senate Properties is the largest property owner in Finland, with a property portfolio of some €4.4 billion (at year-end 2015). Its diversified 6.2 million sqm portfolio consists of offices used by state agencies and ministries, prisons and cultural buildings as well as properties used by the Finnish Army. It also manages the rental agreements of the premises rented for state agencies from the private markets. Senate Properties operate under the control of the Ministry of Finance and is currently implementing its strategy as the state's internal working environment expertise unit. The state has also started to pursue a new workplace strategy that will aim at an ambitious increase in space efficiency, which would thus free significant amounts of space to be sold by Senate properties. Senate Properties have a business unit whose purpose is to develop and/or dispose of properties that are not needed by state agencies in the long term. In 2015, Senate divested some €108 million worth of properties, and in 2016 it continued its active sales operations.

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. The third company, University Properties of Finland Ltd, has a broader shareholder base with the ownership spread to the 10 universities across Finland, together with the Finnish state as a minority shareholder. University Properties of Finland also 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. It is estimated that the Finnish municipalities' property holdings amount to around €20 billion. Some municipalities, such as the City of Helsinki in particular, also have a significant amount of space that they



let to private market players. In recent years, municipalities have started to apply more varying strategies in their service provision, which also impacts property ownership. A big proportion of, for instance, new properties needed for elderly care are currently developed by private investors, and they rent the premises to private sector service providers who sell their services to municipalities.

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

"The ownership and use of healthcare properties will be reorganised in 2019"

The reform in social and healthcare services will have a significant impact on property ownership issues. In total, the stock of healthcare properties owned by municipalities and federations of municipalities is estimated to amount to some €5-6 billion. Property holdings of current regional federations of municipalities – mainly comprising large central hospitals – will be transferred to a newly established company Maakuntien Tilakeskus Oy, which will in the future be owned by the counties. Properties currently owned by the municipalities – typically smaller healthcare properties – will remain in the municipalities' ownership, and the counties will rent the premises they need for their service provision.

Most municipalities also own significant residential property portfolios through separate companies. These companies mainly own state-subsidised stock, the estimated value of which amounts to some €10 billion. The City of Helsinki, for instance, is the largest single landlord in Finland through its residential property company Heka, which owns some 47,000 state-subsidised dwellings.

Corporations

Property occupiers' role in the property markets has changed markedly during the past years. Owner-occupation, which used to be very common in the past, is becoming less common in office markets in particular. More than 80% of the Finnish office property stock is owned by investors. Large retail properties are also very often owned by professional investors. Only in the industrial sector, the vast majority, some 85% of the total stock, is still owned by the Finnish industrial corporations.

"The vast majority of the corporations rent their office premises"

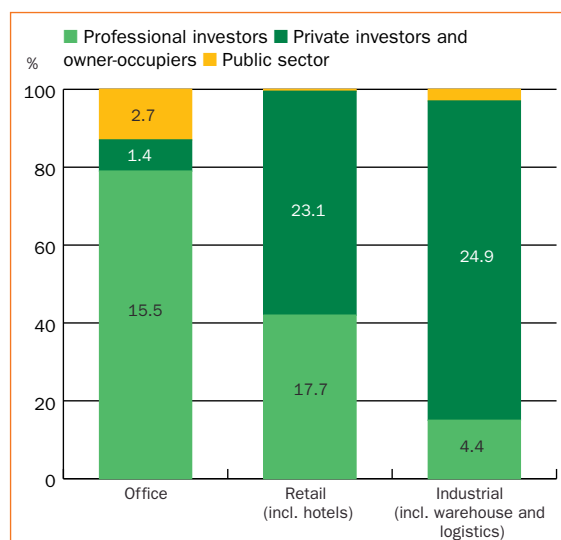
The broadening and development of the property investment and finance market has enabled the execution of corporations' evolving property ownership and management strategies. Most of the new properties – office properties

in particular – are developed by professional investors or developers. During the past couple of years, several major Finnish corporations have also sold their existing property holdings and, in many cases, the companies remained as tenants in these buildings through relatively long leases. Within the last decade, Finnish corporations have sold some €6.5 billion worth of properties, which, for its part, has increased the total size of the investment market. In 2016, the sales of corporations amounted to some €290 million, which consisted of several, mainly rather small transactions. Corporations disposing of their properties included, for example, Posti Group, Metso and Vantaan Energia.

S Group and Kesko, the two major Finnish retail chains, have traditionally been active players in the property market. In recent years, Kesko has decreased its holdings through major sale-and-leaseback deals, but it still remains a major player in the retail property development and investment. In 2016, Kesko sold its current head office property to Varma, who will redevelop the property into residential use. At the same time, Kesko entered in a long-term rental agreement with Varma, who will develop a new head office for the corporation in the Kalasatama area. Of the co-operatives within S Group, HOK-Elanto in particular has been active in selling its properties to investors in recent years. The German retail chain Lidl typically owns its properties in Finland, with the exception of stores located in shopping centres. Lidl is currently edveloping a couple of new stores across Finland, a major logistics centre in Järvenpää, and it is also redeveloping an office property for its headquarter use in Espoo.

Industrial companies still typically own their production properties, but even they are beginning to rent more of their headquarters and other office premises. Companies using office space are pursuing increasingly sophisticated workplace strategies, and typically rent their premises. Most companies also emphasise space efficiency, and space usage is typically reduced when companies move to new premises. At the end of 2016, there were several office development projects underway in the Helsinki metropolitan area, where corporations have committed to new rental agreements in modern and efficient premises.

Ownership structure of commercial properties, EUR billion



Source: KTI

3.3 Real estate service sector

Asset and property management services

The asset and property management services market is dominated by domestic and Nordic companies. The three main companies servicing the large institutional and foreign investors include Realia Management, Newsec and Oventia.

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 and advisory services. In recent years, Realia Management has expanded through several acquisitions of smaller domestic management firms, and through these acquisitions it aims at strengthening its position in commercial property management and among institutional investors. In 2016, Realia acquired the Finnish asset and property management company Corbel.

Newsec, part of the Swedish-originated Stronghold-group, is another major player in the asset and property management sector. Newsec offers a wide spectrum of real estate management, advisory and valuation services for both domestic and international property investors and corporations.

**"Asset and property
management market is
dominated by three domestic /
Nordic companies"**

Oventia Group consists of three affiliate companies. Oventia Oy's commercial property asset and property management clients include major Finnish and international investors as well as corporations. Oventia Group's other daughter company, Oventia Isännöinti Oy, has expanded into the housing management sector through company acquisitions in recent years. Through its third affiliate company Realprojekti Oy, Oventia is one of the leading shopping centre management service providers in Finland.

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

Kiinteistömanagement J. Juhola Oy is an example of a traditional Finnish property management service company mainly working for domestic investors. Coor Service Management is another example of a company concentrating solely on property services management.

Of the global real estate service firms, CBRE also currently offers asset and property management services in Finland. The services were started just recently, when Aberdeen outsourced its property management, accounting and

administration services in the Nordics to CBRE. CBRE also offers property and facility management services to corporations.

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

Advisory, valuation and transaction services

The advisory service market includes a colourful mixture of small domestic entrepreneurial firms and big global companies. Of the major management companies, Newsec, Catella and Realia Management also offer valuation, advisory and transaction services.

Of the major international property service firms, DTZ was among the first to enter the market through an alliance agreement with a local company in 2004. After the merger of DTZ and Cushman & Wakefield, DTZ Finland became the alliance partner of the new company, and continues its operations under the Cushman & Wakefield brand.

JLL is one of the major players in transactions, valuation, leasing consultancy and brokerage services. CBRE established its own office in Helsinki in 2009, having previously been represented through collaboration agreements, and has expanded its operations through company acquisitions. The Swedish-originated advisor Leimdörfer also has an office in Finland.

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

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

Property financing

The major part of real estate financing is provided by the major local and Nordic banks, including Nordea Bank, OP Group, Danske Bank and SEB Merchant Banking. Of these banks, SEB has recently been the most active in financing major commercial property transactions or projects.

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

"Debt markets are dominated by Nordic and Finnish banks"

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

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

The biggest property investors have access to several sources of finance. In addition to a relatively good access to equity, the biggest Finnish property companies currently use corporate bonds for financing their balance sheets. In addition to the major listed companies Sponda, Citycon and Technopolis, residential investment companies VVO and SATO also use bonds in their financing. Citycon and SATO have also acquired credit ratings in order to improve the availability and terms of bond financing. Of the major companies, VVO, Citycon and SATO issued new bonds in 2016.

"Largest property investors use several sources of finance"

In late 2016, both SATO and VVO announced that the European Investment Bank had agreed to finance their

residential property investments. The financing is targeted at the development of new nearly zero energy buildings. With the support of the €170 million EIB finance, VVO will develop some 1,800 new dwellings in the Helsinki metropolitan and Tampere areas. SATO's €150 million loan will be used both for new development and for renovations of existing buildings.

Property development

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

Finnish and Nordic construction companies involved in commercial property development include NCC, Skanska, YIT, Hartela, Lemminkäinen, SRV and Peab. These companies have all been active in this field in recent years and have cooperated with both domestic and international investors. 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. In 2016, Skanska CPD completed a 9,100 sqm office building in the vicinity of the Helsinki-Vantaa airport, and is currently developing another office property in the Sörnäinen district in Helsinki. Skanska and NCC are also planning to start the first, 35,000 sqm phase of the Kivistö shopping centre in Vantaa. NCC Property Development is known especially as an active developer of its business park concepts in the Helsinki metropolitan area and other major cities. It has office projects currently under construction in Leppävaara and Vallila areas in the HMA, and a retail project in the Suurpelto area in Espoo.

The shopping centre REDI and other projects in Kalasatama are the largest of SRV's current projects. YIT is developing

Bonds issued by the Finnish property investors

ISSUED BY	ISSUE DATE	MATURITY DATE	YEARS	EUR MILLION	ANNUAL INTEREST	OTHER INFORMATION
Citycon	24.6.2013	24.6.2020	7	500	3.75%	Unsecured
Sponda	9.10.2013	9.10.2018	5	150	3.375%	Unsecured
SATO	20.12.2013	20.12.2022	9	25	6 m Euribor + 2.25%	Secured
Citycon	1.10.2014	1.10.2024	10	350	2.50%	Unsecured
Orava Residential REIT	1.4.2015	1.4.2020	5	20	4.25%	Secured
Sponda	20.5.2015	20.5.2020	5	175	2.375%	Unsecured
Technopolis	28.5.2015	28.5.2020	5	150	3.75%	Unsecured
Citycon	1.9.2015	1.9.2025	10	1.4 bn NOK	3.90%	Unsecured
Citycon	1.9.2015	1.3.2021	5.5	1.25 bn NOK	3 m NIBOR + 1.55%	Unsecured
SATO	10.9.2015	10.9.2020	5	300	2.25%	Unsecured
Citycon	16.9.2015	16.9.2022	7	300	2.375%	Unsecured
SATO	24.3.2016	24.3.2021	5	300	2.375%	Unsecured
Citycon	8.9.2016	8.9.2026	10	350	1.25%	Unsecured
VVO	17.10.2016	17.10.2023	7	200	1.625%	Secured

Source: Press releases

the major Tripla project in Pasila, Helsinki, and is also involved in the development of the Dixi centre in Tikkurila, Vantaa. Hartela's main projects currently include Ilmalan Asema in Pasila and Ramboll's new head office in Leppävaara. The company also has several office projects in the Helsinki metropolitan area in the planning phase.

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

Some owner-occupiers – large retailers S Group and Kesko, in particular – are significant and professional property developers. Kesko is currently carrying out a 26,000 sqm Easton Helsinki shopping centre project in Itäkeskus. The centre is planned to be extended by a second phase that is expected to be started in 2019. Kesko also has several smaller projects under construction outside the Helsinki metropolitan area. S Group's largest development project is the 193,000 sqm Freeway logistics centre in Sipoo, which is being developed in several phases in 2013–2018. S Group and its local co-operatives also have several retail and hotel property development and renovation projects underway in various parts of the country. Also Lidl develops properties for its own use.

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

"Institutional investors are active in the redevelopment of their existing assets"

Institutions' development strategies emphasise the redevelopment of existing assets in their portfolios, where they can, for instance, look for new uses for vacant properties. This is emphasised in current market conditions due to the oversupply of office premises in the Helsinki metropolitan area, which pressures investors to look for new solutions. However, these processes often take a long time, as they most often require changes in planning and thorough office property redevelopment studies into technical and financial feasibility. At the moment there are also several ongoing office redevelopment projects where premises are being modernised in order to respond to the current occupier needs.

Institutions typically pursue more active strategies in residential development, which is considered less risky than commercial property development, especially in cases where

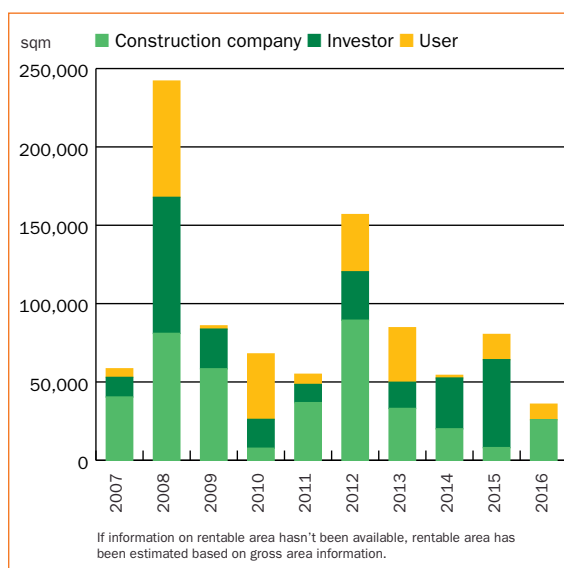
they have appropriate plots in their portfolio. Residential development has also been encouraged by regulators, and pension funds are temporarily allowed to use debt financing in residential development.

Finnish property investment companies also actively develop assets in their own portfolios. Sponda, Citycon and Technopolis are active players in property development in their own core areas both in Finland as well as in other countries included in their strategies. The main ongoing development projects of listed companies include the expansion of Iso Omena in Espoo by Citycon and Sponda's Ratina shopping centre project in Tampere. Sponda is also developing a mixed-use property in Tikkurila, Vantaa. Technopolis is currently developing the third phase of its Ruoholahti campus in Helsinki. Large residential companies, VVO and SATO in particular, are also active property developers.

"Some niche players emerging in the property development market"

There are also some smaller non-listed property companies and funds active in property development in their niche markets. One example is Renor, which concentrates on redevelopment of old industrial premises. HGR Property Partners is another real estate investment company focusing on real estate development, mainly investing in existing buildings to be redeveloped for some other use. At the moment, HGR is, together with some investor partners, active in the development of a major office property in the Helsinki CBD. Auratum is an example of a property fund that redevelops existing properties, often into residential use. Lindström Invest and Ahlström Capital are examples of traditional Finnish corporations' investment arms that are also active in property development and investment.

Completed office development projects in HMA by developer type



Source: KTI, RPT Docu Oy

4 Property sectors: market structure, practices and investment performance

In terms of property sector structure, the Finnish property investment market has changed markedly in recent years. A decade ago, office properties were favoured by investors, and represented more than 50% of the KTI Index database. In recent years, due to weak investment performance of offices and expansion of the investor base in other sectors, the share of offices has decreased substantially, and is currently less than one quarter. At the same time, the position of residential properties in particular has strengthened due to strong demand for rental residential dwellings and an increasing supply of investment capital. Within the past couple of years, public use properties, for instance healthcare and educational properties, have also increased their attractiveness as recognised property asset classes in the investment market.

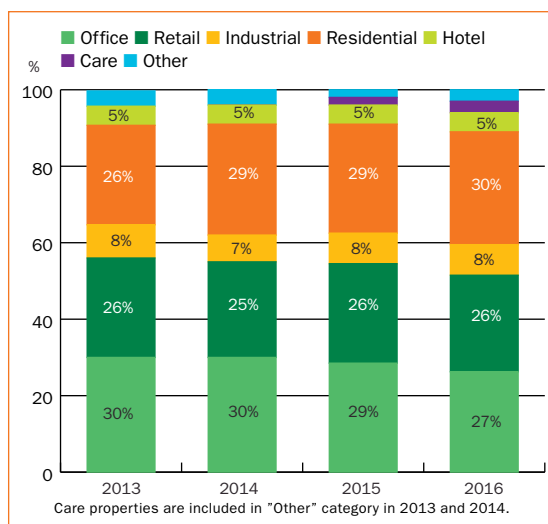
"The property market structure is becoming more multi-faceted"

In 2016, this structural development continued. Residential was the favoured property sector for various kinds of investors, and the invested residential property market increased through both new development and capital market growth. The total amount of residential properties in the invested market increased by €1.7 billion. Due to this development, residential became the largest sector in the property investment markets. Their share increased to 30% of the total invested property stock. The growth was mainly a result of active new development of residential properties by both investors and property developers. Capital growth also continued to contribute to the increase in the total value of residential property assets.

Of the commercial properties, offices' share currently stand at some 27% (29% in 2015), and retail properties' share remained unchanged at 26%. In recent years, the investment market has expanded to cover also some public use properties, including, for instance, healthcare and educational properties. At the end of 2016, the share of care properties amounted to 3% of the total invested property stock.

"Residential became the largest sector in the Finnish property investment market"

The structure of Finnish property investment market by sector, EUR billion



Source: KTI

"The Finnish property market produced a total return of 6.2% in 2016"

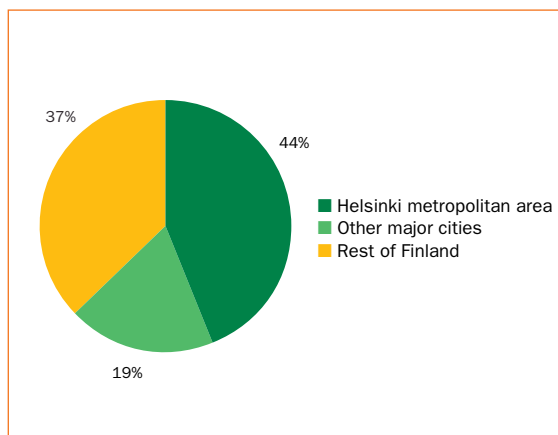
According to the KTI Index, the total return on the Finnish property market amounted to 6.2% in 2016 (6.2% in 2015), consisting of a capital growth of 0.6% and a net income of 5.6%. Compared to 2015, the net income decreased markedly (6.0% in 2015), mainly due to the increased weight of residential properties in the database, as well as continuous decline of the office properties' income return. Capital growth increased slightly compared to the previous year, but there were significant differences in the performance of different property sectors. Smaller sectors, including hotels and care properties, produced highest total returns, supported by positive capital growth. Of the main sectors, residential continued to perform well, whereas in the office, retail and industrial markets, total returns were pressured by negative capital growth.

4.1 The office market

Stock

The total stock of office space in Finland is some 19.4 million square metres. Of this, about 8.7 million square metres are located in the Helsinki metropolitan area and another 3.6 million in six other major cities. The dominance of the Helsinki metropolitan area in the Finnish economy and commercial property market is greater than in many other European centres of the same size, which is also reflected in the office stock.

Distribution of office stock by location, sqm



Source: Statistics Finland

Between 2008 and 2016, some 97,000 sqm of new office space has been completed annually on average in the Helsinki metropolitan area. The annual average reduction through changes of use has been around 30,000 sqm. The office stock has thus greatly increased in recent years.

In 2016, some 65,000 sqm of office space was completed. The largest completed projects included Ultimes Business Garden in Pitäjänmäki and Aviabulevardi in the Aviapolis area. At the year-end, some 100,000 sqm of new office space was under construction. The ongoing projects are located in various parts of the Helsinki metropolitan area, including Kalasatama, Sörnäinen, Vallila, Pasila and Leppävaara. There is also one new and several major redevelopment projects under construction in the Helsinki central business district (CBD).

"Office construction volume increased in 2016"

In the six major cities outside the Helsinki metropolitan area, some 37,000 sqm of new office space was completed in 2016, with Tampere accounting for 75% of this volume. At year-end, there was some 39,000 sqm of new office space under construction altogether. The volume was highest in Oulu where three new projects were underway.

Players

Offices have traditionally played a significant role in Finnish institutional property portfolios, although their share has decreased rapidly in recent years due to their poor investment performance.

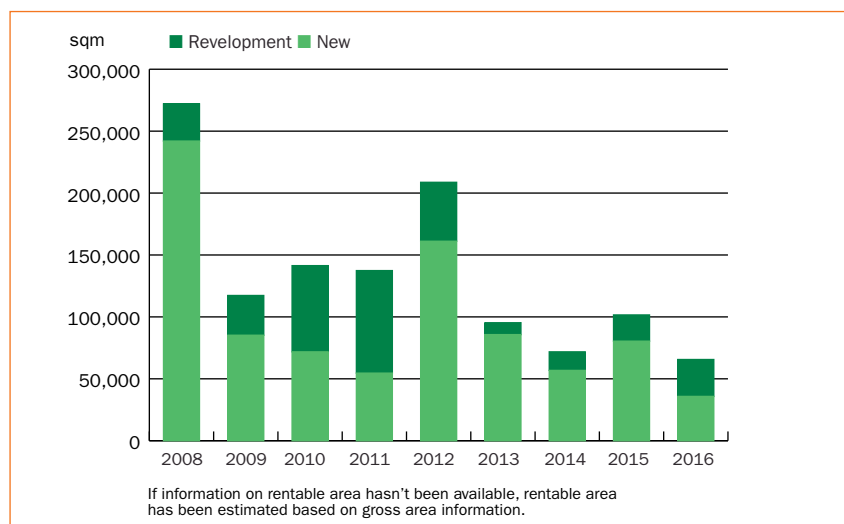
The largest proportion of investable office stock is multi-tenant office buildings, typically located in city centres and recognised office areas. The second category is single-tenant buildings used typically as company headquarters. These can be found both in the Helsinki CBD and in some other areas in the Helsinki metropolitan area. The third office category is business-park-type properties located near good traffic connections, mainly in the Helsinki metropolitan area.

Domestic institutions typically hold all three office types in their portfolios, whereas property companies and funds tend to have more focused strategies. Foreign investors' office investments are dominated by headquarter-type and business park properties, and are concentrated in the Helsinki metropolitan area.

The biggest investors in the office sector include large Finnish institutions such as Varma, Ilmarinen and Keva, listed companies Sponda and Technopolis as well as some specialised non-listed companies and funds, of which Antilooppi is the largest. Foreign investors, for instance Niam, Deka Immobilien and Union Investment, also have significant investments in the Finnish office properties.

The total transaction volume of office properties increased by some 31% in 2016 compared to the previous year, amounting to €1.7 billion. Several types of investors were

Completions of offices in the Helsinki metropolitan area in 2008-2016



Source: KTI, RPT Docu Oy

involved in transactions, and both new and old properties were acquired. The largest office transactions were carried out by foreign investors. Finnish institutions mainly continued to dispose of office properties in 2016, but also made some new acquisitions.

The largest acquisition was made by Niam, who bought six office properties from pension insurer Elo for €160 million. Niam also acquired the Life Science Center in Keilaniemi. Another large deal was published in December, when Tristan Capital Partners acquired, together with Avant Capital Partners, an office portfolio from Varma for €130 million. Also in December, Valad Europe, together with Goldman Sachs, acquired the so called Omega portfolio, comprising 13 office buildings and nine other commercial properties. Other major office acquisitions were made by Hemfosa, NREP's Nordic Strategies Fund and Hansainvest. Of the domestic players, Antilooppi continued to expand its portfolio through several acquisitions. Several domestic funds also made new investments in offices.

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 €3.50 and €4 per square metre, depending on the location and characteristics of the building.

Indefinite lease terms are commonly applied in multi-tenant office buildings. Typical notice periods are three, six or twelve months, and the same period applies for both the tenant and landlord. It is also common to agree on a fixed period of three or five years, after which the contract continues for an indefinite term with the agreed notice period.

Fixed lease terms are commonly applied in larger office units. In single-tenant buildings, the terms are usually quite long – between ten and twenty years. In these agreements, net rents are commonly applied. These kinds of agreements are also typically applied in sale-and-leaseback deals.

Business parks compete by offering flexible agreements and 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 brought up a 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 Varma.

Rental market – offices

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

"Office rents continue
increasing in the Helsinki
CBD"



Photo: Skanska CDF Oy

The Helsinki CBD is the most appreciated office area in Finland, and it has proven its resilience in the challenging market conditions. In 2016, office rents increased by some 1.1%, according to the KTI rental index. The top rents continued to increase, with the upper quartile reaching an all-time-high level of €31 per sqm in 2016. However, even in the Helsinki CBD, the occupancy rate of office space has decreased in recent years, and stood at some 86% in the KTI rental database in September 2016.

In most other office areas, performance is dependent on the micro location and characteristics of the individual asset in question. The best areas with stable or slightly positive rental development include, for instance, Ruoholahti in Helsinki and Leppävaara in Espoo.

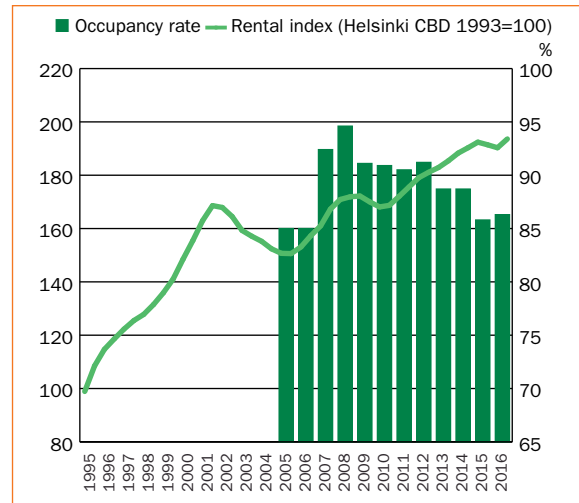
The vacancy rate of offices continued increasing in 2016, and stood at nearly 14% at the year-end, according to Catella. There were some 1.2 million sqm of vacant office space at the end of 2016. In the KTI rental database, the occupancy rates of large investors' portfolios stood at 81.2% in the Helsinki metropolitan area. In the other main cities as well, office occupancy rates decreased in 2016.

Despite challenging economic conditions and occupiers' increased space efficiency, net take-up of offices turned positive in 2016, to some 64,000 sqm, after having been negative for several years. However, as occupiers' needs and requirements and new traffic infrastructure boost new development, the vacancy rate remains high despite positive take-up figures. Gross take-up has remained stable in recent years, at some 300–400,000 sqm per annum.

"Net take-up of office space turned positive in 2016"

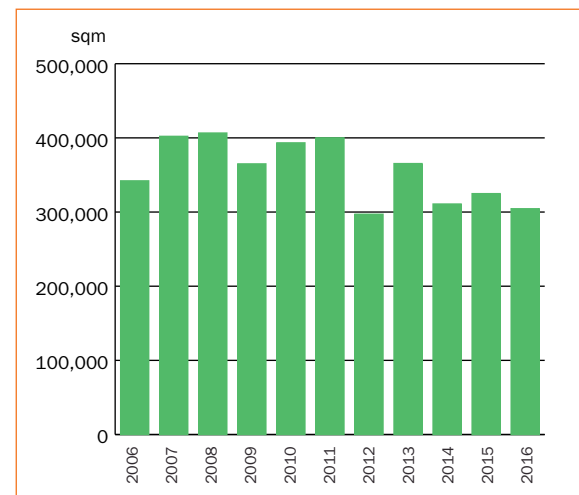
The high vacancy rate remains the most severe challenge for office investors. Several kinds of actions are being pursued to respond to this issue. Tenants are being attracted by rent-free periods, flexible agreements or space improvements,

KTI office rent index and occupancy rate, Helsinki CBD



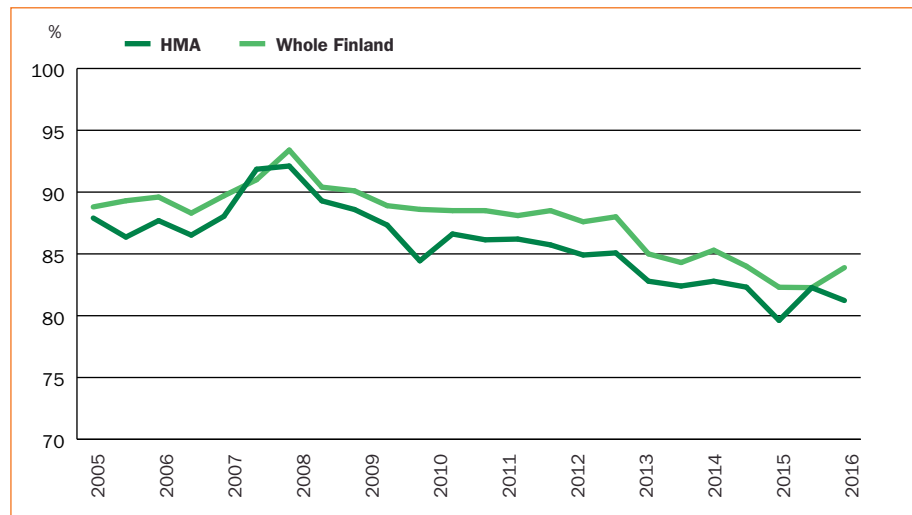
Source: KTI, Statistics Finland

Gross take-up of offices in the Helsinki metropolitan area



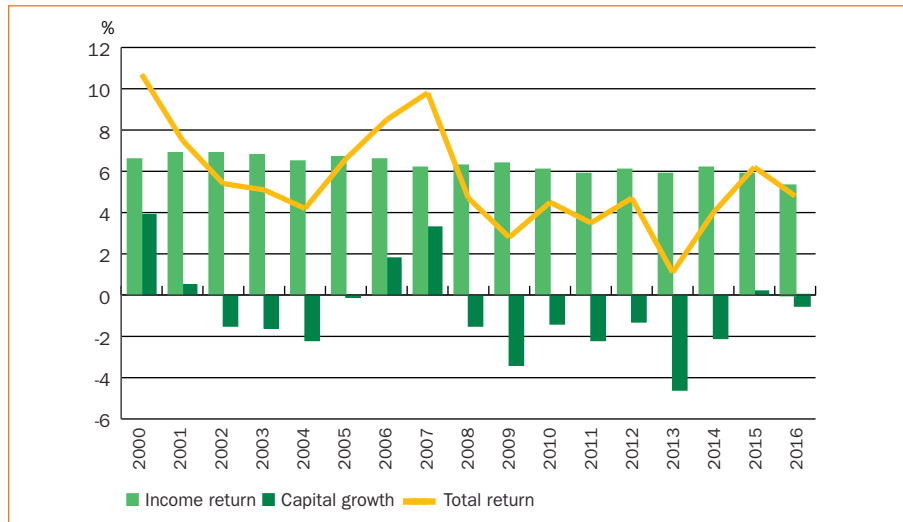
Source: KTI

Office occupancy rates in the Helsinki metropolitan area and whole Finland



Source: KTI Rental database

Total returns on office investments, 2000-2016



Source: KTI Index

and new kinds of space and service concepts are being developed. Redevelopment opportunities are also being actively explored. Change of use projects are, however, often difficult or impossible to carry out due to restrictive and slow planning processes. In recent years, however, the number and amount of these projects has increased, and some 390,000 sqm of office space have been or are being developed into some other, most typically residential or hotel use in the Helsinki metropolitan area during the past decade. In almost half of the projects where an old office property is being redeveloped into residential use, the old building is being demolished and a new one is being constructed. This solution is taken either because of the technical characteristics of the old building or because of the possibility to use the lot's building right more efficiently.

Due to the sluggish demand and high vacancy rates, the investment performance of offices has been rather weak in recent years. According to the KTI Index, the market values of office properties decreased by 0.5% in 2016, and income return decreased to 5.3% (5.9% in 2015).

Office rents and yields in Helsinki and other European capitals

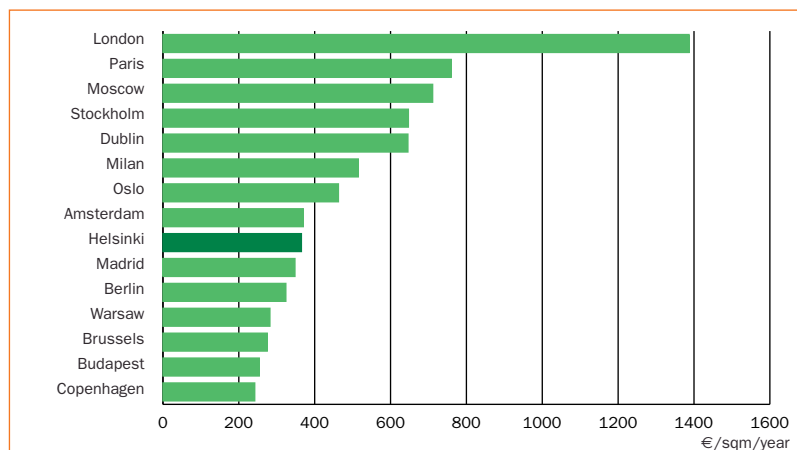
Despite the challenging market conditions, Helsinki CBD offices continue to perform well. Office yields have continued decreasing, and in the latest RAKLI-KTI Property Barometer, carried out in October 2016, they stood at 4.7% on average, showing a clear decrease from 5.0% in the previous year. For the best properties, yields are currently well below this. Despite the yield compression, Helsinki still offers a positive gap compared to other European capitals.

Strong investment demand has also pressured yields in other well-established office submarkets in the Helsinki metropolitan area. During the past year, yield compression also spread to other major cities, and yields decreased by more than 0.5 percentages. Institutional and international investment demand is, however, mainly targeted at the Helsinki area, and therefore, investment demand remains clearly lower in all other regions.



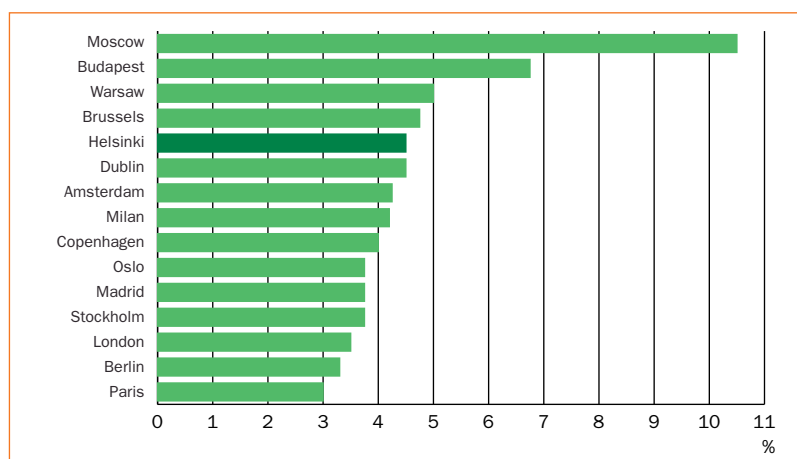
Photo: Skanska CDF Oy

Prime office rents in Helsinki and other European cities, Q4/2016



Source: JLL, KTI (Helsinki)

Prime office yields in Helsinki and other European cities, Q4/2016



Source: JLL, KTI (Helsinki)



Photo: Skanska CDF Oy

4.2 The retail market

Stock

Altogether, there are some 29 million sqm of retail space in Finland. In Statistics Finland's data, this also includes hotel properties. About 3.9 million sqm of the retail space stock is located in the Helsinki metropolitan area, and 5.6 million in other major cities.

According to the Finnish Council for Shopping Centres, there are 97 shopping centres with a total leasable retail area of some 2 million sqm. The biggest shopping centres are mainly located in the major city areas.

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



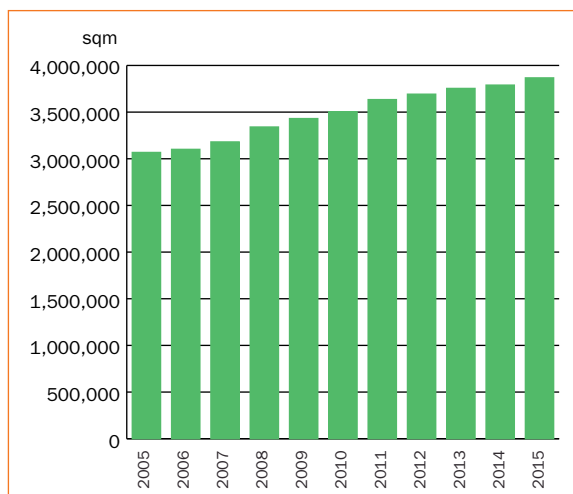
"Retail property stock in the Helsinki metropolitan area has increased by 25% within the past decade"

Retail property stock in the Helsinki metropolitan area has increased markedly during the past decade, by some 25%. At the end of 2016, there were more than 150,000 sqm of new retail space under construction. In addition, some 200,000

sqm of major shopping centre projects are planned to be started in 2017. New development is concentrated in large retail units with good public traffic connections, mainly in the vicinity of metro and railway stations. The main ongoing projects include REDI and the extension of Iso Omena. Large projects expected to be started in 2017 include Mall of Tripla in Pasila, Hertsi in Herttoniemi, Lippulaiva in Espoo and the Kivistö city centre in Vantaa.

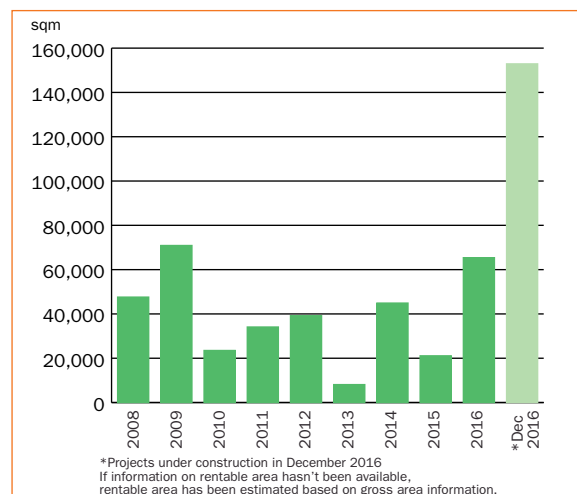
Outside the Helsinki region, there are also major shopping centre projects underway in Tampere (Ratina) and Jyväskylä (Seppä). The largest projects expected to be started in 2017

Development of retail property stock in the Helsinki metropolitan area 2005-2015



Source: Statistics Finland

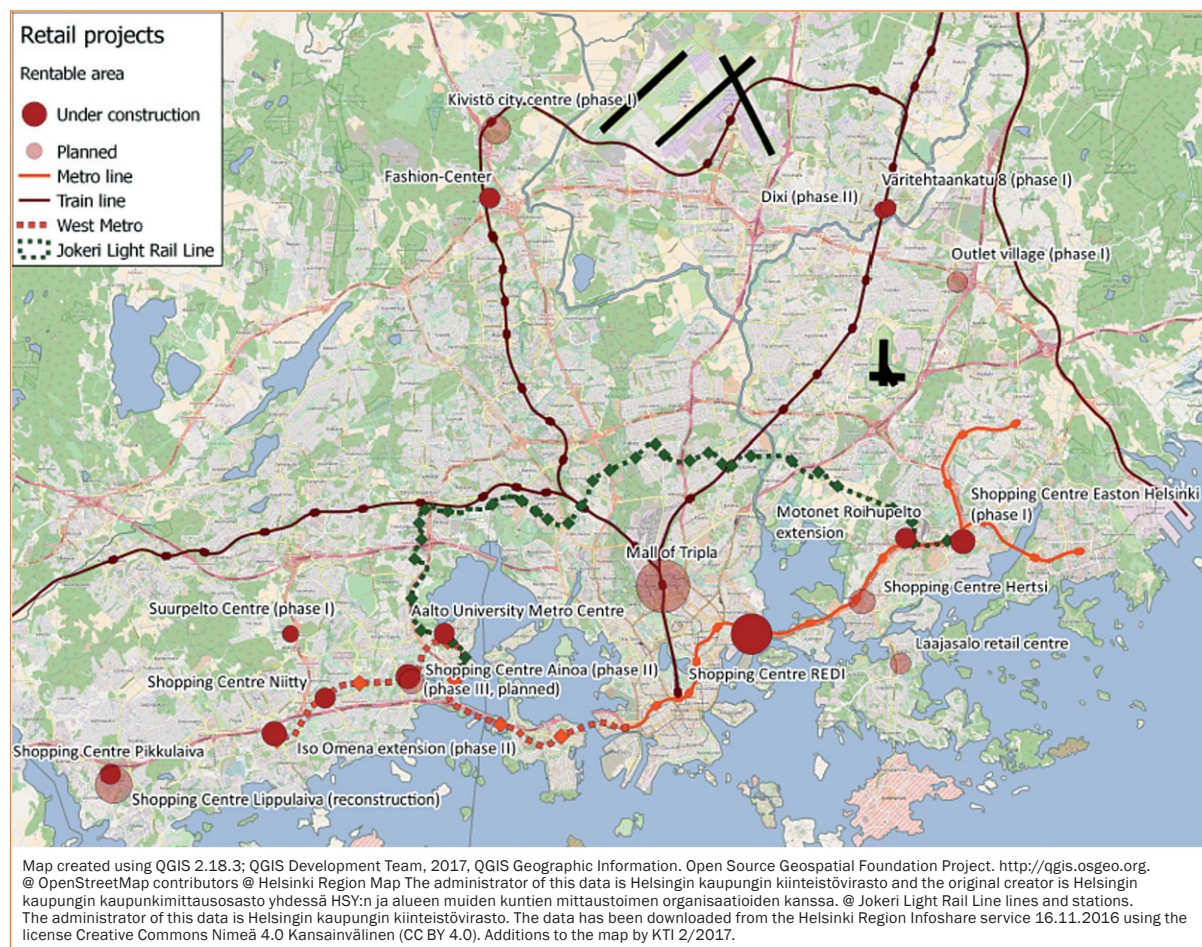
Completed retail projects in the Helsinki metropolitan area



Source: KTI, RPT Docu Oy

Major retail development projects in the Helsinki metropolitan area

size of circle = size of project, light circle = project under planning



include the first phases of the Kotka Old Port centre in Kotka and the Zsar Outlet Village in Virolahti, close to the Russian border. In the city centre of Vaasa, Wasa Station, a retail and hotel property, is also planned to be started in 2017.

Players

Retail properties account for some 26% of the total invested property universe. 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 retail investor in Finland is Citycon, who currently concentrates on shopping centres. Citycon currently owns and operates 20 shopping centres across Finland, with Iso Omena being the portfolio's largest asset. Another major shopping centre investor is Sponda, who has been increasing its shopping centre investments in recent years. Sponda's biggest centres include Forum and Citycenter in the Helsinki CBD, Elo near Tampere and Zeppelin in the Oulu region. Sponda is currently developing the Ratina centre in Tampere. Another large retail investor is Mercada, who owns three shopping centres and 31 other retail assets in Finland. The majority of Mercada's properties are leased to Kesko Group.

Many Finnish pension institutions own whole, typically regional, shopping centres across Finland. Pension funds also often enter into joint investments with other investors in bigger centres. For example, the Sello shopping centre

in Espoo is owned jointly by three pension institutions – Keva, Elo and Etera – while the Jumbo shopping centre in Vantaa is owned by a group consisting of Elo, Unibail-Rodamco, Kesko and S Group. Ilmarinen is a co-investor in Citycon's IsoKristiina centre in Lappeenranta, as well as in Renor's Puuvilla in Pori. Pension institutions also typically own hypermarket properties, and sometimes also smaller retail units. In recent years, institutions and large investment companies have sold smaller units, which has opened new opportunities for newly established funds and companies.

"REDI and Mall of Tripla are major shopping centre projects in Helsinki"

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

The Finnish shopping centre market has also attracted some specialised foreign property companies and funds such as Wereldhave and Unibail-Rodamco, as well as retail funds managed by CBRE Global Investors and Barings Real Estate.

Also Allianz Real Estate has entered into a joint venture investment in the Kamppi shopping centre.

New foreign players in the Finnish shopping centre market include Niam, who invested in the Kaari shopping centre in Helsinki, and the Swedish Alma Property Partners, who entered the Finnish market by acquiring the Ideapark shopping centre in Oulu. In early 2017, TH Real Estate's European Cities fund acquired a 50% stake in the Kamppi centre from Barings.

Domestic property funds, such as those managed by Aberdeen, CapMan and eQ, have also invested in shopping centres, concentrating on smaller centres in the Helsinki area and some larger ones in other cities. Retail chains Kesko and S Group are also developers and investors in shopping centre properties.

"New foreign investors enter the Finnish shopping centre market"

Of the other domestic funds, OP-Rental Yield fund and Fennica invest in retail centres and other kinds of retail units. In the smaller retail unit markets, a new fund established by Sirius Capital Partners, that has raised its capital from foreign investors, has increased its portfolio actively. Other active investors in this segment include Redito, who manages the portfolios of Trophi and Serena Properties, as well as NREP and Sagax.

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

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

"Opening hours of shops were deregulated in the beginning of 2016"

The Finnish daily goods market is dominated by S Group and Kesko, with shares of 46% and 33% of total sales in 2015, respectively. They operate in all store categories – hypermarkets, supermarkets and smaller stores. The German chain Lidl is the third largest player in the daily goods market with a share of some 9%. In 2015, the total sales of daily goods amounted to some €16.6 billion, of which 80% is food products. In recent years, the average size of daily goods retail units has increased markedly.

In the beginning of 2016, the opening hours of retail units were deregulated, and all shops can now be open without restrictions regardless of their location or size. This has resulted as longer opening hours and increased sales in large shopping centres and hypermarkets in particular.

Rental practices

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

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

In hypermarket and supermarket properties, investors are increasingly cash-flow driven, and agreements are typically relatively long-term contracts with net rent. Kesko and S Group both have strong in-house property management organisations steering the management of their premises.

In shopping centres, anchor tenants often have leases of five to ten and even 15 years, with renewal options sometimes applied in shorter leases. Other tenants typically have shorter

Top 10 Shopping centres in Finland

CENTER	RETAIL NLA	MAIN OWNERS	LOCATION
ITIS	100,992	Wereldhave Finland, Kesko	HELSINKI
SELLO	97,900	Keva, Etera, Elo	ESPOO
IDEAPARK	91,712	Private investors	LEMPÄÄLÄ
JUMBO	85,000	Unibail-Rodamco, Elo, HOK-Elanto, Kesko	VANTAA
ISO OMENA	75,454	Citycon Finland	ESPOO
MATKUS	65,000	Ikano Retail Centres Kuopio	KUOPIO
MYLLY	58,375	Kauppakeskus Mylly	RAISIO
WILLA	53,415	Varma, CapMan Real Estate, NREP, HOK-Elanto	HYVINKÄÄ
VETURI	48,500	Mercada	KOUVOLA
KAARI	47,445	Niam / Kannelmäen Kauppakeskus Lower Holding	HELSINKI

Source: Finnish Council of Shopping Centres

leases. The use of turnover leases is gradually increasing in shopping centres, but the share of turnover-based rent is typically rather small.

The retail market in 2017

Retail sales increased by some 2% in 2016 after several years of negative development. The growth was supported by slow inflation and decreasing unemployment. For 2017, a moderate growth of some 1.5% is expected. Retail sales are supported by improving employment and easing taxation, but, on the other hand, the inflation is expected to pick up, which will limit the growth of purchasing power.

Shopping centres continued to perform better than overall retail sales in 2016. According to KTI and the Finnish Council of Shopping Centers, the number of visitors in shopping centres increased by 5.1% and sales by 3.2% in 2016. The growth was partly explained by the increase in shopping centre stock. There were, however, significant differences in the development of sales between different retailer categories in shopping centres.

"Shopping centre sales
increased by 3.2% in 2016"

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

In the Helsinki CBD and in the best shopping centres, prime retail rents have remained stable or decreased slightly during the past year. According to the RAKLI-KTI Property Barometer, prime rents in the Helsinki CBD stood at some €100 per sqm per month on average, which shows a slight decrease compared to the previous year. Respondents

expected rents to remain stable in the future. However, rents in the very best locations remain clearly above the average, and seem to be less vulnerable to cyclical changes.

The vacancy rate of retail space has remained low in most major cities. In 2016, however, the bankruptcy of the Anttila department store chain left large premises vacant in main city centres, in several shopping centres and also in some single-tenant properties outside the city centres. Of these, the premises in best locations have proven to be relatively easy to re-let; for instance, the rapidly growing German grocery store chain Lidl and department store Tokmanni have taken up several premises. Of the former Anttila premises, the ones in smaller cities and in larger units have been left vacant, which has increased the vacancy rates in some shopping centres and smaller towns. In the KTI rental database, however, the occupancy rate of major investors' retail property portfolios remained healthy, at some 94%. In the future, however, the retail vacancy rate is expected to increase due to the increasing supply in the Helsinki metropolitan area in particular.

Total return on retail property investments amounted to 4.0% in 2016 (3.5% in 2015). Income return was 6.0%, and capital growth was negative at -2.0%. Shopping centres continued performing better than retail properties in general, producing a total return of 4.4%.

In the transactions market one single transaction, Sponda's acquisition of the Forum shopping centre increased retail properties' share of all transactions to 22%. Other major retail property transactions included the portfolio acquisitions of Sirius and Sagax, amounting to €115 and €90 million, respectively. eQ's fund carried out several retail property transactions, including a 47,000 sqm portfolio comprising five retail properties, as well as one retail centre in Helsinki and another in Ylöjärvi, close to Tampere.

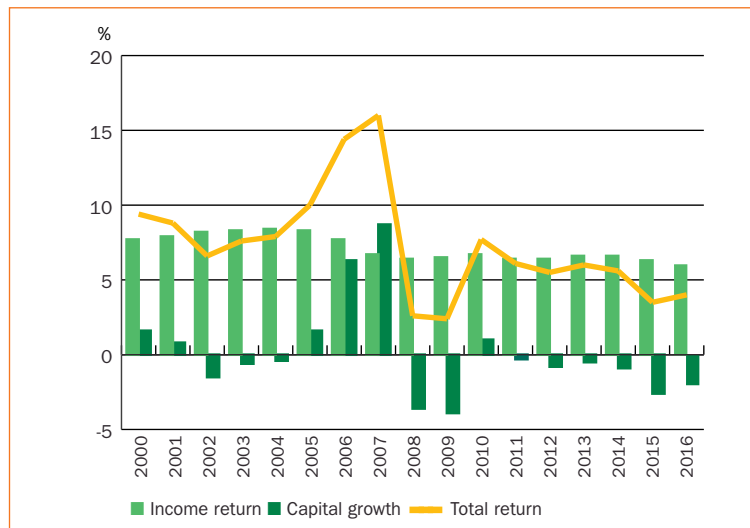


Prime retail rent in the Helsinki CBD



Source: RAKLI-KTI Property Barometer

Total return on retail investments, 2000-2016



Source: KTI Index

4.3 Rental residential sector

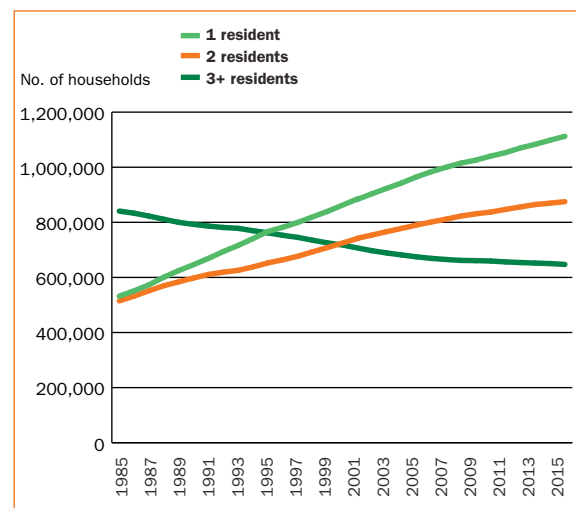
Stock

There are some 2.6 million dwellings in Finland, comprising some 263 million sqm. Of these, about 40% are single-family homes. More than 44% of the dwellings are in apartment buildings.

The average size of a Finnish household has been constantly decreasing. Currently some 75% of Finnish households consist of one or two persons. In Helsinki, the share of single-person households is currently 48%. Therefore, the demand for smaller dwellings has increased steadily, especially in urban locations.

Urbanisation started quite late in Finland, but has proceeded rapidly. In the past 20 years, the share of the Finnish population living in urban centres has increased from 63 to 69%.

Finnish households by size



Source: KTI



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

"Rented housing is common in major cities"

Rented housing is more common in major cities than in the whole country on average. In Helsinki, some 48% of all dwellings are rented. In the whole Helsinki metropolitan area, some 43% of households live in rented dwellings, while the rate for the whole country stands at 32%.

In total, there are some 840,000 rental apartments in Finland. Of these apartments, some 375,000 have been provided with some kind of public subsidy, such as state-guaranteed loans or an interest subsidy for development of rental housing. The majority, some 220,000 subsidised dwellings, are owned by municipalities' daughter companies. Other subsidised dwellings are owned by non-profit organisations offering rental housing for specific groups such as students or the disabled, as well as some organisations which have been granted a special public utility status. For example, of the major players in the residential market, VVO, SATO and Avara hold this status for a limited part of their businesses.

"Rental residential stock is increasing rapidly"

The terms and regulation of different types of public subsidy for housing supply vary significantly between different forms. Some have specific strict rules for tenant selection and, in the majority of the subsidised stock, rents are cost-based. Subsidised housing is currently being developed mainly by municipal companies, as well as foundations offering housing for specific groups.

In 2016, the government introduced a new subsidy framework to boost the supply of moderately priced rental dwellings in major cities. This framework is 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 2016, some 20 applications comprising 1,000 rental dwellings, mainly located in the Helsinki metropolitan area, were granted this new subsidy. This subsidy may also be granted to companies without the traditional public utility status. Some property funds, including those managed by Auratum and Taaleri, announced that they will start the production of moderately priced housing with the new subsidy system.

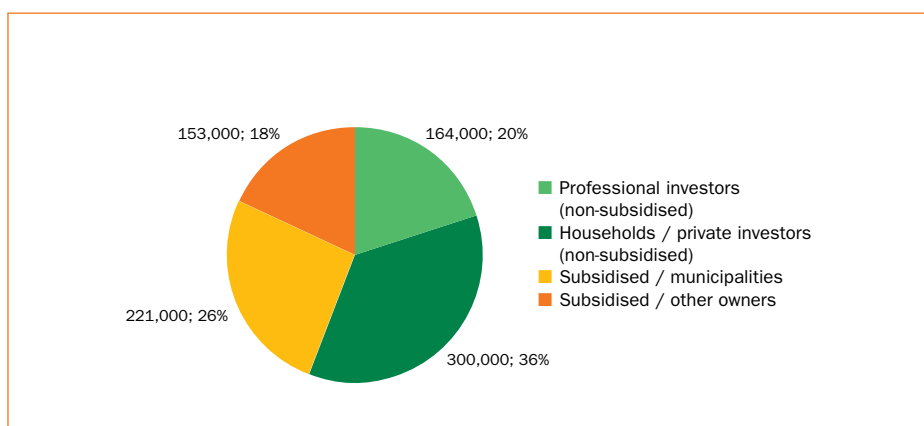
Tenants with low income may also be subsidised through public housing support. This subsidy may be granted for tenants living in both subsidised and non-subsidised dwellings. The amount of subsidy depends on the household's income and size, as well as the dwelling's location.

Non-subsidised rental housing stock currently amounts to some 464,000 dwellings. The stock has increased markedly in recent years, mainly through new construction, and, to a lesser extent, through the termination of the restrictions of subsidised stock. Of the professional investors, all investor groups, institutions, property companies and funds as well as foreign investors have increased their residential investments. Finnish households have also increased their investments in rental dwellings in recent years, and the majority of the non-subsidised stock, some 300,000 dwellings, is owned by Finnish households or other private investors.

Residential construction substantially increased in 2016. According to the preliminary statistics of Statistics Finland, the construction of some 38,000 new dwellings was started in 2016, compared to less than 33,000 in the previous year and some 25,000 in 2014. The growth is mainly based on the strong investment demand for rental housing, and according to the estimates of the Finnish Confederation of Construction Industries RT, about one third of all multi-family housing construction is being developed by or sold to professional investors. According to KTI, more than

Ownership structure of rental apartments in Finland

Total 838,000 rental apartments



Source: ARA, Statistics Finland, Suomen Vuokranantajat, KTI

Residential construction activity

Started residential dwellings	2010	2011	2012	2013	2014	2015	2016*	2017*
Apartment buildings	21,000	21,200	20,100	19,600	18,500	25,800	29,200	26,700
Non-subsidised	9,800	12,700	13,900	13,200	11,100	17,300	21,700	18,700
Subsidised	11,200	8,500	6,200	6,400	7,400	8,500	7,500	8,000
Single-family homes	12,500	11,600	9,800	8,100	6,700	6,500	6,500	7,000
Non-subsidised	12,500	11,000	9,800	8,100	6,700	6,500	6,500	7,000
Total	34,500	33,700	31,000	27,900	25,400	32,900	36,000	34,000
Non-subsidised	23,300	25,200	24,800	21,500	18,000	24,400	28,500	26,000
Subsidised	11,200	8,500	6,200	6,400	7,400	8,500	7,500	8,000

*Estimate

Source: Statistics Finland, ARA, RT

7,000 rental dwellings were completed in the Helsinki metropolitan area and some 3,000 in other major cities in 2016, and some 4,100 dwellings were under construction at the year-end.

Players

The majority of the subsidised housing stock, some 221,000 dwellings, is owned by the Finnish municipalities. Heka Oy, a company owned by the city of Helsinki, is the biggest player in this segment with around 47,000 apartments. The rest of the subsidised stock is owned by private, non-profit companies.

In the non-subsidised rental residential market, the so-called professional investors have increased their holdings rapidly in recent years, currently comprising some 164,000 dwellings. The majority, some 300,000 apartments, is held by small investors.

"VVO and SATO are the two largest residential property investors in Finland"

VVO, SATO and Avara are the biggest specialised residential property investment companies in Finland. VVO and SATO in particular have, in recent years, reduced their subsidised holdings, and in 2016, VVO carried out a major transaction and sold some 8,500 subsidised dwellings to Y-Foundation,

who thereby more than doubled its residential portfolio. Both VVO and SATO increased their non-subsidised portfolios, both through several major transactions and through their own development. VVO and SATO currently hold positions one and three in the ranking of the largest property investors in Finland.

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

"Special mutual property funds investing in residential properties continue to grow"

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

and these have attracted plenty of capital. The largest residential funds targeted at private investors are managed by OP Property Management and Ålandsbanken, whose branch networks create a good platform for distribution to private investors.

"Several new foreign investors entered the residential market in 2016"

Foreign investor interest in the Finnish residential market increased markedly in 2016, and several new investors entered the market. In the spring the German Bayerische Versorgungskammer (BVK) acquired a €80 million residential portfolio from LocalTapiola's fund. The portfolio is managed by CapMan, to whom BVK awarded a €400 million Nordic residential property investment mandate. NREP acquired hundreds of apartments in major cities in several transactions throughout the year. International capital was also invested in the Finnish residential property market through Avant Capital Partners, who announced having acquired some 3,300 apartments in partnership with an unnamed US investor in two transactions in December.

Foreign capital is also invested indirectly in the Finnish residential market: for instance, the Swedish listed property company Balder currently owns the majority of SATO, and another 23% of the company is owned by the Dutch pension fund APG.

Rental practices

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

Rental agreements are typically made for an indefinite period. It is also possible to agree on a certain fixed period,

such as a year, with the agreement continuing afterwards until further notice.

"Regulation of the residential rental market is liberal"

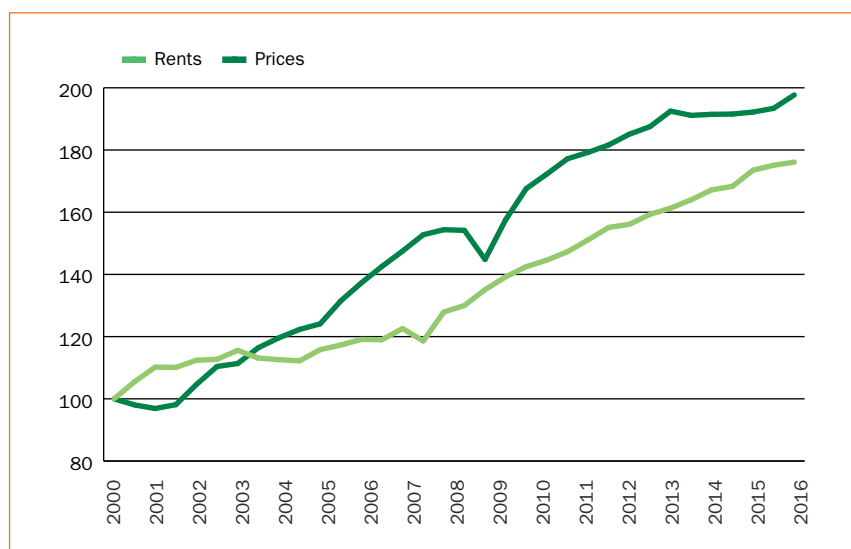
The tenant has the right to terminate the contract after an agreed notice period, typically one month. The landlord can only terminate the contract under certain specific conditions. For the landlord, the notice period is minimum three months, but the period also depends on the length of the rental period.

Rents are typically indexed, with the cost of living index being the most used. It is also common to agree on a higher level of rental increases, for instance a minimum of 3 or 5 per cent. This kind of indexation is used by professional investors in particular, and allows the landlord to adjust rental increases to prevailing market conditions in different areas and buildings.

In the subsidised housing stock – depending on the form of subsidy – there might be restrictions related to both rental levels and tenant selection. In so-called ARA-housing stock, where long-term state housing loans or subsidies are used, rents are cost-based.

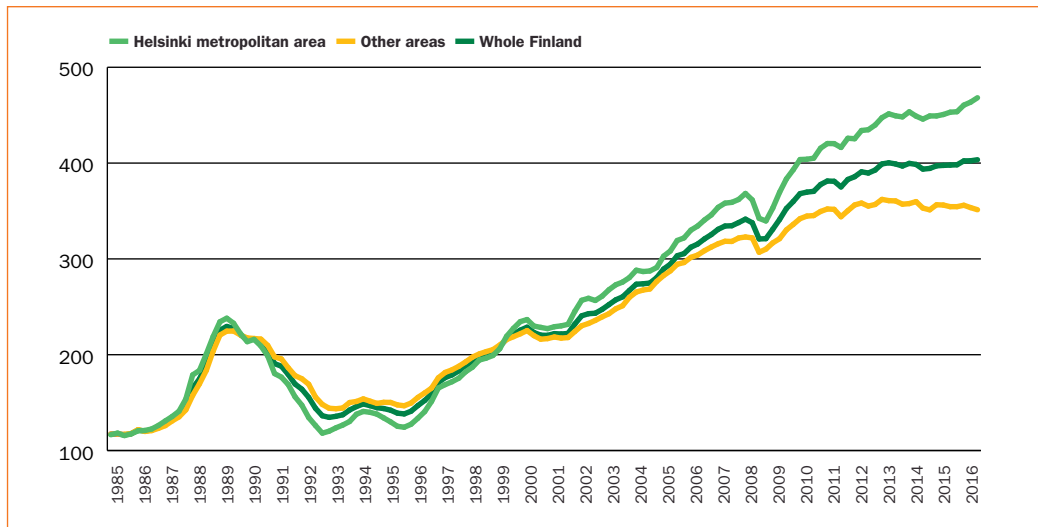
In some dwellings produced with interest subsidy, there might be varying conditions for tenant selection or the holding period of buildings, but rents are typically market-oriented. In the new 10-year subsidy model, there are restrictions for annual rental increases, the amount of dividend paid to the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

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



Source: KTI and Statistics Finland

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



Source: Statistics Finland

The residential market in 2017

According to the preliminary statistics of Statistics Finland, prices for old residential dwellings increased by some 0.9% in the whole country on average in 2016. In the Helsinki metropolitan area, prices increased by 2.1%, whereas elsewhere in the country they decreased by 0.1%. Prices for new dwellings decreased by some 0.4%.

Pellervo Economic Research PTT forecasts housing prices to increase by 1.8% in the whole country on average in 2017. The increase will continue to be strongest in small apartments in the growing city areas, whereas in other regions, the price development is expected to be negative.

In the professional property investment market, the residential property transactions volume reached a record level in 2016. The volume was boosted by several major

transactions of existing residential buildings. There were seven transactions where more than 1,000 apartments were acquired, and several deals between 500 and 1,000 apartments. The biggest acquisitions were made by Y-Foundation, VVO, Avant Capital Partners, Elo and SATO. Several property funds also continued to purchase new apartments from construction companies. Altogether, the residential property transaction volume amounted to some €2.8 billion in 2016, which represents a growth of some 125% compared to the previous year.

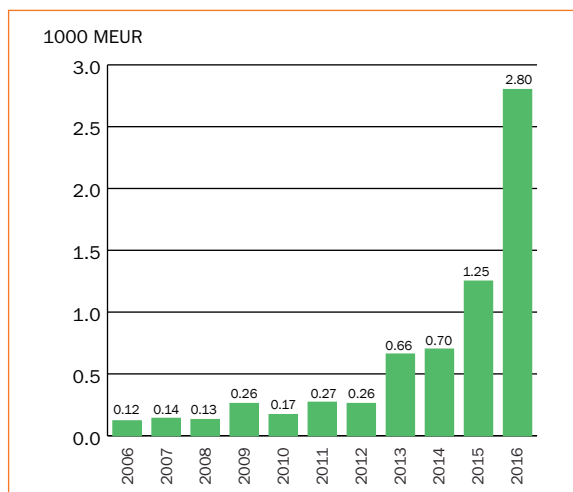
"Residential property transaction volume reached a new record level in 2016"

Largest residential portfolio transactions in 2016

ASSET / PORTFOLIO	DATE	PRICE (M€)	PURCHASER	SELLER
8,517 subsidized rental apartments (several cities)	2016Q1-Q2	536 (based on the decision made by ARA)	Y-Foundation	VVO Group Plc
2,274 rental apartments	2016Q3	n/a	VVO Group Plc	Shareholders of ICECAPITAL Housing Fund II
2,000 rental apartments	2016Q4	n/a	Avant Capital Partners & unnamed U.S. investor	n/a
1,800 rental apartments mainly in the Turku and Tampere regions	2016Q4	n/a	Elo Mutual Pension Insurance	YH Kodit Oy
1,344 rental apartments	2016Q4	n/a	Avant Capital Partners & unnamed U.S. investor	VVO Group Plc
1,255 rental apartments	2016Q2	n/a	SATO Corporation	Shareholders of SVK Yhtymä Oy
1,015 rental apartments	2016Q2	n/a	SATO Corporation	Suomen Laatuasunnot Oy
Over 600 rental apartments	2016Q3	n/a	Nordic Strategies Fund II (managed by NREP)	SSR Uusimaa Oy, Pohjola Rakennus Oy Keski- ja Itä-Suomi, JM Suomi Oy
356 rental apartments in Helsinki, Kerava and Vantaa	2016Q2	80	Bayerische Versorgungskammer (BVK)	Tapiola KR IV
As Oy Vanhalinna, over 300 rental apartments in Eastern Helsinki	2016Q2	n/a	Nordea Life Assurance Finland Ltd	LocalTapiola General, LocalTapiola Life

Source: KTI

Volume of residential portfolio transactions



Source: KTI



Photo: SATO

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

Between 2010 and 2015, residential rents in the Helsinki metropolitan area increased by some 3–5% per annum. In other main cities, rents have increased slightly less, by some 2–3.5% annually. In 2016, however, increase in rents slowed down or stopped in most areas due to both increasing supply and the challenging economic conditions. KTI rental indices show an increase of 1.5% in the Helsinki metropolitan area, and 0.7% in other main cities on average in 2016.

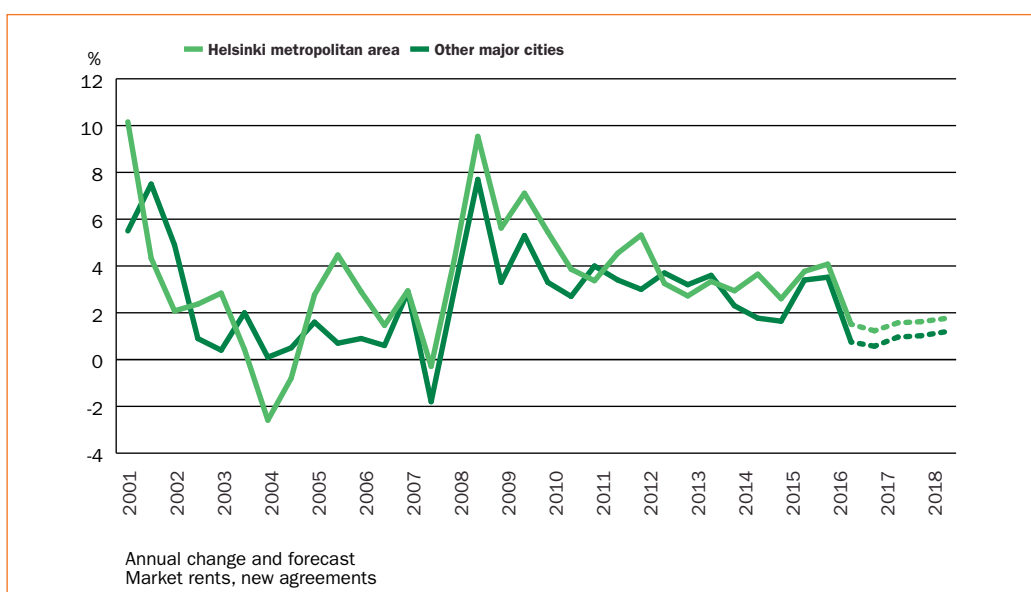
According to the KTI forecasts, rents in main cities will increase by some 0.5–1.5% per annum in 2017 and 2018.

Strongest demand is currently targeted at locations with good public transport connections as well as at newly developed apartments. However, with the increasing supply, turnover of tenants has increased, and tenants have become more price-sensitive. Therefore, some landlords have refrained from increasing rent for 2017 in order to maintain good occupancy rates.

"Rental growth slowing down in the Finnish residential market"

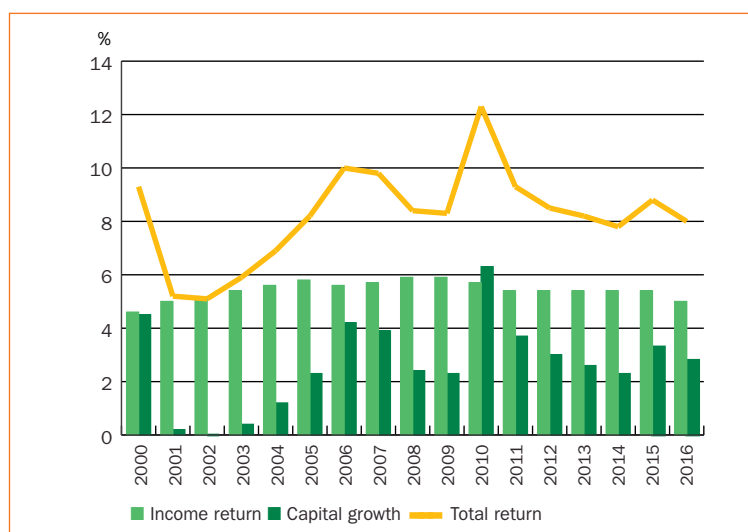
Occupancy rates of residential portfolios remain strong, at some 96% in large investors' portfolios on average, but have

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



Source: KTI

Total return on residential property investments, 2000-2016



Source: KTI Index

decreased slightly during the past year, due to increasing supply.

Residential properties' investment performance has remained strong, which is the main driver supporting the sector's attractiveness in the investment market. Of the main property sectors, residential has been the best performing sector in the KTI Index every year since 2008, and it continued to perform well in 2016. Capital growth has remained positive throughout the years. In 2016, total return on residential properties amounted to 8.0% (8.8% in 2015), consisting of a capital growth of 2.8%, and net income of 5.1%.

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, for instance educational buildings have also started to attract investors.

Properties used for the provision of public services are a diversified market segment varying from normal office properties to highly specialised large hospital buildings



Photo: SATO / Antonin Halas

and serviced housing offered for specific target groups. Municipalities and the Finnish state are still the predominant owners of these properties. The market has just recently started to attract private investors, and public sector operators are also increasingly interested in considering alternative opportunities for providing both the services and the premises needed for service provision. Investment potential of this market segment is expected to increase markedly in the coming years.

"Public use properties attract investors"

Healthcare properties are a diversified market segment consisting of assisted living facilities and nursing homes for different target groups (e.g. elderly people, mental patients as well as disabled people), children's day care facilities, medical facilities and even hospital properties. In the Finnish context, most of these facilities have traditionally been owned by municipalities and other public sector organisations, which have also provided social services and have operated the facilities.

According to Statistics Finland, the total stock of healthcare facilities amounted to some 12.4 million sqm at the end of 2015. According to the KTI estimates, the market value of the healthcare properties owned by professional investors amounted to some €1.6 billion at the end of 2016, showing an increase of €0.6 billion compared to the previous year.

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

Players

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

Players in the healthcare property investment sector include institutional investors, domestic property funds and some specialised foreign investors. Pension funds' investments in healthcare sector have typically been targeted at assisted living facilities for elderly people. The largest property funds investing in healthcare properties are managed by eQ Bank, Northern Horizon Capital, and Titanium Rahastoyhtiö. eQ's special mutual fund eQ Hoivakiinteistöt has increased markedly in recent years and currently has a property portfolio of €539 million. In 2017, Suomen Hoivatilat, a company investing in healthcare properties, was listed in the main list of Nasdaq Helsinki Stock Exchange. Trevian Asset Management has been another fund manager active in the care property sector, but they divested their portfolio in 2016.

The Swedish Hemsö is currently the largest foreign investor in the Finnish healthcare property sector. In the company's €227 million Finnish portfolio, there are also some educational properties.

Another Swedish investor active in the Finnish market is Hemfosa, who continued to expand its portfolio in Finland through several acquisitions in 2016. The company has mainly invested in office properties used by public agencies. The German Deka has invested in a new health and wellbeing centre that is currently under construction in Kalasatama, Helsinki. New foreign players in the Finnish care property market include Pioneer Property Group and AXA Investment Managers, who both acquired care property portfolios from Trevian Asset Management's fund for prices of €22 and €65 million, respectively.

Market practices

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

The majority of health care properties owned by private investors are rented to private operators, who typically provide their services to the municipalities. In most service sectors, the operators have to apply for a licence from authorities, which also means that the operators need to be financially solid companies. Even the facilities need to be approved by the authorities and fulfil strict technical requirements, which vary depending on the specific use of the property. These requirements also set certain demands for the property developers and investors.

In some cases, properties can be directly rented to a municipality, which either provides the services itself or further leases the premises to a private operator.

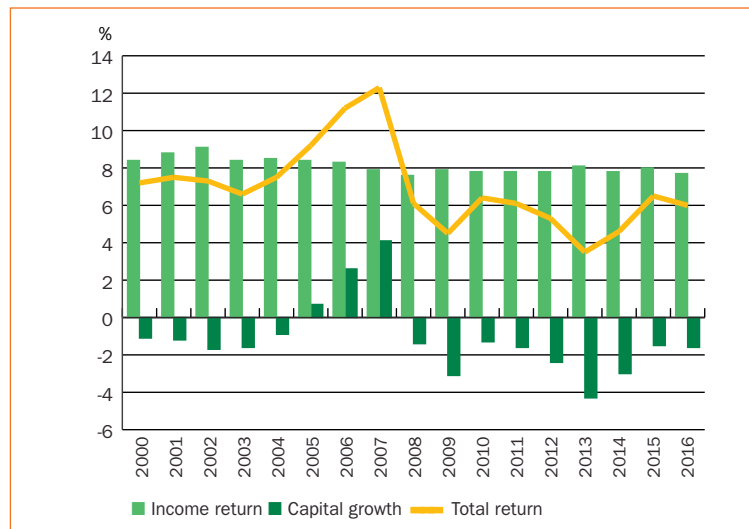
Leases of healthcare properties are typically long, for instance 10–15 years. Lease agreements are most commonly net leases, where the tenant is responsible for maintenance, property tax and insurances, and, in many cases, even for refurbishments. In this sense, investments are strongly driven by net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

Market in 2017

Public use properties continued attracting new capital in 2017. The transaction volume of healthcare properties amounted to some €500 million. In addition, several transactions were made on educational and public authorities' office buildings.

In previous years, healthcare property transactions were typically rather small, consisting of newly developed individual assets or portfolios with only a few smallish properties. In 2016, however, several large portfolio transactions were made as some funds divested their holdings. The biggest transaction was the €155 million acquisition of the Northern Horizon Capital's Healthcare I portfolio by eQ Hoivakiinteistöt. Also Trevian's fund divested its portfolio in two transactions. Another portfolio deal was carried out by Northern Horizon Capital's Nordic Aged Care fund, who acquired a portfolio of 16 care properties in December.

Total return on industrial property investments, 2000-2016



Source: KTI Index

Finnish healthcare properties produced a total return of 9.8% in 2016. The investment performance was supported by both high income return and healthy development of market values.

4.5 Industrial / logistics market

Stock

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

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

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

Players

Owner-occupation was, up until very recently, relatively common in the logistics and light manufacturing property market, but the situation has changed in recent years as occupiers have sold many of their properties to investors. This emerging sector is attracting new investors including domestic institutions, property funds and foreign players. Of the total stock of industrial and warehouse properties, about 85% is estimated to be owner-occupied. Big owner-occupiers include, for instance, large industrial and retail corporations.

Logicor is the largest specialised investor in the Finnish logistics property sector. The company has disposed assets from its portfolio in recent years but still currently owns 79 logistics and manufacturing properties across Finland.

The Swedish listed company AB Sagax continued increasing its Finnish industrial property portfolio through several transactions. Also, funds managed by NREP continued to increase their logistics and manufacturing property portfolio in 2016. Other foreign investors in this segment include the Norwegian Ness, Risan & Partners, and RBS Nordisk Renting. In 2016, a newly established property company based in Sweden and managed by Catella, CTV Properties, acquired a portfolio comprising 29 assets with a total area of some 103,000 sqm in Finland. The company's equity investors come from Finland, Sweden and Luxembourg.

Logistics and industrial properties are also typically represented in institutional portfolios. Some of the domestic funds, such as OP Toimitilakiinteistöt and eQ Liikekiinteistöt also invest in logistics and industrial properties.

The Finnish property development and investment company Renor also owns some logistics and manufacturing properties, for instance in Lahti. Another significant player in the logistics property market is Posti Kiinteistöt, the



Photo: City of Helsinki / Antti Pulkkinen

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

The industrial/logistics market in 2017

Vacancy rates for modern industrial and logistics properties have increased in recent years due to both new space supply and weak demand pressured by economic conditions. In the KTI rental database, occupancy rates for logistics and industrial premises in the Helsinki metropolitan area stood at 84% in 2016.

Industrial and logistics property rents have remained fairly stable in recent years. However, in international comparison, rental levels for modern logistics premises are relatively high, partly explained by high construction costs. In the KTI database, the upper quartile rental levels for the best logistics areas in the Helsinki metropolitan area and surrounding municipalities stand at some €10-11 per sqm. In the airport area in Vantaa, the rents are typically €2-3 higher.

In 2016, the total transactions volume of logistics and industrial properties amounted to some €500 million. The biggest transactions were those carried out CTV Properties, Sagax and RBS Nordisk Renting.

New development of logistics and industrial properties in the Helsinki metropolitan area has recently been concentrated in the airport and Vuosaari harbour areas. In the vicinity of the airport, Finnair is currently developing a new cargo terminal, and HUB Logistics has just completed a logistics property to be also used as the company's headquarter. In addition, YIT is about to start two logistics projects in Viinikkala, also close to the airport. In Helsinki, Sonera is developing a 30,000 sqm data centre property in Pitäjänmäki. In the Vuosaari harbour area, MetsäFibre is developing a 28,000 sqm logistics property, which is related to the company's major industrial facility investment currently underway in Äänekoski.

Major retailers typically develop their logistics facilities themselves. In Sipoo, north of Helsinki, S Group's 77,000 sqm first phase of the Freeway project was completed in summer 2016, and the second phase, comprising 112,000 sqm, is currently under construction. In Järvenpää, also north of Helsinki, Lidl is developing a new logistics facility for its own use.

The Finnish industrial / warehouse property sector produced a total return of 6.0% in 2016 (6.2% in 2015). Net income remained at a high level, at 7.7%. Capital growth was negative at -1.6%.

4.6 Hotels

Stock

According to Statistics Finland, there are 608 hotels in Finland, comprising some 50,000 rooms. Of these, 113 hotels with some 14,000 rooms are located in the Uusimaa region.

Players

The two biggest hotel property owners in Finland are CapMan's hotel fund, which owns 38 hotel properties in Finland, and the Swedish Pandox with a portfolio of 14 hotels. Most of the biggest institutions also hold some hotel properties in their portfolios. Some operators, S Group in particular, also own some hotel properties.

The main hotel operators in Finland include S Group, Restel and Scandic, which all together account for more than half of the supply of hotel rooms. S Group is the biggest hotel operator in Finland, with some 50 hotels across the country. Restel, which operates hotels under the brands Cumulus, Holiday Inn and Indigo, for instance, currently has 43 hotels in its chains. Scandic Hotels have 23 hotels, and Finlandia Hotels operates 17 hotels across Finland, followed by Best Western with 11 hotels. Kämp Collection Hotels is a growing hotel chain, currently operating 9 luxury and design hotels in the Helsinki metropolitan area. The group will open its newest hotel St. George in the summer of 2017. The biggest privately owned hotel chain, Lapland Hotels, operates 17 hotels, mainly located in Lapland, but also one in Tampere and another in Oulu. Lapland Hotel Helsinki will be opened in spring 2018.

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

Hotels market in 2017

According to Statistics Finland, the occupancy rate of hotel rooms stood at 54.5% in 2016 in the whole country on average. In the Uusimaa region, the occupancy rate was clearly higher at 68%.

According to Statistics Finland, the number of tourists in the Finnish hotels grew by some 3.2% in 2016, compared to the previous year. Russians retained their position as the biggest foreign tourist group visiting Finland, although the number of nights spent decreased by more than 10%. The two other large foreign visitor groups include Swedish and German visitors. The number of hotel nights spent by Chinese tourists increased by 27% compared to the previous year, and the increase accelerated towards the end of the year, in December in particular. There are major plans by Chinese travel agencies to further increase their trips to Lapland in the future. Other groups increasing their travels to Finland in 2016 included visitors from the US, Spain and France.

In 2016, five new hotels were opened in the Helsinki metropolitan area. The largest of these were the two Clarion hotels: one in Jätkäsaari in Helsinki and another in the vicinity of the airport in Vantaa, both of which were opened in October. The Jätkäsaari Clarion was developed by the Norwegian hotel investor Arthur Buchardt, who also plans to develop a hotel in Hakaniemi area in Helsinki through his investment company AB Invest.

The other three new hotels were all converted from old office properties, and are located in city centre (F6), Meilahti (Cumulus) and Pitäjänmäki (Forenom hostel). At the year end, there were two projects underway in the Helsinki CBD: the extension of Hotel Haven and Kämp's St. George project, both redevelopments of old office buildings, and both scheduled to be completed in the first half of 2017. Deka Immobilien acquired the St. George property in summer 2016 from CapMan's fund. This was the only significant hotel property transaction in 2016.

According to the KTI Index, hotel properties delivered a total return of 12.4% in 2016 (5.2% in 2015). Decreasing yields supported the capital growth of hotel properties.



Photo: City of Helsinki / Antti Pulkkinen

5 Property markets in different regions – outlook for 2017

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

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

The second-tier markets include the regional growth centres of Tampere, Oulu, Turku, Jyväskylä, Lahti and Kuopio. Many domestic investors define the Helsinki area and these "growth centres" as target markets in their investment strategies. In all these cities, there are local players who operate only in these market areas. Some international investors also invest in these cities in their selected market segments.

Property markets in smaller city regions are traditionally dominated by local investors and owner-occupiers. Some domestic funds and companies also operate in smaller cities, especially in retail and residential markets. These investments are typically included in a wider portfolio context.

5.1 The Helsinki metropolitan area

The Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen, has a population of 1.1 million people. The entire Helsinki region consists of 14 municipalities and has almost 1.5 million inhabitants. The region's land area accounts for 1.2% of the area of the entire country, but it accommodates 26% of the Finnish population, accounts for about 31% of all jobs and delivers some 36% of the Finnish GDP.

Most major company headquarters as well as government agencies are located in the Helsinki metropolitan area. Jobs, administration activities, and the majority of the population of the Helsinki region are concentrated in these cities.

Population: Helsinki: 635,000
Espoo: 274,000
Vantaa: 219,000
Helsinki region: 1,454,000

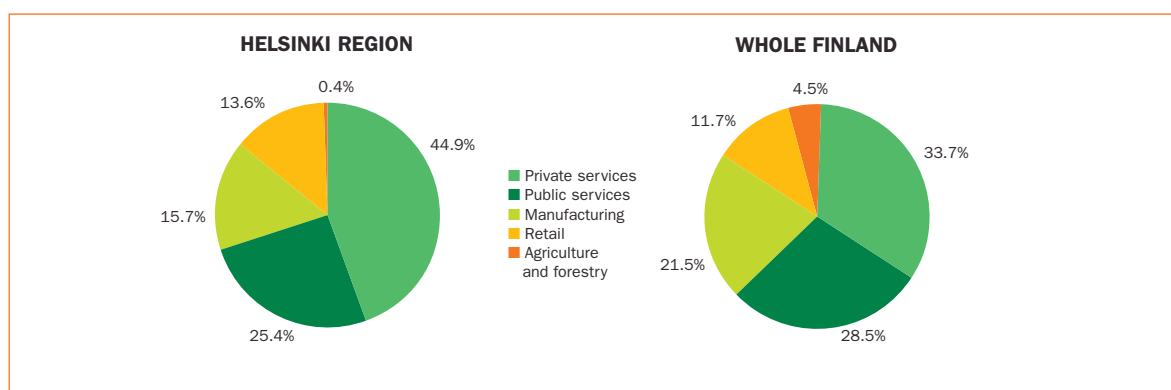
Economic base: Information industries, professional and financial services, wholesale trade, logistics, public sector services

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

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

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. In 2016, positive development was recorded in professional, financial and consumer services, and in the hospitality sector (hotels and restaurants). The construction sector also contributed positively to the economy in the Helsinki region. As a result,

The structure of the economy
Percentage of jobs, 2015



Source: Helsinki Chamber of Commerce

the total production in the Helsinki region in 2016 was some 2% higher than in 2011, whereas in the whole country, total production was still at a level about 2% lower than five years earlier.

Turnover and the number of jobs in the construction sector in the Helsinki region grew significantly in 2016, by 10 and 6%, respectively. According to the Confederation of Finnish Construction Industries RT, some 45% of residential construction in 2016 was concentrated in the Helsinki region. Also the volumes of commercial property development are significantly higher in Helsinki than elsewhere in the country.

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

The positive development of the Helsinki region is based on the growth expectations of the region. The Helsinki metropolitan area is one of the fastest growing city areas in Europe. By 2030, the population in the region is expected to grow to 1.7 million inhabitants, some 700,000 of whom would live in Helsinki. The population growth is based on both immigration and internal migration and also, although to a lesser extent, on positive natural population growth.

Current major investments in the public transportation network support the growth and construction in the Helsinki metropolitan area. The Ring Rail Road, which connects the Helsinki airport and several significant residential areas with the city centre, was completed in 2015. The Western Metro line is now being extended to Matinkylä in Espoo, where traffic is expected to be started in the summer of 2017. The construction of the further western extension to Kivenlahti has already been started. The construction of the so called Rail Joker, a fast tram connection from Keilaniemi

in Espoo to Itäkeskus in Helsinki, which would go through the northern parts of Helsinki, is planned to be started in early 2019. Furthermore, the so called Pisara rail connection is being planned between Central Station, Töölö, Pasila and Hakaniemi, which would ease public transportation in the inner city. The final decision about the construction of the Pisara rail is still to be made.

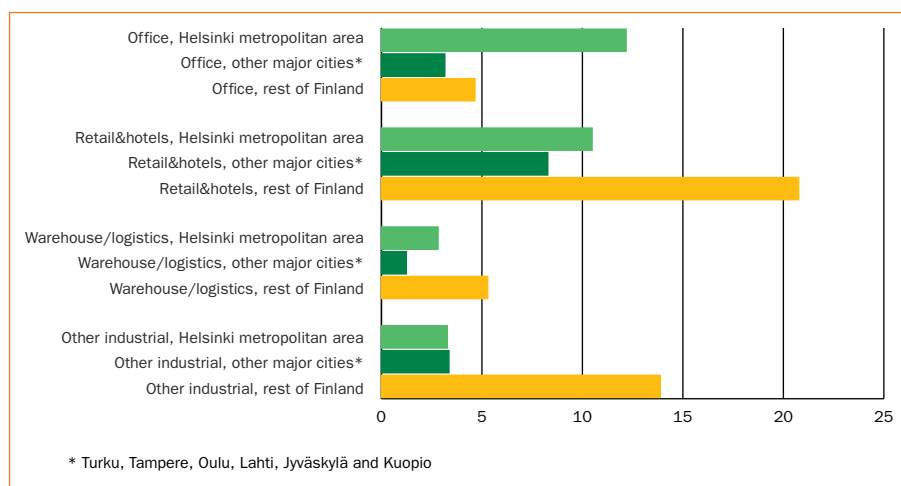
"New public traffic connections are boosting the property markets in the Helsinki metropolitan area"

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

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

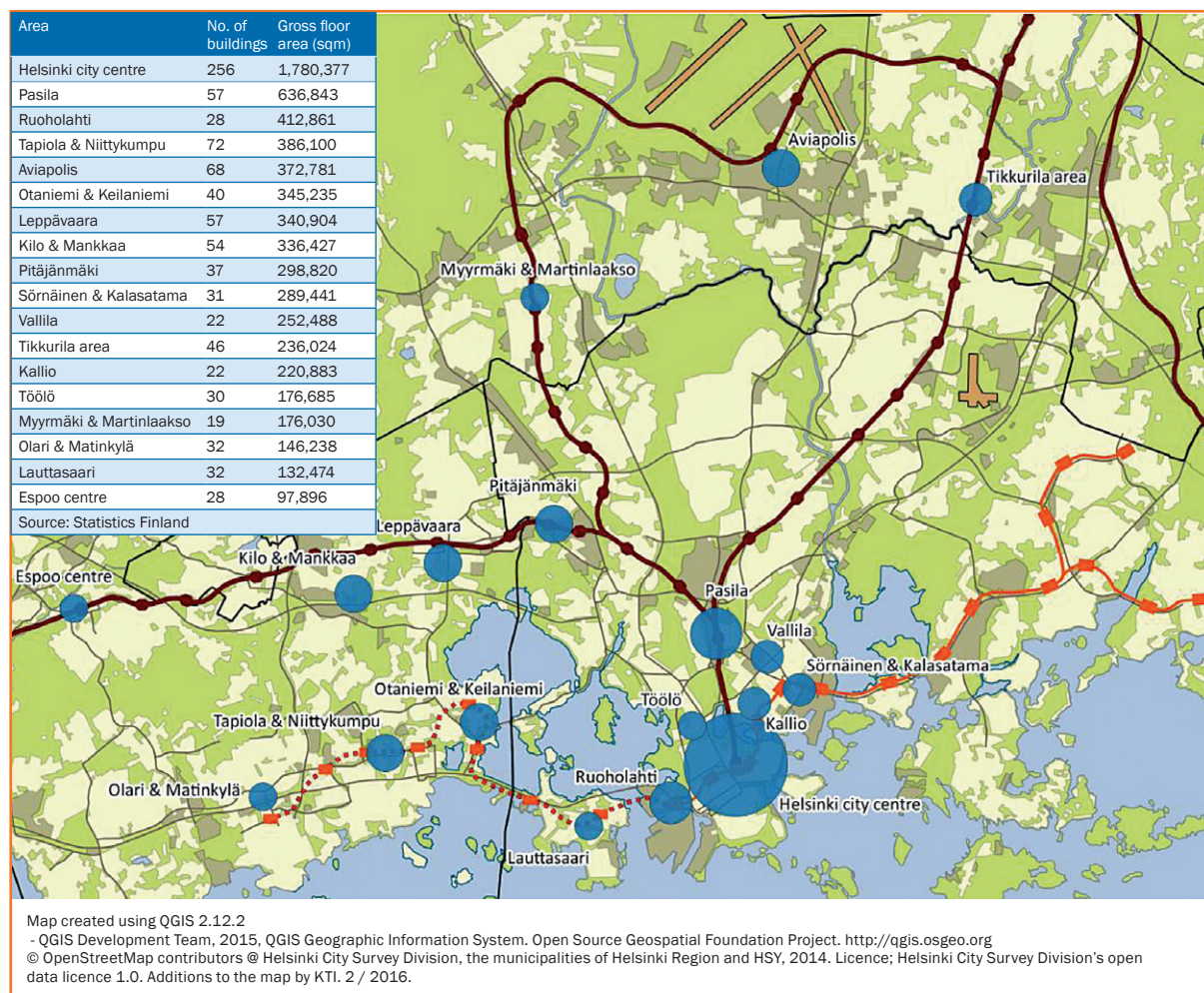
Of around 8.6 million sqm total stock of offices in the Helsinki metropolitan area, some 5.9 million sqm is located in Helsinki. Espoo accommodates about 1.8 million sqm and Vantaa about 0.9 million sqm of offices. Retail space stock of the metropolitan area amounts to about 3.9 million sqm. Of this, about 2 million sqm is located in Helsinki.

Commercial property stock, estimated values by region and by property sector, EUR billion



Source: KTI

Main office areas in the Helsinki metropolitan area



5.1.1 Helsinki

The city council of Helsinki approved the new city master plan in late 2016. The plan is based on a prediction that, by 2050, the population in Helsinki will grow to at least 860,000 people. The new master plan is based on a vision of the increased building density in the inner city. In terms of traffic connections, the plan emphasises the most important rail hubs as well as improvements in pedestrian and cycling possibilities.

In order to enable residential construction, the plan includes the transformation of current incoming traffic routes into urban city boulevards with new mixed neighborhoods of housing and workplaces, as well as the zoning of new areas, for instance the Malmi airport area and parts of the central park into residential use. These plans caused the most serious debates in the new master plan process.

"The new city master plan is based on a vision of increasing building density in the inner city"

The master plan predicts that there will be 560,000 jobs in Helsinki in 2050. Areas with increasing commercial

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

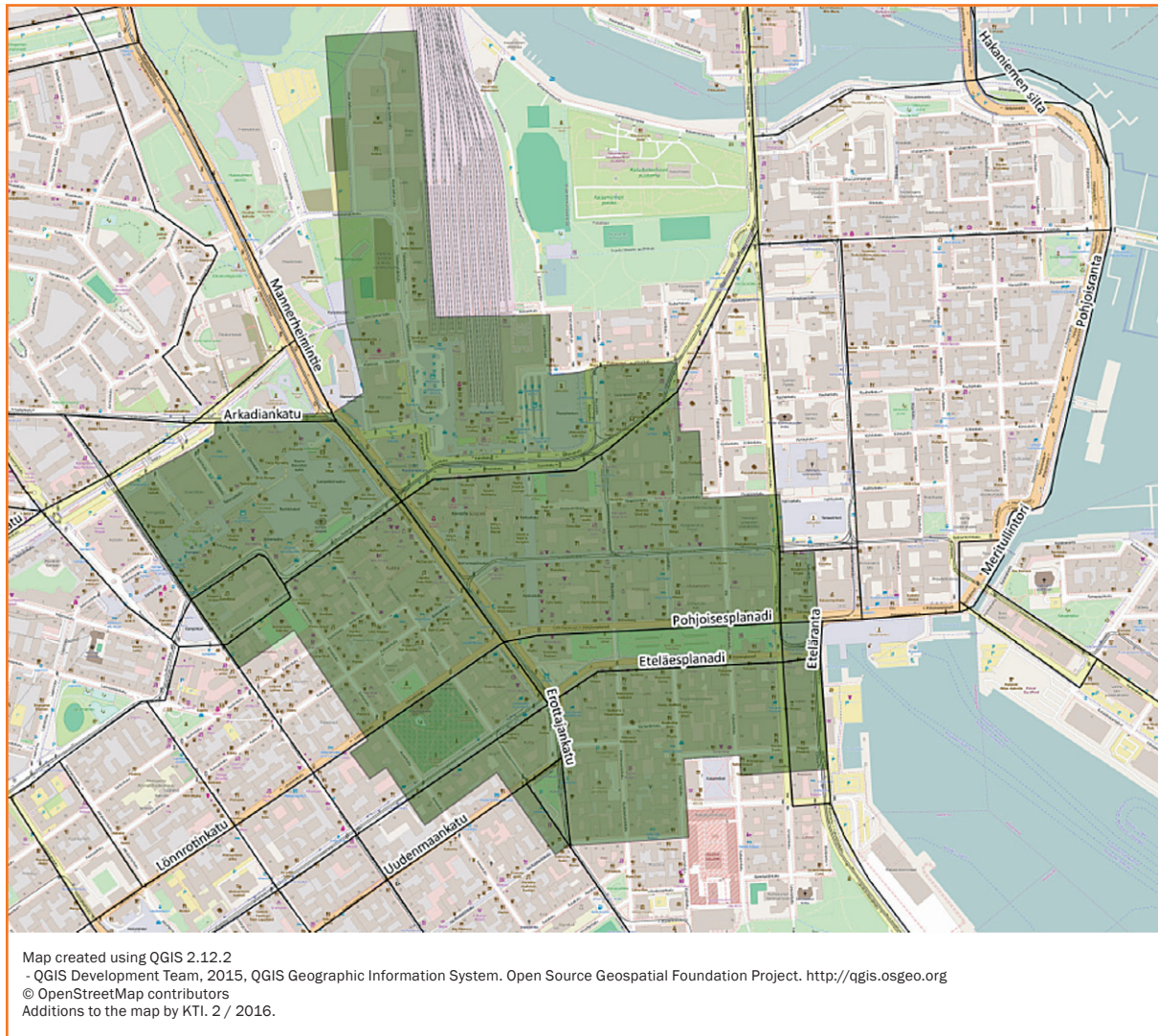
The Helsinki Central Business District

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

Office users in the city centre are mostly companies offering business-to-business services – business consultancies, law firms, financial service firms, etc – together with some company headquarters and ministries' offices. The majority of the office stock in the CBD was built in the late 1800s and early 1900s, but it is mostly well maintained and refurbished, and responds well to the needs of occupiers. In recent years, the Helsinki CBD has proven its resilience in challenging market conditions, and remains the most preferred office location in the region.

The recent development of the Töölönlahti area in the vicinity of the main railway station extended the CBD area and increased the office supply by some 40,000 sqm. The area will also accommodate the new central library, the construction of which is set to be completed in 2018.

Helsinki CBD



After many years, there is a new office project under construction by Kasarmitori in the CBD, expected to be completed in late 2017. There are also several major redevelopment projects underway or being planned in order to respond to the occupier needs, in buildings by, for instance, the Northern and Southern Esplanades.

The combination of increased supply of modern, efficient office space and tight economic conditions has recently increased the amount of vacant space in the CBD. In the KTJ rental database, the occupancy rate of the CBD offices stood at some 86% in late 2016. However, according to Catella, the vacancy rate started to improve towards the end of the year.

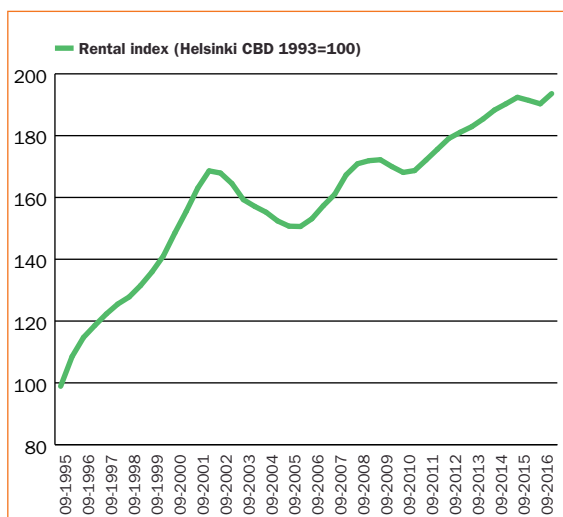
Several office buildings in the CBD have been converted to either hotel or residential use in recent years. In 2016, the F6 hotel project was completed, and in early 2017, there are two other projects underway. The extension of Hotel Haven in Kluuvi is scheduled to be completed in the spring, and St. George in Kamppi in the summer of 2017. Deka Immobilien bought the St. George project from CapMan's fund in the summer of 2016.

"Rental growth continues in the Helsinki CBD offices"

KTJ's rental index for the Helsinki CBD offices has shown a stable increase of 1-2% per annum in recent years. After a slight drop in 2015, the rents took a turn towards growth again in 2016, and increased by some 1.1%. In the KTJ rental database, the upper quartile of rents in new agreements exceeded €31 per sqm per month. In the RAKLI-KTI Property Barometer, the outlook for office rents in the CBD remained more positive than for other areas in the Helsinki metropolitan area.

"Prime office yields in the Helsinki CBD continued decreasing in 2016"

KTI Rental index, Helsinki CBD offices



Source: KTI and Statistics Finland

According to the RAKLI-KTI Property Barometer survey, prime office yields for the Helsinki CBD stood at 4.7% in late 2016, showing a decrease of 0.5 percentages since 2015. Yields for the very best properties are clearly lower than this.

Mainly due to the limited supply, there were not many office property transactions carried out in the Helsinki CBD in 2016. The largest transaction was the acquisition of a 5,400 sqm property by an unnamed German fund, which made the deal in co-operation with Barings Real Estate Advisers.

Helsinki CBD offices show strong investment performance

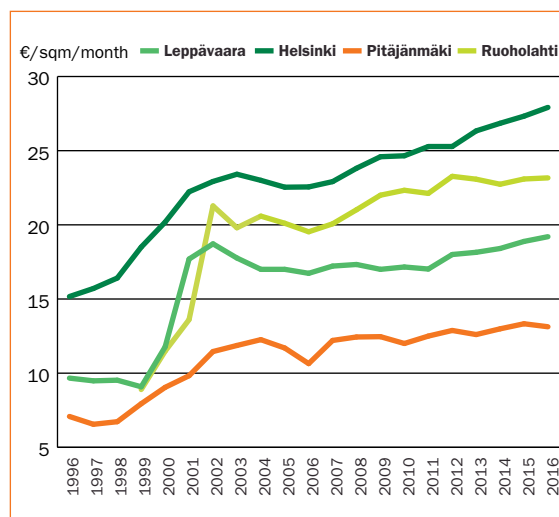
The market values of Helsinki CBD offices have, in recent years, been supported by both positive rental growth and decreasing yields. In the KTI Index, the total return on Helsinki CBD offices was 8.2% in 2016. The performance continued to be stronger than for offices in other areas, and was supported by capital growth, which amounted to 3.9%.

Main shopping centres in the CBD include Kamppi and Forum in the Kamppi area, Galleria Esplanad and Kluuvi in the Kluuvi area, and Citycenter next to the main railway station. In this segment, the major news in 2016 was the acquisition of Forum by Sponda in February.

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

The amount of vacant retail space remains low in the CBD, although it has increased slightly in recent years. It is still, however, very easy to find tenants for the best premises. In the KTI rental database, the upper quartile of retail rents currently stands at some €120–130 per sqm per month for small premises. In the RAKLI-KTI Property Barometer,

Median office rents, all agreements – Helsinki CBD, Ruoholahti, Leppävaara and Pitäjänmäki



Source: KTI

the outlook for the CBD's retail rents turned slightly more negative in late 2016, and the average rent stood at €100 per sqm.

"The tenant base of retail premises in the Helsinki CBD is changing"

The tenant base of retail premises in the Helsinki CBD has changed markedly during the past couple of years. On the one hand, some international luxury brands have entered the Finnish market by opening stores in the most expensive locations. On the other hand, shopping centres in the CBD have also attracted some users of large premises recently. Another trend is that restaurants, cafes and other consumer services have taken up more space in shopping centres. In Kamppi, for instance, an extensive restaurant floor Kortteli was opened in late 2016.

Ruoholahti – Salmisaari

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

Office rents in Ruoholahti currently stand at some €23–24 per sqm per month on average. Within the past years, the area has attracted new tenants, and major lettings have decreased the amount of vacant space in the area. During the latter half of 2016, however, the vacancy rate again increased slightly, according to Catella.

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

Technopolis is currently developing the third phase of its Ruoholahti Campus in Salmisaari. The most significant

transaction in the area in 2016 was the German PATRIZIA's acquisition of a 9,000 sqm office building from Fennia Life Insurance Company.

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

The new 16-storey Clarion hotel and congress centre was opened in Jätkäsaari in late 2016. SRV is planning the Wood City block in the area, consisting of one office, two residential buildings and one hotel building. Construction has been postponed to be started in late 2017. SRV is also about to start the reconstruction of the so called Jätkäsaari bunker, the old warehouse building, which will be developed into a sports centre and also for residential use. The bunker is next to a primary school building that will be developed by the City. Rental residential development continues to be active in Jätkäsaari. The area is planned to accommodate some 17,000 inhabitants by 2030.

Skanska is currently planning the development of the Telakkaranta land area, next to Jätkäsaari. The first building permits for residential buildings in the area were granted in late 2016, together with a permit to demolish nine old warehouse and industrial buildings.

Pasila – Vallila – Kalasatama

Other traditional office areas situated somewhat out of the city centre include Pasila, Sörnäinen and Vallila. These areas are characterised by a multifaceted office supply. Adjacent to Sörnäinen, there is the developing Kalasatama area, where land was released for development when the harbour moved its operations to Vuosaari. The Pasila–Vallila–Kalasatama area is named as an "axis of growth" in the City of Helsinki growth strategy.

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

Both commercial and residential property stock in Pasila are planned to increase significantly. In the city's long-term plans, the area will accommodate some 50,000 jobs and 20,000 residents, compared to current figures of 25,000 and 8,600 respectively.

Pasila is currently under major redevelopment. In the Central Pasila area, in the surroundings of the current railway station, the three-block Mall of Tripla project has been started by YIT with land construction works, and the construction of a 85,000 sqm shopping centre will be started in 2017. When completed in 2022, the complex will comprise 183,000 sqm of retail, residential, hotel and office space, as well as parking facilities and a public transportation hub.

Next to Tripla, an international design and construction competition under the title "Helsinki High-Rise" is currently underway as a joint project of the State and City of Helsinki. In the competition, a plan to develop the Central Pasila Tower Area will be chosen. The area will include 150,000–200,000 sqm of residential, office and commercial space in at least 15-floor buildings. The competition also aims at finding an executor for a 40-50,000 sqm Start-Up Area, planned in the western part of the Tower Area.

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



Sponda, together with the YLE Pension Fund, is a major developer in the area in their Ilmalanrinne and Forum Virium Centre projects. In early 2016, Hartela started to build the first phase of their Ilmalan Asema project, where they will also move their headquarters. The project has been sold to Hansainvest. Another ongoing construction project in Pasila is the new bus depot and office building for bus company Pohjolan Liikenne.

The amount of vacant office space continued to decrease in Pasila in 2016. Rental levels vary significantly between older and modern stock in the area. In KTI's rental database, the average rents in new agreements stood at some €18–20 per sqm in 2016.

"Active construction in the Pasila–Vallila–Kalasatama axis"

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, head offices of banks and telecommunications companies. OP Group continues to develop its premises in the area with a 17,000 sqm reconstruction project. The Tax Administration is going to rent part of the premises. Also in this area NCC is currently developing the first phase of their Fredriksberg project, comprising some 8,700 sqm of lettable office space. In 2016, the only recorded transaction was eQ's fund's acquisition of an office property in Sturenkatu, Vallila.

Next to Vallila is Sörnäinen, a traditional industrial and harbour area, which currently accommodates many refurbished office buildings. In Sörnäinen, Skanska CDF is currently developing the 12,000 sqm K6 office project. In 2016, Antilooppi invested in an office property in the vicinity of this project. Also in Sörnäinen, the State's Senate Properties is currently demolishing a major office property. Senate planned to start the construction of a new office building on the site, but they just announced that the project will be postponed due to the state agencies' decreased need for space.

Rents vary markedly between older and modern office stock in Vallila and Sörnäinen. In the older buildings, rents are below €15, whereas in the modern stock, they are clearly above €20 per sqm per month.

Adjacent to Sörnäinen is the developing Kalasatama area. Kalasatama is another area where living, working and public and private services will be combined, and where development requires significant investments in infrastructure and extensive new property development. When completed in about 2030, the area is planned to accommodate some 20,000 people and 8,000 jobs.

"The 60,000 sqm shopping centre REDI is set to be completed in 2018"

Construction work in Kalasatama started with residential projects. Residential stock comprises both rental and owner-occupied dwellings.

In Kalasatama, SRV is currently constructing the REDI centre, which will comprise a 60,000 sqm shopping centre, six residential towers, one hotel and one office tower. In addition to SRV, investors in the project include pension fund Ilmarinen, OP Group's funds and LocalTapiola's insurance and life funds.

"Several office projects are underway in Kalasatama"

The City of Helsinki's 20,000 sqm health and well-being centre in Kalasatama is scheduled to be completed in late 2017. Deka Immobilien is the investor in the project. In 2016, Kesko and Varma announced that Varma will develop a new 27,000 sqm head office for Kesko in Kalasatama, set to be completed in early 2019. In addition, some 7,000 sqm of office space will be rented to other users. At the same time, Varma bought Kesko's former head office and plans to redevelop it into residential use. Also Lindström Invest is currently developing an office property in Kalasatama. The City of Helsinki is planning a major new office building for its new department of urban environment in Kalasatama, with the aim of selling the project to private investors. The construction is expected to start in 2017.

Ruskeasuo

Next to Pasila is the developing Ruskeasuo office area with mostly modern space supply. The area currently accommodates the first two phases of Skanska's Manskun Rasti project. NCC's Aitio Business Park's second phase was completed in 2016.

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.

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 amount of vacant office space continued to increase markedly within the past year, and occupancy rate stood at only some 60% in late 2016. Due to low demand, investors are looking for opportunities for changes of use.

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 2016, Peab Invest completed the first phase of the Ultimes Business Garden in the area, comprising some 10,000 sqm of lettable space. Sonera is currently constructing a 30,000 sqm data centre in the area, set to be completed in late 2017. Beyond this, new construction is limited to residential development.

Herttoniemi – Itäkeskus – Vuosaari

Herttoniemi is an area five kilometres east of the CBD, adjacent to both the eastern radial route and the metro line. Herttoniemi is an old warehousing area that has gradually transformed into a more diversified area with office and retail supply. There is also extensive residential stock.

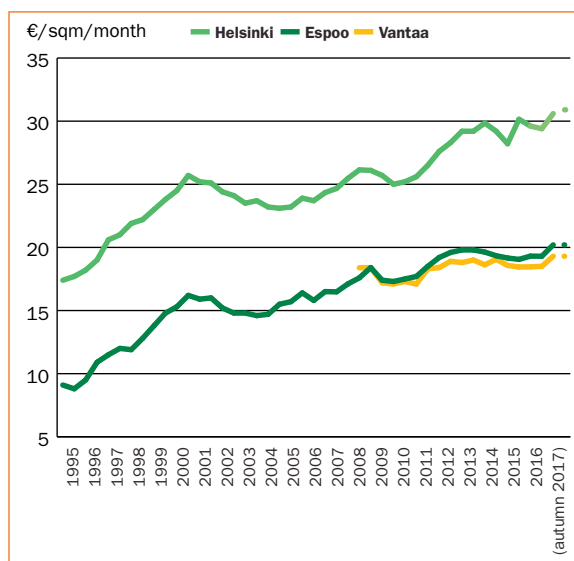
The office vacancy rate has remained high for several years, although the total stock of offices is rather small in the area. YIT and Hartela are about to start the construction of the 20,000 sqm Hertsi centre by the metro station, which will be connected with the existing Megaherts centre. The

centre will accommodate a Prisma hypermarket and some 40 other retailers. Three residential buildings will also be built above the centre.

Further east is the Itäkeskus area. The area's location at the junction of Ring Road I and the eastern radial route, as well as by the eastern metro line, supports its development as an attractive area for retail and living. The Itis shopping centre is one of the largest shopping centres in northern Europe with a gross leasable area of 115,000 square metres. Kesko is currently building the first, 20,000 sqm phase of the shopping centre Easton, where a new Citymarket will be opened in 2017. Upon completion of the first phase, the old hypermarket property will be demolished.

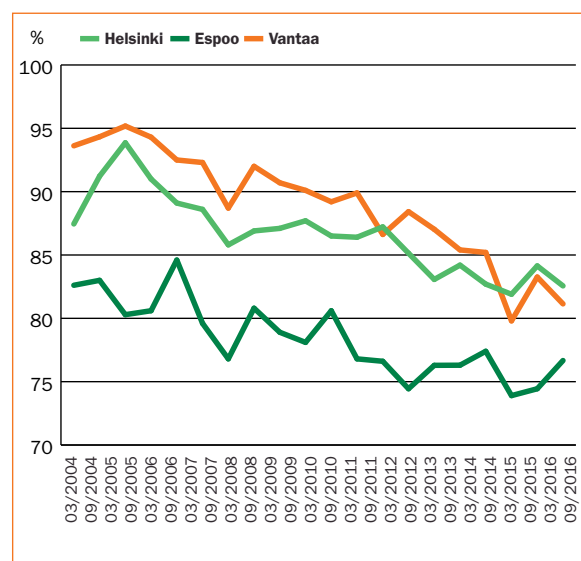
Vuosaari, the new harbour area, is another area that has been developing rapidly in recent years. The harbour currently accommodates about 2,000 jobs as well as an extensive logistics property stock. Logisor is one of the main owners

Prime office rents in Helsinki, Espoo and Vantaa



Source: RAKLI-KTI Property Barometer

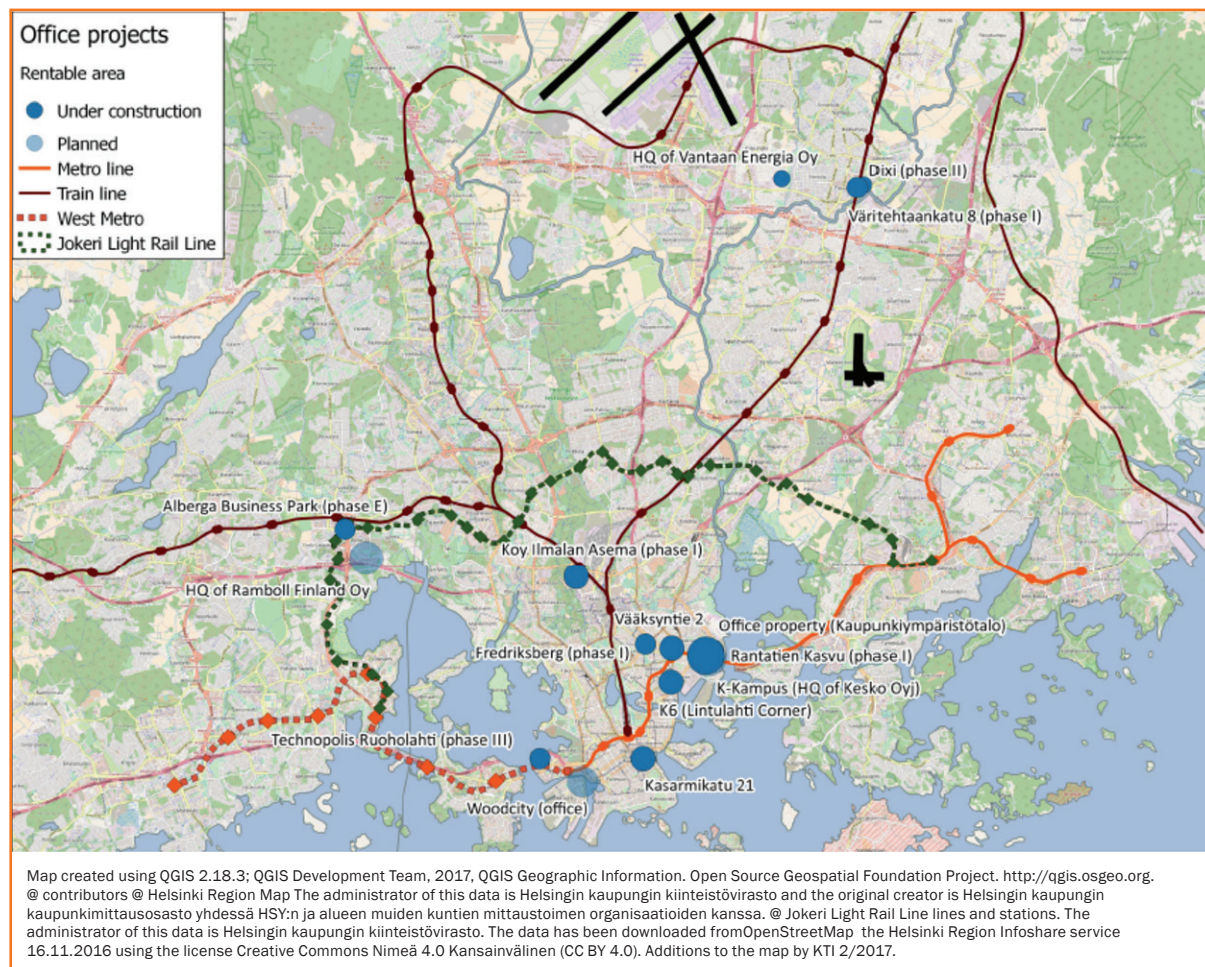
Office occupancy rates in Helsinki, Espoo and Vantaa



Source: KTI Rental database

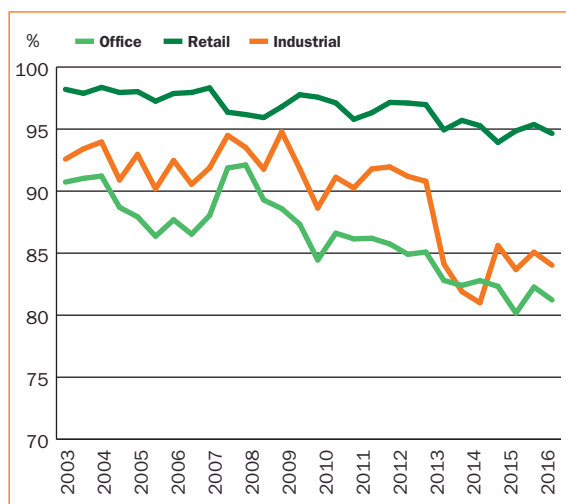
Office development projects in Helsinki metropolitan area

size of circle = size of project, light circle = project under planning



of the logistics space in the area. MetsäFibre is currently developing a terminal building in Vuosaari. Next to the Vuosaari metro station is the 21,000 sqm shopping centre Columbus. Vuosaari and the adjacent Rastila areas are also rapidly developing residential areas.

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



Source: KTI Rental database

5.1.2 Espoo

Espoo, Finland's second biggest city, has property stock scattered within five regional centres. The city's commercial property stock is multifaceted, which can also be seen in the diverse development of rental levels and vacancy rates in different areas and properties.

High office vacancy rates have been a problem for many areas in Espoo for the past few years. Areas suffering from high vacancies include both remote submarkets with older stock (Kilo-Mankkaa) and relatively modern areas in good locations (Keilaniemi, Leppävaara).

In the KTI rental database, only some 77% of Espoo's office premises owned by large investors were rented in late 2016. Abundant supply has slowed down new development, and in 2016, no office projects were completed in Espoo, and at the end of the year there was only ongoing project in Leppävaara.

The construction of the new western metro line is boosting the property markets in the vicinity of the new stations in Espoo. The opening of the new metro line to Matinkylä has been postponed until the summer of 2017, and the extension to Kivenlahti is expected to be completed in 2020 at the earliest.

Keilaniemi – Otaniemi – Tapiola – Matinkylä

The five established commercial property submarkets in southern Espoo – Keilaniemi, Otaniemi, Tapiola, Niittykumpu and Matinkylä – will all accommodate new metro stations. Many of these areas have, in recent years, suffered from oversupply of office premises. Retail and residential construction is active in the new station areas.

"A new metro line will start in the summer of 2017"

Keilaniemi is a modern office area accommodating several major head office properties including Microsoft Mobile, Tieto, Kone, Neste Oil and Fortum, as well as some modern business park concepts. Average rental levels are slightly lower than in Ruoholahti. In the KTI rental database, average rents are some €22 per sqm per month.

Keilaniemi has suffered from relatively high vacancies in modern office buildings in recent years, but the situation improved during 2016. There has been some major lettings in Keilaniemi, many of which have been driven by increased space efficiency.

There are several major office development projects being planned in the area, including some high-rise office and residential buildings close to the metro station, but these are not expected to be started before the rental market conditions improve.

The largest transaction in Keilaniemi in 2016 was the acquisition of the 32,000 sqm Life Science Center by Niam.

The City of Espoo is currently covering the Ring Road I between Keilaniemi and Tapiola, in order to both increase the attractiveness of the area and improve the opportunities for residential development. The project will impact traffic in the area until 2018. The second phase, which will be started once the first phase is completed, will extend the tunnels between Otaniemi and Tapiola.

The Otaniemi area is located next to Keilaniemi. Aalto University is located in Otaniemi, and it is currently centralising its main campus in the area. The centralisation includes both redevelopment of existing buildings and development of new premises. The Aalto University metro centre and campus building is currently under construction. The €100 million project is scheduled to be completed in 2018, and will include some 6,000 sqm of retail space. The Otaniemi area also accommodates several research institutes as well as business parks targeted at high-tech companies, including Technopolis's Innopoli campus.

"The shopping centre Ainoa is developing in Tapiola"

Tapiola is a traditional retail, office and residential area, which is currently undergoing major redevelopment. The project includes major investments in both transportation

infrastructure and existing and new property stock. The second phase of the Ainoa shopping centre, comprising some 20,000 sqm of retail space, is scheduled to be completed in March 2017. Stockmann will move to these new premises, and after this, the former Stockmann department store building will be demolished, and the third phase of the shopping centre is planned to be started. The Tapiola area also accommodates a diversified office stock, a large part of which has been redeveloped. Residential development also remains active in the Tapiola area.

The next two stations after Tapiola are Urheilupuisto and Niittykumpu. The Urheilupuisto station is located next to the Tapiola sports park, accommodating several sports facilities. In the Niittykumpu station, the construction of a 7,000 sqm retail building is currently underway and scheduled to be completed in 2017. OP-Rental Yield fund is the investor in the project.

Matinkylä, the final stop of the current metro line project, is one of the most significant retail centres in Espoo, which also accommodates some modern office buildings. Iso Omena shopping centre is undergoing a major redevelopment and extension, and will accommodate the Matinkylä metro station. The first phase of redevelopment was opened in 2016, and the second phase is scheduled for completion in the first half of 2017. After this, the shopping centre will comprise almost 100,000 sqm of lettable space. Citycon currently owns the whole centre. Also in Matinkylä, extensive residential development is underway.

"Iso Omena will comprise some 100,000 sqm of lettable space"

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, also along the extended metro line, is the Espoonlahti area. Espoonlahti is mainly a residential area, where the shopping centre Lippulaiva is located. Citycon is about to start a major project, where the current shopping centre building will be demolished. A temporary Pikkulaiva centre is currently being built, and planned to be opened in summer 2017. The new Lippulaiva centre, which will comprise some 41,000 sqm of retail space and also some residential apartments, is scheduled to be completed in 2020.

Leppävaara

North of Otaniemi, along Ring Road I, Turku motorway and by the western railroad is the Leppävaara area, comprising a diversified, expanding office stock, the Sello shopping centre, a traditional shopping mall and some modern residential supply.

The Leppävaara area is characterised by business park complexes with several buildings including NCC's Alberg, NCC's and Lemminkäinen's joint project Polaris, Hartela's Quartetto and SRV's Derby Business Park. In some of these complexes, further projects are being planned.

"Offices in Leppävaara attract investors"

NCC is currently developing another phase in the Alberga Business Park, due for completion in late 2017. In 2016, two transactions were carried out in Quartetto: special investment fund Fennica acquired Quartetto Basso, and Antilooppi purchased Quartetto Fuuga building. The buildings comprise some 4,900 and 7,200 sqm of lettable space, respectively, and both were sold by smallish domestic foundations. In late 2016, Keva announced the acquisition of Hartela's new office building project in Leppävaara. The construction work will be started in early 2017 and is set for completion in 2018; when completed, the building will accommodate the technical consultancy firm Ramboll Finland.

"Office development continues to be active in Leppävaara"

The office vacancy rate in Leppävaara remains high, at some 20%, according to Catella. Prime rents for offices in Leppävaara stand at some €20 per sqm. West of Leppävaara is the Karamalmi area in Kilo, where Nokia has concentrated its head office functions. The amount of vacant office space in the area has increased recently.

Leppävaara also accommodates the 100,000 sqm shopping centre Sello. In Leppävaara and its surrounding areas, residential construction is also active.

Espoo centre

Espoo centre, an area accommodating the administrative buildings of the city as well as various retail buildings, is situated west of Leppävaara, close to the Turku motorway and alongside the western railway route.

The shopping centres Espoontori and Entresse are located in Espoo centre.

In the Lommila area, situated next to Espoo centre at the junction of the Turku motorway and Ring Road III, retail space comprises mainly car, furniture, electronics stores and other large retail units. There are also plans for a large shopping centre in the area, but the projects have been postponed due to some technical procedure issues in the planning process.

5.1.3 Vantaa

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

Aviapolis

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

developers and several property companies. There are currently some 18,000 inhabitants in the area and further plans for significant growth. The area accommodates about 35,000 jobs, and further growth of some additional 15,000 jobs is estimated.

The Ring Rail Line has stations at the airport as well as in Aviapolis, thus linking the area with the city centre and main railway connections.

Commercial property stock in the Aviapolis area includes modern office premises, logistics properties and abundant retail supply. Aviapolis is also an important logistics hub with rather modern space supply. Logistics development has been active in the area in recent years. In 2016, two new logistics projects were completed in the Aviapolis area: one for Finavia and another in the K3 Logistics Business Park. Two larger projects are scheduled to be completed in the first half of 2017: Finnair is developing a new, 35,000 sqm cargo terminal and HUB Logistics has just completed a 20,000 sqm office and logistics property. Etera is the investor in the HUB Logistics project. YIT has recently started the development of two logistics projects in the area.

"Property development continues to be active in the vicinity of the airport"

Modern office space supply is abundant in the area, including the WTC in the airport area, the Technopolis Helsinki-Vantaa Campus and several business park complexes by Ring Road III. In 2016, Skanska CDF completed the construction of the 9,000 sqm Aviabulevardi property next to the Aviapolis Station. There are currently no office projects underway, but several new phases are being planned in the existing business parks. The office vacancy rate remains relatively high in the area, and developers are thus postponing any additional projects.

The airport area continues to attract investors. In 2016, NREP's fund acquired the office property Piano in the Gate8 business park, and Aberdeen's fund acquired two logistics properties in the area. In addition, there were several properties included in portfolio transactions in the Aviapolis area.

"The hotel supply is increasing in the Aviapolis area"

In the new Aviapolis Station area, the new 258-room Clarion hotel was opened in late 2016. In early 2017, the construction of the 148-room Scandic Helsinki Airport Hotel was started. An old office building, just some 100 metres from the terminal, will be reconstructed into hotel use by LAK Real Estate. The 85,000 sqm Jumbo shopping centre is the major retail centre in the area. In the immediate neighbourhood of Jumbo is the Flamingo leisure centre comprised of hotel, office and leisure premises. The centre's owner Varma is just about to start the extension of the hotel in the centre, which will become the largest hotel in Finland comprising 540 rooms.

The Koivuhaka area, just east of Aviapolis, mainly accommodates large retail units. The car retailer Veho completed a new retail unit in the area in 2016. Logicon and Lindström Oy are developing logistics properties in Koivuhaka. In the area, also the head office of Vantaa Energy is located. The building is currently under major renovation, and it was sold to RBS Nordisk Renting in 2016. In late 2016, OP-Rental Yield fund invested in a retail property in Koivuhaka.

In the southern part of the Aviapolis area, the Pakkala and Tammisto areas are also important retail areas favoured by retail park and big-box retail units such as outlets for motor vehicles, furniture and gardening.

Tikkurila

Tikkurila is the main urban centre and – alongside the airport area – the most important office and retail area in Vantaa. Tikkurila also accommodates most of the city's administration buildings. Tikkurila's position as a hub for connections between the airport, long-distance trains and Helsinki centre were enhanced markedly by the Ring Rail Line, and the area is currently under major redevelopment.

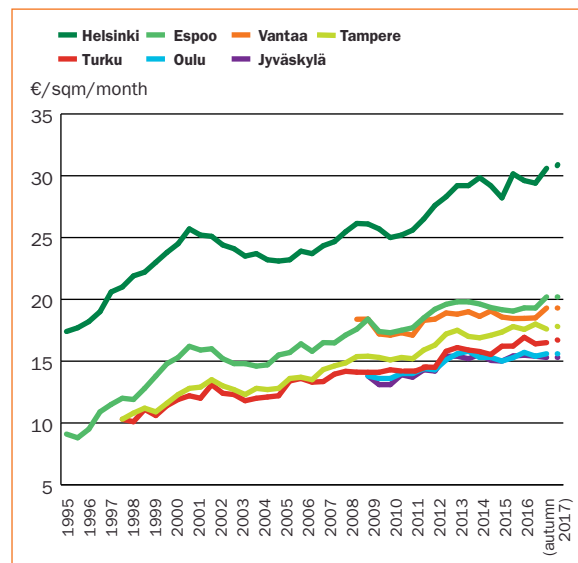
The City of Vantaa is developing its infrastructure, and several property investors are planning or carrying out new investments in the area. The second phase of the retail and office centre Dixi, where NREP's fund and Etera are investors, is due for completion in early 2017. In the vicinity, Sponda is developing an almost 10,000 sqm multi-use property comprising office, retail and hotel premises. Residential development is also active in the area.

Kivistö

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

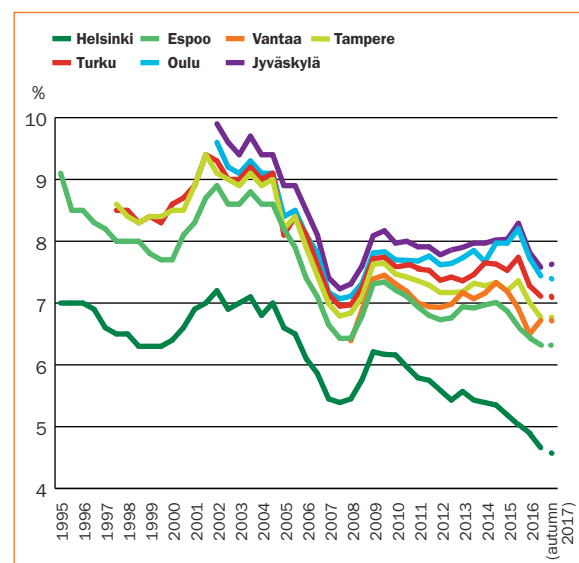
The biggest individual project planned in the area is a 110,000 sqm shopping centre close to the new Kivistö station; this is a joint project between Skanska and NCC. The construction of the first 35,000 sqm phase of the project is estimated to be started in the second quarter of 2017. Also in Kivistö, abundant rental residential development is underway.

Prime office rents in major Finnish cities



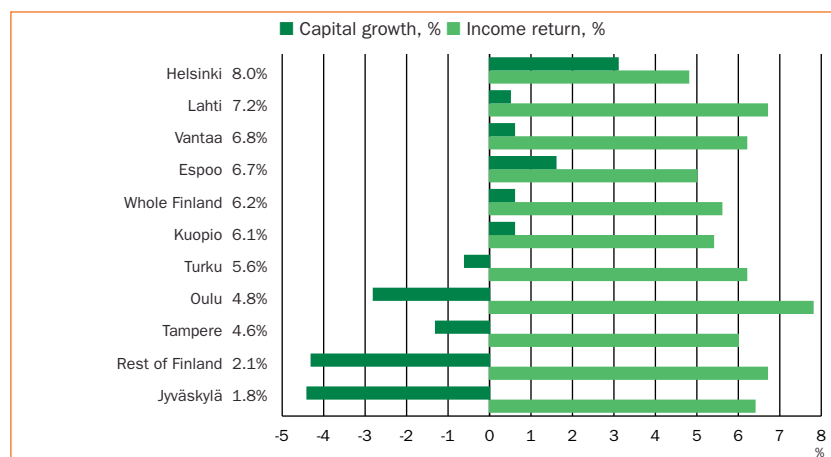
Source: RAKLI-KTI Property Barometer

Prime office yields in major Finnish cities



Source: RAKLI-KTI Property Barometer

Total returns in Finnish cities 2016, all property



Source: KTI Index

Myyrmäki

Myyrmäki is a regional centre in western Vantaa by the Ring Rail Line. The area currently accommodates some 15,000 inhabitants, and residential construction continues to be active. In Myyrmäki centre, next to the station, the 40,000 sqm Myyrmäki shopping centre is located. Citycon's other shopping centre, the 15,000 sqm IsoMyyri, is also located in Myyrmäki, slightly north of Myyrmäki. The area also accommodates some older office stock.

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

Tampere

Location: 170 km north of Helsinki; the biggest inland city in the Nordic countries
Population: Tampere: 228,000
Tampere region in total: 370,000

Tampere is the largest inland city in the Nordic countries. Tampere is an old industrial city that has recently attracted high technology businesses as well as service companies. Technology expertise areas in the Tampere region include information technology, machinery and automation and healthcare technology. The Tampere region consists of eight municipalities pursuing active cooperation in developing the business environment in the area. In 2015–16 the growth of the economy in the Tampere region has been stronger than in the whole country on average.

The transportation network is developing in Tampere. On the northern side of the city centre, Finland's longest tunnel – 2.3 kilometres – was opened in late 2016. The tunnel lightens the traffic in the city centre. At the railway station, a modern public transportation hub is being planned to be developed in the 2020s. In late 2016, the city council made a decision to develop a new tramway in Tampere. The construction work will be started in 2017, and the first phase should be completed in 2021. In the city centre, new underground parking facilities are being planned, and the centre itself will be turned into mainly light transportation and pedestrian areas. Due to these decisions, land use will be intensified, which enables new housing construction in central locations.

"A new tramway will be built in 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.

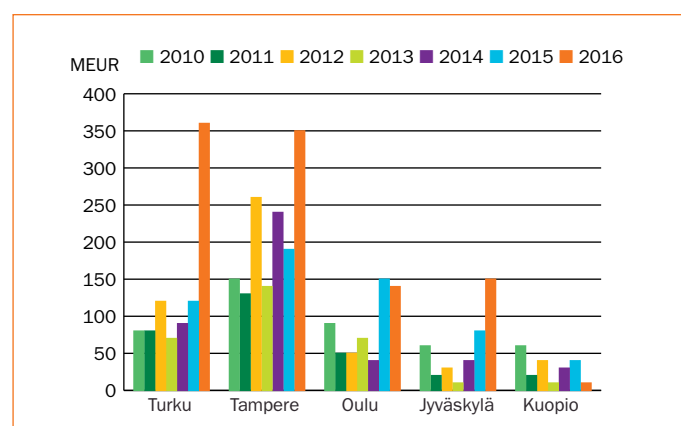
In Tampere, modern office space is found in the city centre, in the areas of Hatanpää and Tulli, in areas close to the centre in Kauppi near the University hospital as well as in Hervanta alongside the Technical University. In the best office locations in modern buildings, rental levels are around €20 per sqm, whereas in older stock the rents typically vary between €10–15 per sqm.

The amount of vacant office space has recently increased significantly due to both new supply as well as major reorganisations of large users. According to Catella, there were some 120,000 sqm of vacant office space, equivalent to a 13.6% vacancy rate, at the end of 2016. The outlook for the development of the office vacancy rate is negative, mostly due to Microsoft announcing that it will close the phone production unit in Tampere. In 2016, phases III and IV of Technopolis Yliopistonrinne were completed. Also in the OP's Pohjola hospital project, some new office space came into market. At the year-end, the only ongoing office construction project was Varma's mix-use project in the Finlayson factory area.

"The office vacancy rate is increasing in Tampere"

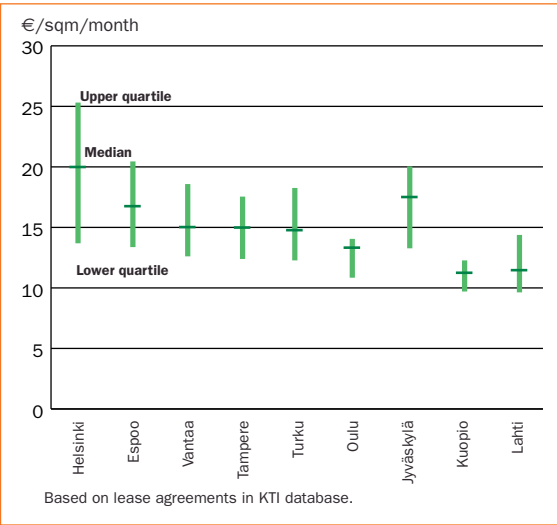
The most expensive retail space in Tampere is situated along the main street, Hämeenkatu, and in the Koskikeskus shopping centre next to Hämeenkatu. In the Ratina area, next to Koskikeskus, Sponda is currently developing a 52,000 sqm shopping centre, which is due for completion in 2018. Kesko is developing a new retail centre in Tesoma, west of the city centre. In Lempäälä, south of Tampere, some

Transaction volume in cities outside the Helsinki metropolitan area



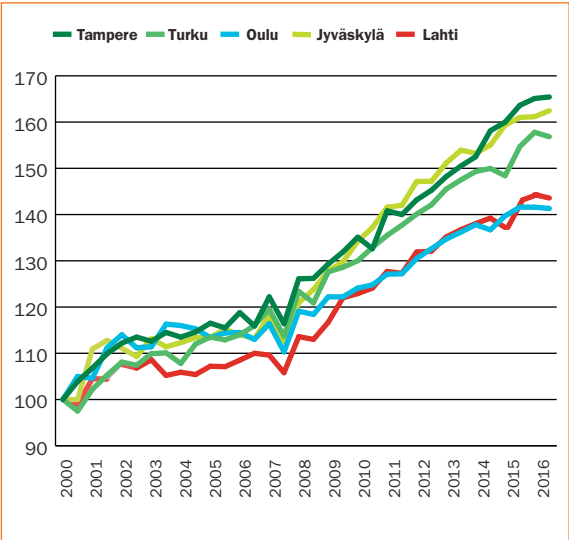
Source: KTI

Prevailing office rents in major Finnish cities, autumn 2016



Source: KTI

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



Source: KTI

new retail construction projects are also underway in the vicinity of the Ideapark shopping centre.

New logistics premises were completed in 2016 in Pirkkala and in Lempäälä, south of Tampere. Another project is underway in the vicinity of the airport.

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.

There are plans to build a major multi-use arena in the vicinity of the Tampere railway station. SRV has been chosen as the developer for the Kansi and Areena (Deck and Arena) project comprising some 120,000 sqm of multi-use arena, residential, hotel and leisure facilities. The complex is expected to be completed by 2023.

Transaction volume increased significantly in Tampere in 2016, and amounted to some €350 million. Investors included domestic and Nordic property funds and companies. The largest transaction was that of the Finnmedi campus close to the Tampere university hospital, carried out between Technopolis and eQ's two funds. Other buyers in transactions in Tampere included, for instance, the Swedish investors Hemfosa, Hemsö and Trophi. Finnish institutions and housing investment companies invested in rental residential properties in Tampere.

Oulu

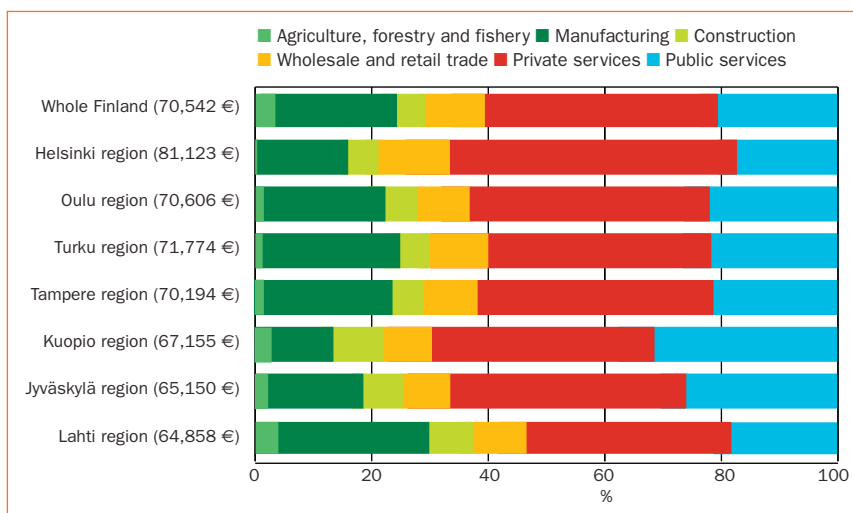
Location: 600 km north of Helsinki
 Population: Oulu: 199,000
 Oulu region in total: 250,000

The City of Oulu has evolved markedly since the mid-1990s, first due to the rapid growth in the high-tech sector, which



Value added by sector and region 2014

Value added by employee (€) in parenthesis



Source: Statistics Finland

created new jobs, and more recently due to the merger of neighbouring municipalities. Oulu is a university, science and technology city whose influence covers all of northern Finland – about one-half of the area of the entire country. The city is part of the Arctic Europe network.

The emphasis of the Oulu region's economic structure is on services. Information technology services and other technology sectors are regarded as specialities of the region. The number of industrial jobs has decreased in the region in recent years, and they currently account for about 10% of all jobs. The most important manufacturing sectors include paper, chemical and metal industries.

Oulu is known for its expertise in ICT. The region has suffered from the restructurings in this sector, and the unemployment rate stands at some 16%. However, the economic situation has recently improved. Within the past three years, some 500 new ICT start-ups have been established, and the region attracts foreign investments in this sector. The construction sector's employment situation has also improved.

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

In the city centre, the local co-operative Arina completed the development of the shopping centre in 2016. In the Limingantulli area, some 1.5 kilometres from the city centre, two retail projects were completed in 2016. In addition, the Ideapark shopping centre in Ritaharju, north of the city centre, was extended in 2016. Due to the closings of both the Stockmann and Anttila department stores in the city centre, as well as the completions of new retail projects, the amount of vacant retail space has increased in Oulu, yet it still stands below 5%.

The largest transaction in 2016 was carried out by the Swedish Alma Property Partners who, together with Avant

Capital Partners acquired the Ideapark shopping centre project in the summer. OP-Rental Yield bought a new 7,000 sqm office property, which is rented to accounting firm Talenom. There were also several smaller transactions, mainly carried out by local players or as parts of larger portfolio deals. Otherwise, transactions in Oulu comprised mainly residential properties.

"New offices being built in Oulu"

The most important office market areas outside the central area of Oulu are the Linnanmaa area north of the city centre, which accommodates several high-tech companies and Oulu University, and Peltola just east of the city centre. New office properties are currently being built in the Linnanmaa, Limingantulli and Karjasilta areas. The biggest project is the 8,600 sqm head office of Bittium Technologies in Linnanmaa.

Office rents currently stand at €12–14 per sqm per month. The office vacancy rate has recently increased, and currently stands at some 11%. Vacant premises can mainly be found on the outskirts of the city, whereas the city centre continues to attract tenants.

As in most growth centres, rental residential construction remains active in Oulu. However, rental growth has been more moderate than in other major cities.

Turku

Location: 160 km west of Helsinki; in south-western corner of Finland
Population: Turku: 188,000
Turku region in total: 318,000

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

The region's current competence areas include businesses around the sea cluster, and biotechnology. Metal industries in the region are supported by an extensive shipbuilding business, which has traditionally been of great importance from the region's economic development point of view. The shipbuilding industry is currently developing strongly, and, due to several major orders, the employment in the Meyer Werft shipyard is secured for several years. Meyer Werft has also made significant investments in its facilities. Half of the Finnish medical industry is accommodated in the Turku area, and bio industries employ some 4,000 people in the area. Also, Valmet Automotive's growth in Uusikaupunki, some 60 kilometres north of Turku, contributes to the strong economic development in the Turku region. Thanks to the positive development in several industry sectors, unemployment has decreased recently, but it still stands at some 14.4% in the whole southwest Finland.

"The economic development of the Turku region is strong"

The Turku property investment market is dominated by domestic and local players. Domestic institutions typically have investments in Turku, and property funds have recently increased their holdings in the area. Some Nordic players, including, for instance Hemfosa, Trophi and Hemsö, have 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.

Turku Technology Properties is the major owner in Kupittaa, and it increased its holdings in two transactions in the area in 2016. The company is currently developing a 9,500 sqm

indoor sports / multipurpose arena and a 1,200 sqm office building in Kupittaa. In the vicinity, the construction of a new University hospital building, a new medical school building as well as OP Group's Pohjola hospital building are underway.

"Property development continues to be active in the Kupittaa area in Turku"

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

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, a quite 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 and also other large retail units. In the city centre, the most expensive retail space can be found in shopping centre Hansa and in its vicinity.

Rents for office space in the city centre stand at about €13-17 per sqm per month, and in the Kupittaa area, they are somewhat higher, about €15-20 per sqm per month. The office vacancy rate in Turku remains lower than in other main cities, and stands below 9%. The high occupancy rate is supported by the low level of new development.

Demand for logistics and manufacturing premises is currently supported by the good situation of the shipbuilding sector. Vacancy rates have also decreased in this sector recently.

"2016 was a record year in the Turku property transactions market"

The property transactions volume in Turku amounted to some €370 million in 2016. The biggest transaction was the acquisition of the PharmaCity property in Kupittaa by Turku Technology Properties. The company also acquired another office property in Kupittaa, and sold one in the city centre to the Swedish Hemfosa. There were several transactions in the retail property markets as well as in the rental residential property sector.

Jyväskylä

Location: 270 km north of Helsinki, in the centre of Finland
Population: Jyväskylä: 139,000
Jyväskylä region in total: 181,000

Jyväskylä is a university town located at the junction of several important national main roads. Jyväskylä's economic structure emphasises both traditional industries and new technology. The Jyväskylä region's industry areas cover



wood and construction materials and ICT as well as healthcare industries. Some 17.5% of the jobs in the region are in the manufacturing industries, while services employ some 80% of the workforce. Unemployment remains high in Jyväskylä and stands at some 19%.

The city centre is the most important office market area in the region, but no new stock has recently been developed in the most central locations. Other office areas with modern supply include the Mattilanniemi/Ylästönniemi area south of the city centre, and Tourula in the northern side, where old industrial properties have been redeveloped into office use. Some modern office supply can also be found in the Lutakko area, next to the city centre. The vacancy rate of offices remains at some 11%, according to Catella. New development has been scarce in recent years, but if space demand is to pick up, some new projects might be started in the near future.

Modern offices, in particular, have continued attracting tenants. In prime properties, rental levels are slightly lower than in Turku. The outlook for rental development remains slightly negative.

In the retail property market, Jyväskylä's city centre is an important regional centre. The major players include local retailers as well as some national investors. The Seppälä area north of the city centre is another significant retail centre. In Seppälä, a 22,000 sqm Prisma hypermarket was completed in 2016 by the local co-operative. The construction of a new 24,000 sqm shopping centre Seppä was started in the area, and is due for completion in late 2017. Local Tapiola's fund acquired the centre for €70 million in early 2016. Another 10,000 sqm project was started in the area in early 2017. The outlook for retail rents remains positive in Seppälä. A smallish shopping centre was also completed in Muurame, south of Jyväskylä in 2016. The amount of vacant retail space remains very low in Jyväskylä, although it has increased slightly during the past year.

"Retail property development continues to be active in Jyväskylä"

The largest assets in Jyväskylä attract Finnish institutions and property funds. Otherwise, the commercial property investment markets are dominated by local players. As in all other main cities, residential and care properties also attract larger domestic and Nordic investors. The transaction volume also increased in Jyväskylä in 2016, and amounted to some €150 million. The Seppä transaction accounted for almost half of the total volume.

Lahti

Location: 104 km north-east of Helsinki
Population: Lahti: 119,000
Lahti region in total: 200,000

Lahti is a traditional industrial city that is home to metal, woodworking, furniture and plastics industries. Recently, more jobs have been transferred to professional services. The region emphasises competence in clean tech and design, where there is also a strong educational base. The region's

favourable location has attracted logistics operators in the region. Services and trade occupations currently represent around 60% of the jobs in the region, while industry's share has decreased to 30%. Unemployment has been high in Lahti in recent years. However, the situation has markedly improved recently, and unemployment stands currently at less than 16%.

"Unemployment decreasing in Lahti"

The population of Lahti increased by some 15,000 people in 2016, due to the neighboring Nastola merging with the city.

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 increasing pedestrian areas. The city's public transport terminal was completed in 2016.

Retail supply in the city centre is concentrated around the Trio shopping centre and in the main street. In the Karisto area, there is shopping centre Karisma with a leasable area of 34,000 sqm. Hypermarket and supermarket property development has been relatively active recently, with two projects completed in 2016 and one being underway at the end of the year.

In the old industrial Askonalue area, near the railway station, Renor Oy is a major owner and developer of old industrial properties, where it has redeveloped, for instance, office premises for business service companies. The courthouse is moving to the area in early 2017.

The former Hennala garrison area is planned to be redeveloped into mostly residential use. The State's Senate Properties is currently developing an office property in the area for police office use. Isku Invest is redeveloping its old factory premises in Mukkula into, for instance, educational use. Lahti University of Applied Science is one of the tenants in the project, which is due for completion in several phases by 2018. There will also be some 45,000 sqm of premises to be rented to other tenants.

Rental residential properties dominated the property transaction market in Lahti in 2016.

Office vacancy has increased to some 12%, according to Catella.

Kuopio

Location: 400 km north-east of Helsinki
Population: Kuopio: 118,000
Kuopio region in total: 132,000

Kuopio, a university city and the capital of the province of Savo, is situated in eastern Finland. In the beginning of 2017, the population of Kuopio increased by some 5,000 people, as the neighbouring municipality Juankoski was merged with Kuopio. Traditional industry areas are mostly related

to wood. As in most major Finnish cities at the moment, the service sector is the biggest employer in the area. Of the jobs in the region, some 8% are in manufacturing industries. The proportion of occupations in the public sector is greater than in other major cities. In its strategy, the city emphasises food, health and bio, and environmental industry sectors. Unemployment has decreased in Kuopio during the past year, and it currently stands at a lower level than in other main cities outside the Helsinki metropolitan area, at some 13.8%. Of the main cities, the share of private sector jobs is the lowest in Kuopio.

The property investor base in the Kuopio property market is dominated by domestic players consisting of both national and local investors. In 2016, one commercial property transaction was made, where Royal House acquired three office / multi use properties from Ilmarinen. Lujatalo bought an educational property from the Savonia University of Applied Sciences.

The Kuopio office stock is concentrated in the city centre as well as in Technopolis Kuopio's two locations close to the University and hospital areas. The amount of vacant space is relatively high, and the outlook for demand is not very positive. Kuopio Energy is currently developing a 2,500 office property for its own use. Technopolis is planning to extend its campuses by one office and one laboratory building, to be started in 2017.

The retail space market in the Kuopio city centre is competing with the newly constructed Matkus Shopping Center some 10 km outside the city. The city centre's attractiveness has been supported by the completion of an underground parking facility and the refurbishment of some retail properties. In the city centre, VR Group, the City of Kuopio and Lapti Group are planning to start the construction of a 37,000 sqm travel centre and multi-use property in 2018.

OP's Real Estate Fund Finland III is currently developing a hospital building for the Group's OP Omasairaala. In the Neulamäki area, west of the city centre, two logistics and distribution property development projects were completed in 2016.

Key terminology

Property	Kiinteistö
Building	Rakennus
Rent	Vuokra
Rental agreement	Vuokrasopimus
Tenant	Vuokralainen
Landlord	Vuokranantaja
Tax	Vero
Investment	Sijoitus
Return	Tuotto
Yield	Tuottovaatimus
Operating cost / Maintenance cost	Ylläpitokustannus / Hoitokustannus
Transaction	Kauppa
Limited company	Osakeyhtiö
Housing company	Asunto-osakeyhtiö
Real estate company	Kiinteistöosakeyhtiö, kiinteistöyhtiö
Mutual real estate company	Keskinäinen kiinteistöyhtiö
Real estate investment company	Kiinteistösijoitusyhtiö
Pension insurance company / Pension fund	Eläkevakuutusyhtiö / Eläkerahasto
Property fund	Kiinteistörahasto
Office (space)	Toimisto(tila)
Retail (space)	Liiketila, Myymälä(tila)
Shopping centre	Kauppakeskus
Industrial	Teollisuus
Manufacturing	Tuotanto
Warehouse	Varasto
Logistics	Logistiikka
Hotel	Hotelli
Residential	Asunto
Site	Tontti

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

RE Finland (formerly The Annual Convention of Property Investment Prospects) is one of the main events organized by KIINKO Real Estate Education. With over 500 participants, combining both seminars and extensive networking it is The Finnish Real Estate Summit gathering executive and expert level representatives from real estate related businesses in Finland.

www.kiinko.fi and www.refinland.fi



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Newsec – The Full Service Property House in Northern Europe – is by far the largest specialized commercial property firm in the region. Newsec offers a comprehensive range of services within Capital Markets, Leasing, Asset & Property Management, Valuation & Advisory and Corporate Solutions to property owners, investors and occupiers. Newsec was founded in 1994 and is owned by its partners. Today, the Group employs over 1,000 professionals in 33 offices.

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www.newsec.com, www.newsec.fi



The Ovenia Group is Finland's leading provider of asset, property and facility management services. The group consists of mother company Ovenia Group Ltd, facility management company Ovenia Ltd, property management company Ovenia Isännöinti Ltd as well as real estate consultancy Realprojekti Ltd, which specializes in shopping centres and development projects.

Ovenia's comprehensive service offering covers all sub-areas of real estate asset management and property management. Ovenia has four key strategic business areas: commercial real estate management, business premises management, residential property management and housing services. Ovenia's main services are leasing (commercial and office premises), property development, shopping centre

management, construction and property management services, housing, real estate financial administration and business premises facility management (incl. business parks).

With over 30 years of experience in business and commercial premises and over 70 years of experience in residential management, Ovenia is the leading company in its field in Finland. In recognition of its work, Ovenia was the first company in Finland to receive ISO 9001 certification for property management. The Ovenia Group administers a property portfolio amounting to over 10 million square meters across Finland and the Group's turnover for 2015 was approximately €48 million. The company employs over 500 property professionals in 23 locations.
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The Finnish Association of Building Owners and Construction Clients is an interest group and trade association representing the most prominent real estate, residential building and infrastructure owners, investors and management service providers in Finland. The members represent both the private and the public sector, and member organisations number over 200 in total. The association brings together real estate and construction professionals.

RAKLI's activities are divided into three branches and three committees. The branches are Residential Properties, Commercial and Public Properties, and Urban Development and Infrastructure. The committees coordinate investment and finance, property management and procurement. For more information, visit: www.rakli.fi.



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SATO Group's net sales in 2016 were €318.0 million, operating profit €267.2 million and profit before taxes €219.4 million. SATO's investment properties have a value of roughly €3.4 billion. www.sato.fi



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SEB has been present in Finland since 1984, and today has 350 employees based in central Helsinki.

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An exceptional track record in the Finnish real estate investment market, coupled with experience in working together with leading global investors, makes Sirius a unique investment manager. Sirius' partners have extensive experience in retail estate investments and in principal positions in leading industry firms over the past 10-15 years.

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Skanska's operations in Finland cover construction services, residential and commercial project development and public-private partnerships. Construction services include building construction, building services, and civil and environmental construction. The combined sales for Skanska Oy's operations in 2016 were approximately €946 million and the company employed 2,018 people at the end of the year.

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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