



The Finnish Property Market | 2022

THE FINNISH PROPERTY MARKET 2022

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Preface

The Finnish property investment landscape continues to expand. During the past years, the number of players has increased significantly, and, at the same time, market opportunities have expanded and diversified in terms of property sectors and investment vehicles. In the past two years, the global COVID-19 pandemic has impacted the property market in many ways, but, despite the increased uncertainty in some property market segments, the Finnish market has continued to attract both new domestic and international players.

The Finnish Property Market 2022 discusses the structure, players, market practices and conditions in the Finnish property investment market. The report aims to satisfy the information needs of both domestic and international players interested in the Finnish property market.

This publication is produced in partnership with 12 companies and organisations representing the Finnish property investment, development, management, finance and advisory sectors. KTI wishes to thank our partners: Castellum, The City of Helsinki, Deloitte, KIINKO Real Estate Education, NCC, Newsec, RAKLI, SEB Group, Sirius Capital Partners, Skanska, SRV and YIT.

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

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

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

Hanna Kaleva
KTI Finland

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

1 The Finnish economy

1.1 The structure of the economy

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

Growth of industrial production has had a great impact on the development of the Finnish economy during the past decades. However, during the past years, the share of industrial production has decreased, while that of services has increased. In 2020, the share of industrial production and construction stood at 28%, and services accounted for 69% of the GDP.

Finland is an export driven economy, and changes in exports have a profound impact on the economic development. In 2020, the total value of Finnish exports decreased by almost 7% from the previous year and amounted to €86 billion. Exports accounted for approximately 36% of the Finnish GDP in 2020, while its share in 2019 amounted to almost 40%.

The exports of goods decreased by as much as 12 % in 2020, due to the COVID-19 pandemic. In terms of industry sectors, the diversity of the Finnish exports has increased in recent years. In the past, forest industry products dominated Finnish exports, but their share has decreased in recent years and currently stand at around 18% of the total exports. In 2020, chemical industries were the biggest exporting industry sector, and accounted for 19% of the total volume. Other significant sectors include machinery and equipment and vehicle industries (14%), as well as electric and electronics industry products (12%).

Finnish exports of goods recovered in 2021, and the total value of exports was estimated to increase by almost 19% from the previous year. The exports of investment goods in particular developed positively in 2021, as well as the exports of forest industry products.

"The value of Finnish exports of goods increased by approximately 19% in 2021"

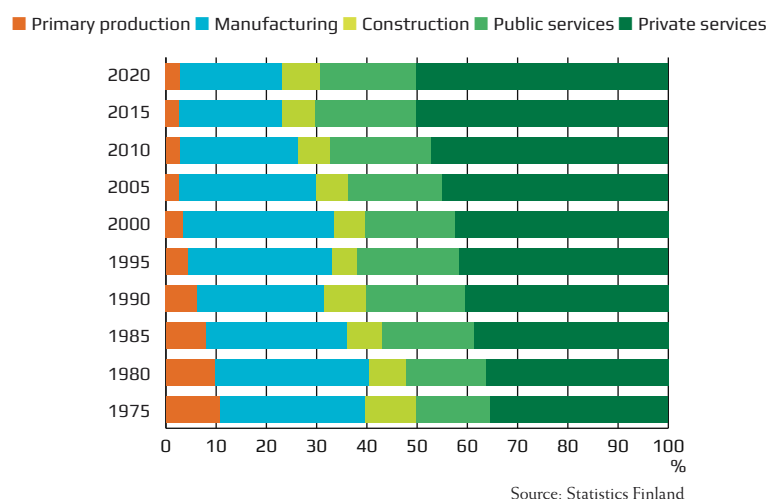
The largest target countries of Finnish exports of goods in January-November 2021 included Germany (13.5%), Sweden (10.5%) and the USA (6.8%). In total, EU countries represented approximately 56% of the Finnish exports in 2021. In the past, Russia's share of the total Finnish exports was significant, but currently stands at only 5-6%.

In recent years, the share of services of Finnish exports has increased and stood at approximately 30% in 2020. The exports of services decreased by almost 15% in 2020 compared to the previous year. The biggest sector within exporting services is ICT services, where, for example, the significance of the game industry is important. This sector accounted for more than 40% of the exports of all services in 2020. A large share of services is related to the Finnish machinery and equipment industries, where installation and

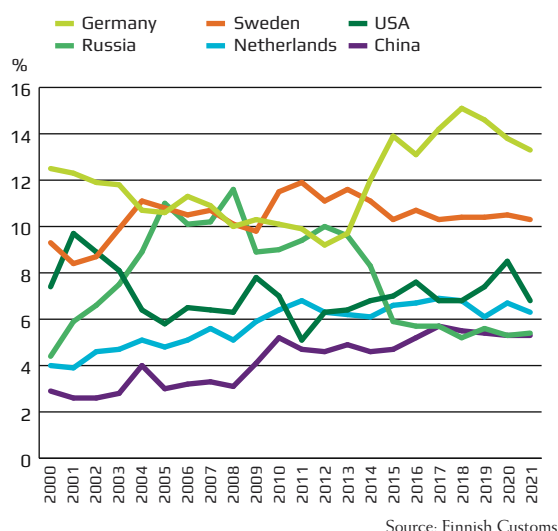
BASIC FACTS ABOUT FINLAND

GEOGRAPHY	
Total area	338,000 square kilometres
Distances	1,160 km north to south 540 km east to west
PEOPLE	
Population	5.55 million Density: Density: 18,2 inhabitants per square kilometre Helsinki 3,066 per square kilometre Uusimaa region (southern Finland): 187 per square kilometre Lapland region (northern Finland): 2 per square kilometre
Languages	Two official languages: Finnish, spoken by 86.9% Swedish, spoken by 5.2% Foreign languages spoken by 7.8%
Capital city	Helsinki, 658,000 inhabitants Helsinki region, 1.52 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo, 295,000 Tampere, 244,000 Vantaa, 239,000 Oulu, 209,000 Turku, 195,000 Jyväskylä, 144,000 Kuopio, 121,000 Lahti, 120,000
ECONOMY	
GDP per capita	€42,701 (2020)
Economic structure	Services 69% Industry and construction 28% Agriculture, forestry, fishery 3%
Exporting industries	Machinery and equipment 13% of total exports in 2021 Chemical industry products, 18.4% Pulp and paper industry products 18.9% Metal and engineering products 16.6% Electronics and electrotechnical goods 11.2%
Currency	Euro (since 2002)
History and governance	Independent democracy since 1917 Member of the European Union since 1995
Head of State	President of Republic, Sauli Niinistö (since 2012, re-elected in 2018)
Parliament	One chamber, 200 members, elected for 4 years. Current parliament elected in 2019. Biggest parties: The Social Democratic Party (40 seats), The Finns Party (39), The National Coalition Party (38), The Centre Party (31), The Greens (20)
Government	19 ministers, 5 parties: The Social Democratic Party, The Centre Party, The Greens, The Left Alliance The Swedish People's Party of Finland Prime Minister, Sanna Marin (since 2019)

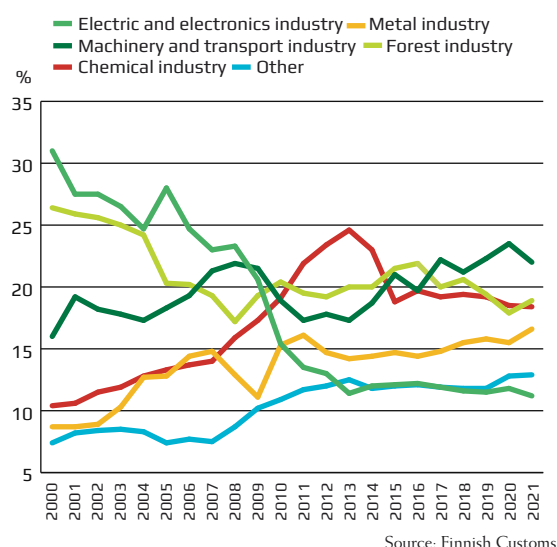
FINNISH ECONOMIC STRUCTURE



FINNISH FOREIGN TRADE BY TARGET AREA



FINNISH EXPORTS BY INDUSTRY SECTOR



maintenance services support the traditional delivery of goods. Other significant exporting service industries include business to business services like research, engineering or marketing services. In 2021, the volume of exports of services continued to decrease during the first half of the year, but the growth accelerated towards the end of the year, and in the third quarter, the volume was 19% higher than in the corresponding period in 2020. In 2022, the exports of services are expected to recover and grow by some 20%.

1.2 Outlook for the Finnish economy

The Finnish economy suffered from sluggish growth for many years after the global financial crisis. The impacts of the global economic downturn were boosted by the coinciding collapse of the competitiveness of electrotechnical industries, challenges in exports to Russia and the increase in labour costs, which decreased the international competitiveness of Finnish exporting industries. Only in 2018, the absolute volume of production reached and exceeded the previous peak level of 2008.

In 2020, the positive development of the Finnish economy was interrupted by the outbreak of the COVID-19 pandemic. However, the impact on the economy was milder than in most other countries, resulting in a decrease of 2.9% in the GDP in 2020.

"The Finnish GDP increased by approximately 3.5% in 2021"

In 2021, the GDP is estimated to have increased by some 3.3-3.5%, supported by the positive development in both private consumption, exports and investments. The total production exceeded the pre-pandemic level in the latter half of 2021. In 2021, private consumption recovered from the shock caused by the pandemic and increased by more than 3% in 2021. The growth rate of investments also amounted to almost 3%.

The unemployment rate, which had been decreasing for several years due to a stable economic growth, increased from 6.7% at the end of 2019 to 7.8% by the end of 2020.



During the pandemic, the increase in unemployment has been partly mitigated by the Finnish labour market practice, which enables temporary lay-offs and protects employers from permanent job losses. Thanks to this, as well as due to some other measures taken by the government and the brisk recovery in many industrial sectors, unemployment improved already in 2021, and stood at approximately 7.6 % at the end of the year. In 2022, unemployment is expected to fall to its pre-pandemic level.

"Private consumption expected to be the main driver for growth in 2022"

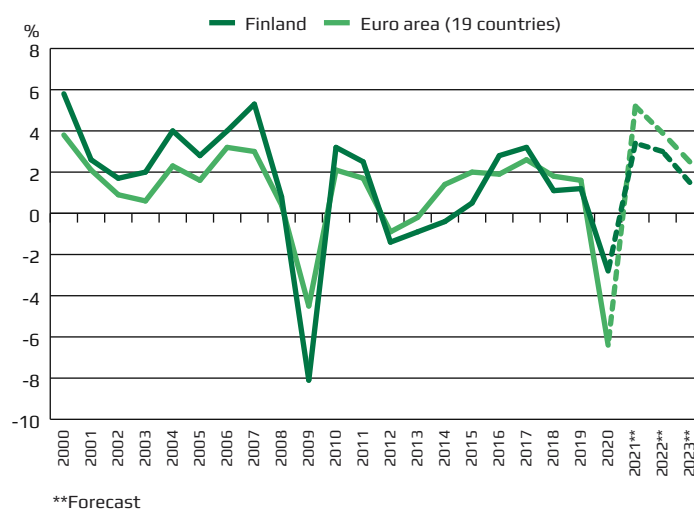
In 2022, the GDP growth is expected to remain brisk, with the latest forecasts amounting to slightly under 3%. Private consumption is expected to remain the main driver for growth, with a growth rate of approximately 3.5%. As in many other countries, inflation started to accelerate in 2021, which will partly dilute the growth in consumers' purchasing power. The average inflation rate of 2021 stood at 2.2%, while in November and December it increased

to 3.7 and 3.5%, respectively. However, the improving employment market, as well as the release of the pent-up consumption pressures due to the pandemic are expected to support consumption in 2022. The consumption of services in particular is expected to recover when restrictions are lifted as the pandemic eases.

"Inflation accelerated to 2.2% in 2021"

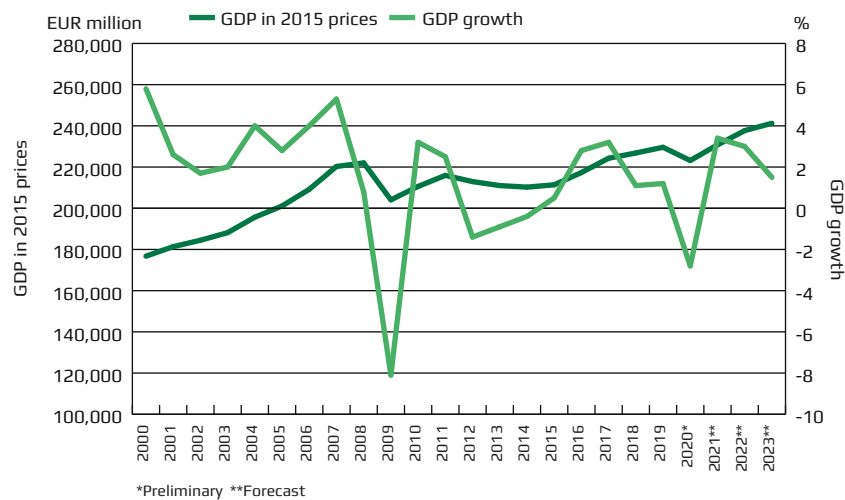
Exports and investments are also expected to continue contributing positively on the total production. In the exporting industries, the demand of goods has increased significantly, and moderate wage increases are expected to support Finnish companies' competitiveness. Consequently, the volume of exports is expected to increase by some 5-6% in 2022. The growing demand for goods also supports industrial investments, as companies increase their capacity. Investments are also boosted by the brisk residential property development. The increasing investments in the green transition will also continue to boost investments in 2022.

GDP GROWTH IN FINLAND AND IN THE EURO AREA



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

GDP IN 2015 PRICES AND GDP GROWTH



Source: Statistics Finland, Ministry of Finance

In terms of construction, residential development activity is expected to remain high in the largest cities. In 2021, a record high number - some 48,000 - of dwellings were started, which will keep up the construction volume in 2022. The rapid increase in construction costs also maintains the high volumes in the industry. However, in 2022, the number of new residential starts is expected to decrease to approximately 40,000 dwellings, which is still a high number in longer-term perspective. Construction investments are currently heavily weighted in the residential sector, but towards the end of 2022, the positive development of the economy is also expected to support commercial property development.

"Brisk economic growth will continue in 2022 but slow down in the coming years"

Although Finland is expected to recover from the pandemic more rapidly and with less injuries than most other countries, its economic growth is expected to be moderate in the coming years. After the brisk growth of 2021 and 2022,

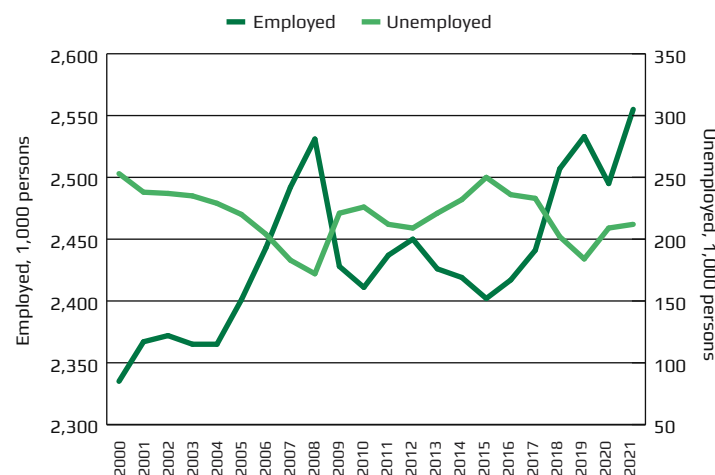
the GDP growth is forecasted to slow down to 1.5-2.0%, as the boost caused by the recovery dilutes and longer-term growth challenges return.

"The impact of the Ukraine crisis on the economy is not yet known"

The impact of the Ukraine crisis on the Finnish economy is not yet known, but it is likely to come mostly through an increase in overall economic uncertainty. Dependence of the Finnish economy on Russian exports is considerably lower than before.

The biggest challenge for the Finnish economy is caused by the ageing of the population and deteriorating dependency ratio, which are hitting Finland more sharply than most other countries. Since the population is ageing, labour input will not increase, and economic growth will depend on improved productivity. The outlook is also pressured by the increasing public debt burden, which has been highlighted by the pandemic.

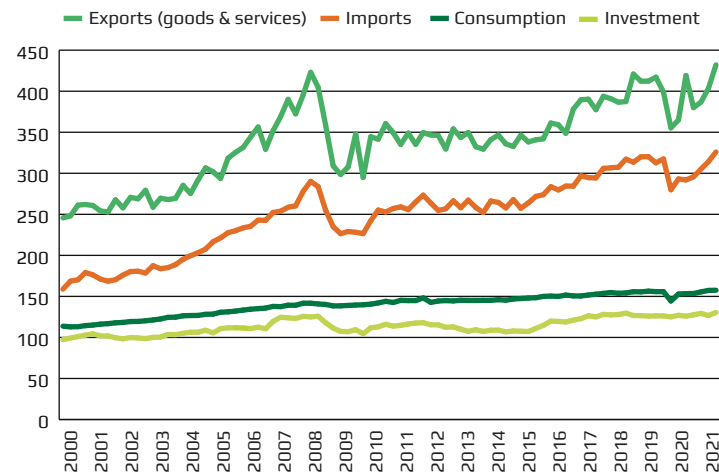
EMPLOYMENT AND UNEMPLOYMENT IN FINLAND



Source: Statistics Finland

MAIN COMPONENTS OF DEMAND

VOLUME INDEX 1990=100, SEASONALLY ADJUSTED



Source: Statistics Finland

1.3 Finnish public finances

The general government in Finland consists of the central government, local government, and social security funds. Of these, central and local government finances are dependent on tax revenues, which fluctuate in line with economic cycles, whereas social security funds are pension related, and receive their revenue from stable pension payments and investment income.

Finland's general government finances have remained in deficit ever since the global financial crisis. Thanks to the strengthening economy, the deficit decreased to some 0.9% of the GDP in 2018 and 2019. In 2020, the deficit increased to 5.4%, due to the COVID-19 pandemic. In 2021, public support measures continued in order to mitigate the economic impact caused by the pandemic, but, thanks to the strengthening economy, the deficit decreased to less than 3%, and it is expected to continue decreasing markedly in 2022. However, according to current forecasts, it is expected to take several years before the public finances will be balanced again.

Before the pandemic, at the end of 2019, the general government debt-to-GDP stood just below the 60% threshold. In 2020, the pandemic boosted general government lending and, at the same time, the GDP decreased, resulting as an increase of the debt-to-GDP ratio to close to 70%. In the coming years, the ratio is expected to

decrease slightly, thanks to the expanding production and decrease in net lending, but it is still expected to remain at some 67-68%. This is, nevertheless, still well below most of the other EU countries.

"General government debt-to-GDP began to decline in 2021"

In the coming years, the ageing of the population will continue to increase the demand for social and health care services, and, at the same time, the working-age population will decrease. The Finnish social welfare society is largely based on a comprehensive supply of public services, including, for instance, free education and healthcare, social support for families in the forms of child allowances for all families and municipal day-care provision, which is widely used in all income categories. Therefore, Finnish public finances will continue to face challenges, and strengthening the public economy will require some structural reforms.

Extensive public responsibility and tax funding are the cornerstones of the Finnish social welfare society. As a result, government expenditure accounted for more than 53% of the GDP in 2019. In 2020, the share grew to 57% due to extensive stimulus actions and a contracting GDP. In 2021, the economic growth pressured the ratio below 56%, and it is expected to continue declining in the next couple of years.

KEY FIGURES – FINNISH ECONOMY

	2014	2015	2016	2017	2018	2019	2020	2021	2022**	2023**
GDP (change in vol), %	-0.4	0.5	2.8	3.2	1.1	1.2	-2.3*	3.3*	3.0	1.5
Change in exports, %	-2.0	0.4	3.9	8.8	1.5	6.7	-7.5	4.2*	5.6	3.7
Inflation, %	1.0	-0.2	0.4	0.7	1.1	1.0	0.3	2.2	2.6	1.8
Unemployment rate, %	8.7	9.4	8.9	8.7	7.5	6.8	7.7	7.7	6.7	6.5
Private consumption, %	0.6	1.8	2.4	0.8	2.0	0.7	-4.7	3.0**	3.8	2.1

*Estimate **Forecast

Source: Statistics Finland, Ministry of Finance



Funding of the welfare society is largely based on a high level of taxation. The total tax rate in Finland has stood at approximately 42% of GDP in recent years. This is clearly above the EU-15 average, which was slightly above 39% in 2019.

Finnish municipalities currently have a significant role in public services. In the Finnish system, the central government sets the framework and basic principles of social welfare and monitors their implementation, whereas most of the actual service provision 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 309 municipalities in Finland. Municipalities differ from each other significantly with regard to their size, economic structure and financial position. The smallest municipalities are typically currently facing the biggest economic challenges due to a negative migration 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.

The restructuring of the provision of social and healthcare services has been on the Finnish Governments' agenda for many years already. The planned reform has taken different forms during the years, but the structure, which now is underway, includes the restructuring of healthcare and social welfare services as well as rescue services. The responsibility of the provision of these services will be transferred from municipalities to larger self-governing counties, the so-called wellbeing regions. The reform requires extensive changes in legislation. The laws are planned to enter into force in several stages starting from mid-2021 and continuing until 2026.

"The first county elections were arranged in January 2022"

The reform is based on 21 self-governing counties which, starting from 2023, are responsible for both basic healthcare and specialised medical care services as well as rescue services in their area. Only in the Uusimaa region there are some special arrangements, and City of Helsinki will remain responsible for basic healthcare, social and rescue services and the region's four counties and City of Helsinki will jointly arrange specialised medical care services.

The counties will predominantly provide the services themselves, and private and third sector service providers will only supplement these. Children's daycare, schools, culture and public sports services and facilities will remain the responsibility of the municipalities.

The counties are public law entities that have autonomy in their areas. A county council is the highest decision-making body of the counties. The first county elections were organised in January 2022. The counties are planned to be financed primarily through central government funding, which is based on the expected need for services of the counties' population. The counties' right to finance themselves through collecting taxes is still being discussed.

The main objectives of the reform are to improve the quality and equality of the public healthcare and social services, as well as to improve control over the increasing costs of services. These objectives are being pursued through centralised management, as well as digitalisation and improved information systems for healthcare service providers.

Although the majority of healthcare services will continue to be provided by public sector organisations, the supply of private and third sector healthcare services has increased in recent years. Approximately one quarter of all healthcare services are currently provided by private sector companies or third sector organisations. The services are still, however, mainly financed through public finances.

“The healthcare service reform will have a significant impact on real estate”

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

As part of the reform, the ownership of properties currently owned by the Finnish hospital and special care districts will be transferred to the new counties. These properties mainly include larger hospital properties used by special medical care service providers. The properties currently owned by the municipalities – used for basic health care and social services – will be rented by the counties for a minimum period of three years, after which the need for premises will be reassessed. It is likely that through more centralised and efficient operations some part of the premises will not be needed by the counties in a longer-term.

During the reform process a separate company, Maakuntien Tilakeskus Oy, was established with an original plan to concentrate the ownership and management of the buildings needed for the services affected by the regional reform. As the reform's content and schedule has changed, the company's strategy has also been reassessed. In 2023, the company's ownership will be transferred from the state to the wellbeing counties. It will be a centralised knowledge centre, which offers information and expert services for the counties' real estate management. It currently compiles and analyses information on properties affected by the reform, but also on other properties already owned and occupied by the Finnish municipalities. The company also will have a central role in managing the premises rented by the counties from municipalities.

1.4 Demographics

Finland is an ethnically homogeneous country, where most of the population is ethnically Finnish. Even though the share of the foreign-born population has increased in recent years, it is still among the lowest within the EU. The share of the population not speaking Finnish or Swedish as their first language stood at approximately 8% in 2020. The largest foreign language groups include those speaking Russian, Estonian or Arabic as their first language.

The population of Finland is currently around 5.5 million. Within the past decade, the population has increased by some 0.3-0.4 per cent annually, with the growth rate slowing down in recent years. Population growth is a result of immigration, as the number of deaths currently exceeds that of births. In 2020, due to the COVID-19 pandemic, the number of both immigrations and emigrations decreased significantly from the previous years. The net immigration ended up slightly positive, mainly due to the decrease in emigration.

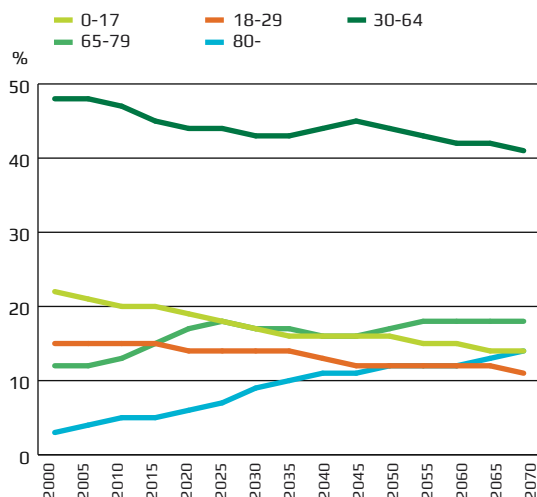
Fertility has decreased in recent years but turned to a slight increase in 2020, which continued in 2021, with the number of births increasing to approximately 50,000. The average fertility rate currently stands at approximately 1.37. Life expectancy was 84.6 years for girls and 79 years for boys born in 2020. The difference in life expectancy between girls and boys has decreased significantly within the past decades.

According to the current forecasts, the Finnish population is expected to increase until 2031, after which the population will decrease, and, by 2050, the total population would be some 100,000 less than currently.

The ageing of the population is currently one of the biggest challenges of the Finnish economy. The largest age groups were born in the years just after the Second World War, and between 1945 and 1950, almost or even more than 100,000 babies were born each year. The baby boom generations are now retired, which increases the total dependency ratio, that is, the total number of people under 15 and over 65 in relation to working age population. The total dependency



THE FINNISH POPULATION BY AGE GROUP 2000-2070



Source: Statistics Finland

ratio is currently almost 62, and is expected to increase to nearly 65 by 2030.

The share of the total population of those over 65 years currently stands at almost 23%. By 2030, their share is expected to increase to some 26%, and by 2050, to some 29%.

The average size of a Finnish household has been constantly decreasing and stands currently at 1.96. In 2020, some 45% of all Finnish households were single households, and another 33% consisted of two persons. In the largest cities, households are typically smaller, and in Helsinki, the share of single-person households was close to 50% in 2020. In Tampere and Turku, single-person households comprised 53 and 54% of all households, respectively.

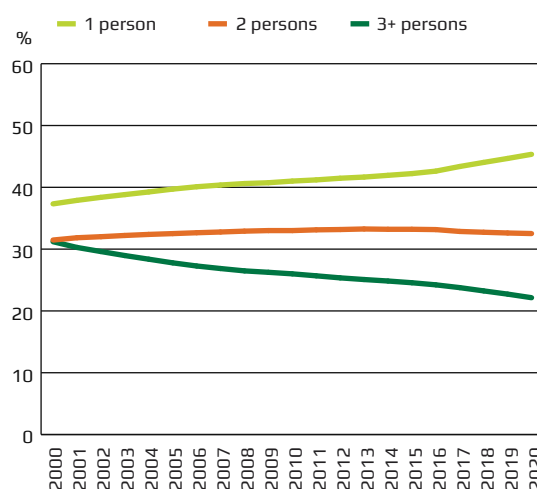
1.5 Finland's international competitiveness

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

The long-term credit ratings for Finland remain strong. The Finnish state has agreements on credit rating with S&P Global Ratings and Fitch Ratings. Both agencies' current ratings place Finland's long-term debt in the second best category AA+.

In its latest evaluation in October 2021, Fitch retained its rating with a stable outlook, but raised concerns on the increasing public debt ratio. According to Fitch, the rating reflects Finland's strong institutions illustrated by very high governance indicators, high GDP per capita and the resilience of the economy and the banking sector against the pandemic shock. However, the sustainability of the rating requires the adoption of policies to address demographic challenges.

THE FINNISH HOUSEHOLDS BY SIZE



Source: Statistics Finland

Finland has traditionally ranked well in the World Economic Forum's Global Competitiveness Report, and in the latest report in 2019, Finland was in the 11th position among the 141 evaluated countries. The Forum's special edition report published in late 2020 assessed the countries' resilience and ability to recover from shocks like the one caused by the pandemic. In this analysis, Finland ranked first in four out of 11 assessed areas, for example the ones assessing public institutions and strong governance, ability to upgrade education curricula and invest in skills needed, as well as in the ability to facilitate the creation of "markets of tomorrow", especially in areas that require public-private collaboration. Also in most other areas, Finland was ranked within top-5 positions. Only in the ability to adjust and shift to more progressive taxation was Finland ranked clearly below the average. Altogether, Finland reached an aggregated score of 69.9/100, which places Finland number 1 among the assessed 37 countries, followed by Denmark and Sweden. Among the measured policies, the "Nordic model" stands out as the most promising in shifting towards a productive, sustainable and inclusive economic system.

"Trust in public institutions and strong governance support Finland's competitiveness"

In the IMD World Competitiveness Ranking 2021, Finland was ranked in the 11th position among 64 countries, two positions up from the previous report. In this comparison, Finland held the best positions in criteria assessing societal framework (2.), technological infrastructure (4.) education (5.), health and environment (5.) as well as finance (5.). The worst rankings were given for tax policy, prices, international trade and international investment.

Finland is widely recognised as one of the least corrupt countries in the world. In Transparency International's Corruption Perception Index for 2021, Finland was ranked in the first place, together with Denmark and New Zealand among 180 countries. Finland improved its ranking from the previous report, where it was placed on the third position.



Photo: NCC

"Finland is among the least corrupt countries in the world"

Finland is also one of the top performers in various rankings measuring overall quality of living, prosperity as well as security and safety. For instance, in the Fund for Peace's Fragile State Index 2021, Finland retained its position as the most stable country among the 179 assessed countries despite a slight drop in scores compared to 2020. Among the criteria, Finland got the best scores in economic equality, human rights, public services and state legitimacy.

In the UN World Happiness Report 2021 covering 156 countries, Finland was ranked 1st for the fourth time in a row. In this comparison, the strengths of Finland included education and know-how, nature and sustainable development, as well as functionality and well-being. Also in OECD's Better Life Index, Finland performs well in many measures of well-being relative to most other countries. Finland ranks at the top in education and skills and subjective well-being, and above average for the dimensions measuring income and wealth, jobs and earnings, health status, environmental quality, personal security, social connections, housing and work-life balance. Only in criteria measuring civic engagement Finland ranks below average.

"Finland is a safe and stable society, where quality of living is high"

Among global capitals, Helsinki typically performs well with regard to its business environment as well as living conditions. It is considered as one of the safest, most equal and honest cities, where it is easy to move and which has the most content inhabitants among the European capitals. Helsinki also attracts start-up companies and talent, due to its high level of technology and innovation, and having a good environment for entrepreneurship. In the Global

Smart City Index produced by the Institute of Management Development and Singapore University of Technology and Design, Helsinki was ranked in sixth place in 2021. Helsinki received the highest scores in criteria looking at access to schools for all children, level of public transport as well as cultural activities.

These rankings illustrate Finland's reputation as a respected Nordic welfare economy where political and economic stability, transparent regulatory framework and high-quality education and healthcare support business and living. The not-so-positive characteristics of Finland, from a business perspective in particular, mostly deal with the small size of the market. High tax rates and restrictive labour regulations are commonly regarded as the main weaknesses of Finland.

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

In PricewaterhouseCooper's and Urban Land Institute's annual report Emerging Trends in Real Estate Europe 2022, Helsinki's position dropped to 24th, with regard to overall real estate prospects having stood at 19 in 2021. Despite the drop in position, the scores for both property investment and development improved from the previous survey.

In JLL's latest Global Real Estate Transparency Index from 2020, Finland was ranked 12th and considered as a "transparent" market and being on the edge of "highly transparent". In this comparison, Finland is ranked among the top performers in "transaction process", "regulation" and "corporate governance" criteria, whereas listed and direct property indices as well as debt regulation and sustainability got lower ratings.

2 Institutional aspects of the Finnish property market

2.1 Two forms of property ownership

In juridical terms, owning property in Finland means owning the land and the buildings on it. This is the basic form of direct property ownership. It is also possible to own only the building and have a long-term lease agreement with the landowner, typically the municipality. Direct ownership and land lease agreements are registered with the Land Register maintained by regional District Survey Offices.

Transactions with real property are official legal acts that have to be carried out according to a specific procedure. These transactions are public in nature and are registered and published by the National Land Survey of Finland.

In practice, it is very common for property ownership to be organised through a limited company (a real estate/housing company) founded for the sole purpose of owning the property. In these cases, the legal owner of the real estate is the limited company, which may have one or several shareholders. The shares may be connected to a specific apartment/amount of space on the property, entitling the shareholder to physical control and occupancy of these premises. These types of companies are called mutual real estate companies ("MREC"s; *keskinäinen kiinteistöyhtiö*). This form of ownership is commonly used in both residential and commercial properties.

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

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

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

"In mutual real estate companies, rental agreements are made between the shareholder and tenant"

The company itself can also take out a loan, for example, for renovation and modernisation, and use the building and

real estate as collateral. In these cases, the shareholders pay a finance charge to the mutual company, which then covers the loan to the original lender.

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

Impact on market practices

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

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

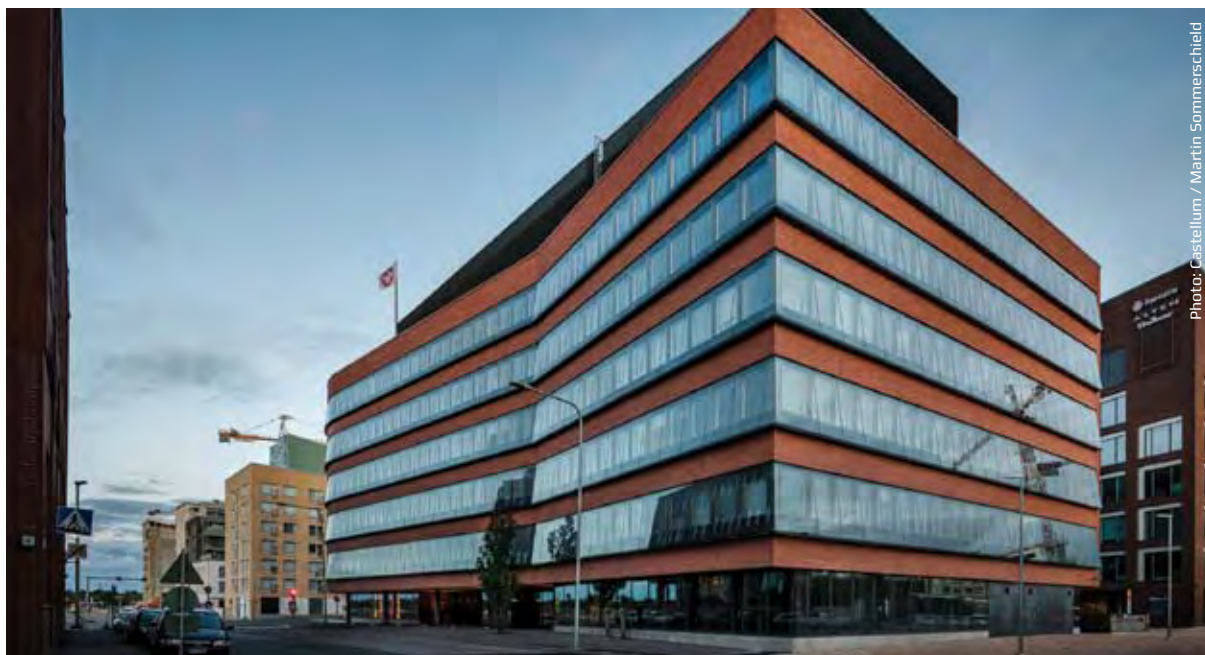
Due to its flexibility and transparency, the mutual real estate company is a common way to organise the ownership and management of property. In practice, the majority of commercial property transactions in the Finnish market are made by transacting the shares of real estate companies. These transactions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

"Mutual real estate company is a common and flexible way to organize the ownership of property"

New legislation concerning digital share register for mutual real estate companies came into force in 2019. From then on, all shares of new housing companies are only in digital form and registered in a newly established share register maintained by the National Land Survey. Shares of old housing companies will be transferred to this digital register gradually by the end of 2023. Transferring the shares of other mutual real estate companies into this digital system is voluntary. In the future, both the ownership and all transfers of shares will be registered in this electronic register and physical share certificates will no longer be needed.

Legislation concerning renting and transactions

Generally speaking, the Finnish legal system is simple and liberal. In principle, there are no restrictions on buying or



selling real estate, but as real estate transactions are subject to certain provisions, it is advisable to use real estate brokers or lawyers when entering into property transactions.

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

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

2.2 Market practices of property investment and renting

Property investment

The emergence of new players, increased internationalisation and professionalism as well as the need for more sophisticated analysis have resulted in new practices in property investment processes. This has also increased the demand for specialist services in property transactions.

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

The role of advisers in the investment process varies depending on the situation, characteristics of the asset and type of parties involved. In large portfolio transactions, the parties typically use extensive advisory and corporate

finance expertise, and implement thorough due diligence procedures. In smaller transactions, newly developed assets and transactions carried out between two domestic parties, the advisers' role is often more limited.

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

Rental practices

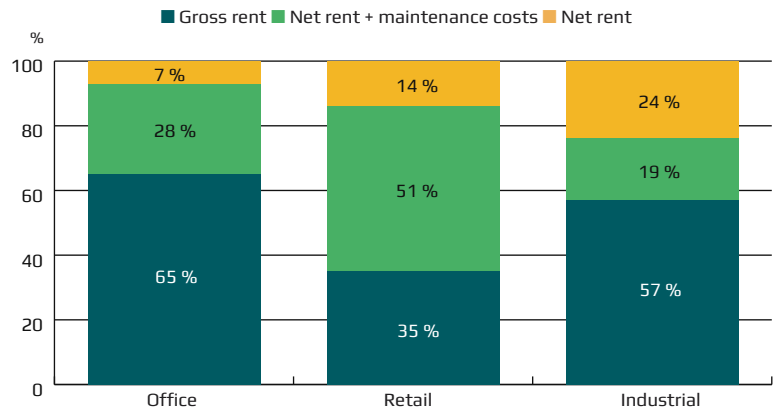
Rental practices vary in the Finnish commercial property market. The liberal legislation regulating leases gives parties freedom to agree on terms and conditions.

A common term in Finnish lease agreements is "until further notice": an indefinite contract is valid until either the tenant or the landlord wishes to terminate it after an agreed notice period, which is typically three, six or twelve months. These indefinite lease terms are especially popular in multi-tenant office buildings and smaller spaces. The landlord must, however, have an acceptable cause to terminate the contract. Although the agreement type provides a lot of flexibility for the tenant, the agreements often last very long.

In KTI's rental database, the majority of agreements are indefinite. The second most common agreement type is to first have a fixed term of, for example, 3 or 5 years, after which they continue automatically for an indefinite period – until further notice from either of the parties. Indefinite lease periods are typically applied in smaller premises, and in larger agreements fixed terms are more often used.

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

DISTRIBUTION OF OFFICE, RETAIL AND INDUSTRIAL LEASE AGREEMENTS IN THE HELSINKI METROPOLITAN AREA, SQM (GROSS / NET RENTS)



Source: KTI Rental database

"Lease terms are shortened and various options are applied in agreements"

The expected changes in space usage caused by the increased remote work and new hybrid working practices are set to shorten lease terms and increase the use of various options in agreements. The options might allow the tenant to terminate the lease prematurely, or to increase or decrease the amount of space as needs change. However, as rental markets remain quiet, statistical evidence on these changes is not yet available.

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 the amount of space, 65% of office agreements in the KTI rental database are for traditional gross rent. In 28% of the agreements, the landlord recharges the

maintenance cost separately to the tenant. This both encourages the tenants to save on costs and hedges the landlord against the increases in operational costs. Measured by number of agreements, gross rents are even more common, representing almost 80% of all agreements.

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

In shopping centres, the majority of rental agreements are turnover-based. About 35% of all shopping centre lease agreements in the KTI database consist of a minimum base rent supplemented by an agreed share of turnover. In some 5% of all agreements the rent is solely based on the tenant's turnover.

In shopping centres, fixed term contracts are commonly applied, especially in larger premises. In 2021, fixed term contracts represented some 72% of the number of



Photo: YIT

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)

agreements and 78% of the total retail space in the KTI database.

Due to the COVID-19 pandemic and the changes it has brought about to retail space users, terms are expected to shorten in retail premises as well. Also, the amount of until-further-notice leases is expected to increase.

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

Rents can be indexed freely in all indefinite leases and in fixed-period leases where the term exceeds three years. The Consumer Price Index is the most commonly used index.

2.3 Planning

Land use in Finland is regulated by the Land Use and Building Act. The current system has three levels of land use plans: a regional land use plan, a local master plan and detailed local plans. Further provisions and guidelines concerning building are issued in the National Building Code of Finland, which was reformed as of beginning of 2018.

National principles for land use and regional structure are defined by the Council of State. These national principles of land use are reflected in the regional plans, which embrace structural, functional and environmental considerations. Regional plans are drawn up and approved by Regional Councils. The regional ELY centres (Centres for Economic Development) promote and steer planning and land use.

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

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

Building permits are approved by municipalities. A building permit may be granted if the plan allows the type and size of building that is being applied for. Special permits to exceed the building right or change the use of the property can also be granted, although these might be difficult to obtain, and permit processes typically take a long time. Obtaining a permit for a temporary change of use – for instance, for using an office building for temporary housing – is usually easier to get. The maximum period for this kind of temporary use is five years.

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

The Ministry of the Environment has been preparing major reforms in the Land Use and Building Act for many years already. The main aims of the reform are the promotion of carbon neutral society, digitalisation and diversity of nature, as well as the improvement of the quality of construction. The draft legislation was submitted for consultation in late 2021.

In its feedback for the draft legislation, RAKLI, the association for the main professional property owners and developers, criticised the proposal for not achieving its original goals, and instead of reducing the number of zoning levels, it would increase the complexity of the system. RAKLI also called for the possibility for property owners to prepare a plan for the municipalities' decision-making in order to strengthen the zoning resources as well as to increase the transparency and predictability of the collaboration between the municipality and property owners.

2.4 Taxation in Finland

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

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

The state tax rate is progressive, and the highest rate currently stands at 31.25% of earned income. The highest rate is applied when the taxpayer's annual income exceeds €80,500.

Municipalities define their tax rates independently, and for 2022 the average municipal tax rate stands at 20.01%, with rates varying between 17% and 23.5%. In recent years, municipal tax rates have increased, pressured by the increasing need for public services due to ageing and decreasing population of many, especially smaller municipalities.

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

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

In addition to the actual taxes, there are some obligatory social security contributions that are paid by taxpayers, some of which are included as taxes in OECD's international

tax comparison statistics. Social security contributions paid by Finnish employers include payments to a national health insurance scheme, national and occupational pension schemes as well as an unemployment scheme. The level of these contributions depends partly on the size and business sector of the employer.

Tax on real property

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

Minimum and maximum tax rates are regulated by the Parliament, and municipalities decide the rates within this range. The minimum general property tax rate currently stands at 0.93% and maximum at 2.0% of the taxable value per annum, and is set at 1.11% on average in 2022. Tax rates for permanent residences can vary between 0.41% and 1.0%. The average rate is currently 0.51%. A special tax rate may be levied on unbuilt lots. This rate can vary between 2.0% and 6.0%.

A reform of property taxation has been underway for many years already, and, according to the current plan, the draft legislation should be submitted for feedback in spring 2022, and for the Parliament in autumn 2022. According to this schedule, the new system is planned to come into force in 2024.

The reform will impact the definition of the taxable value of both the land and the building, which, in the current system, are regarded not to respond to either the development of market values of the properties or the general development of prices and costs. New pricing zones based on market prices will be developed for the valuation of land, and the valuation system of buildings will be based on construction costs of different kinds of buildings in different parts of the country.

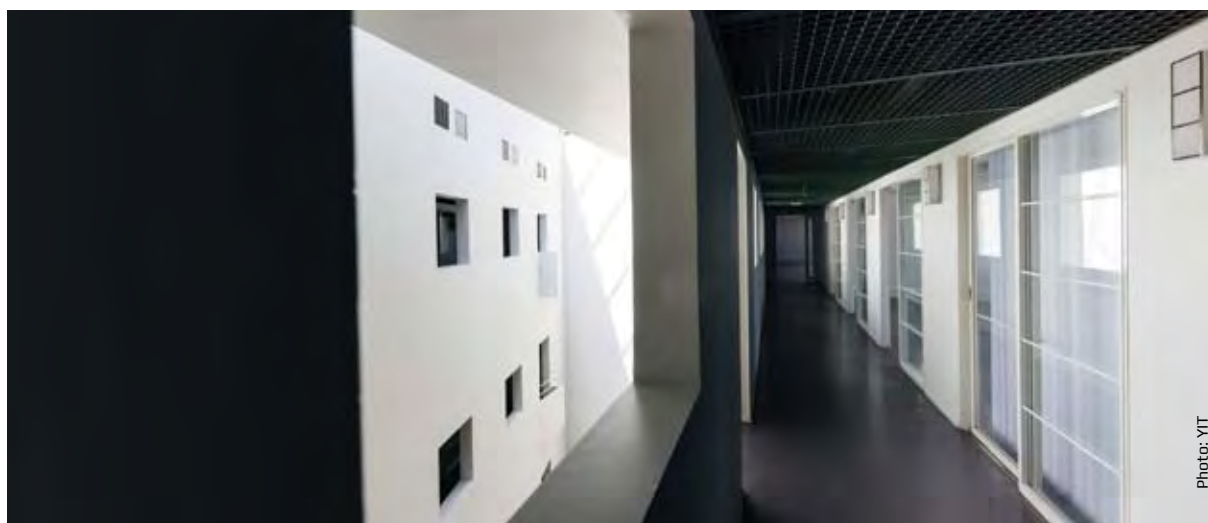
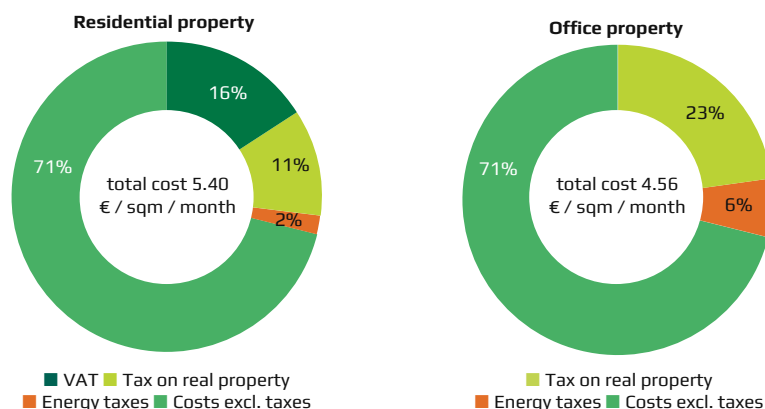


Photo: YIT

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

THE SHARE OF TAXES OF OPERATIONAL COSTS IN HELSINKI IN 2020



Source: KTI

"Property tax reform has been postponed and is now planned to come into force in 2024"

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

In the KTI database, property taxes represented some 9.6% of the total annual operational costs of residential properties, and some 22% of those of office properties in 2020. Their share has increased constantly during the past couple of years, as pressures for increasing property taxes have continued.

When value added tax and energy taxes are taken into account, the share of various taxes of the annual operational cost of residential properties increase to approximately 29% in the largest cities.

"Property tax represent 22% of the annual operational costs of office properties"

For office properties, annual taxes represent some 27% of the total operational expenses. For commercial properties, VAT included in expenses is deductible from the VAT included in rental income, but the share of property tax is significantly higher than for residential properties.

Capital gains taxes

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

For capital income, there are different deduction rules, and typically expenses related to investments (for example, management fees, interests and refurbishment costs) are fully deductible. Capital loss made on investment is deductible from capital gains in the year of the loss, or, if not possible in that year, during five following years.

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

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

Transfer taxes

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

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

Transfer tax is usually imposed on the purchaser.

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.



Photo: Castellum / Martin Sommerschild

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.

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%.

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

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

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

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

Costs for acquiring fixed assets are deducted by depreciation in taxation. The declining balance method applies to the depreciation of buildings and other structures. Depreciation for each building is calculated separately, with a maximum rate varying from 4% up to 25%, depending on the type of building or structure.

Taxation of partnership structures

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

"Limited partnerships are pass-through entities in taxation"

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

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

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

In summer 2021, the Government's withholding tax working group published its memorandum, the main aim of which was to examine the possibilities to extend the Finnish tax

laws to cover capital gains from property investments of foreign investors. Situations where the shares of a Finnish real estate company are owned indirectly through a holding company are currently outside Finland's tax jurisdiction. According to the memorandum, the "moderate" withholding tax on these gains could in the future only be avoided on the basis of a tax agreement. There are currently significant differences in the tax treaties between Finland and various other countries. It is currently unknown how the reform will be implemented, and also how it would possibly impact domestic property funds, as the EU legislation prevents the different tax treatment of domestic and foreign investors.

Value added tax

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

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

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

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

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

In the Finnish system, the seller of goods or services is generally responsible for paying VAT. In the construction sector, however, a reverse charge mechanism is being applied in order to reduce the potential risk for VAT fraud. This means that the buyer of construction services is responsible for VAT. This mechanism is applied on companies offering construction services on a continuous basis.

Deduction of interest expenses in taxation

The reform of interest deductibility rules in corporate taxation came into force in the beginning of 2019. The new regime is applied to all Finnish corporate entities, including real estate companies, and the restrictions thus

CENTRAL TAX RATES IN FINLAND

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

Source: Finnish Tax Administration, www.vero.fi

have an impact on property investors' ability to deduct interest expenses from their business income. However, interest deduction limitation regulation will not be applied to financial companies listed in the new regulation. Such companies include investment firms covered by definition of MIFID regulations, alternative investment funds, insurance companies and pension institutions.

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

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2.5 Legislation for indirect property investment

Property funds

Limited partnerships

Property investment vehicles targeted at institutional investors are often structured as limited partnerships, where, in most cases, the fund management company is the general partner. Tax issues are major drivers in these structures, as limited partnerships are tax transparent structures and investment income is taxed according to the investor's tax status, provided that certain conditions are met. Correspondingly, investment income from limited companies investing in property is subject to corporate taxation, and thus not favourable from a domestic institution's perspective.

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

Special investment funds

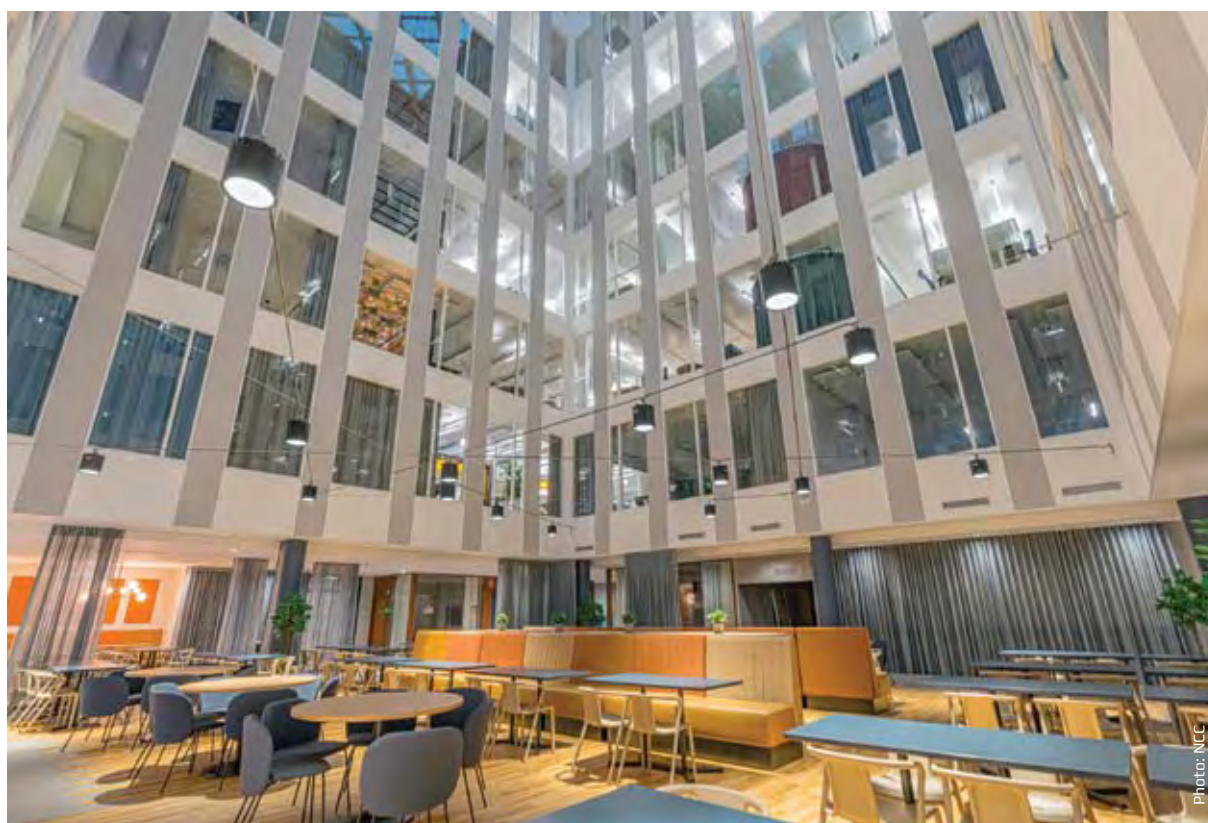
Finnish legislation also enables the establishment of special investment funds (erikoissijoitusrahasto) that invest in property. These special investment funds are stipulated by the Real Estate Funds Act (in Finnish, kiinteistörahastolaki) and are regulated by the Finnish Financial Supervisory Authorities. Special investment fund managers are also stipulated by the Alternative Investment Fund Managers Directive. The regulation for these funds differs from normal mutual investment funds, for instance with regard to diversification of risks, the pricing of fund units and requirements for fund valuation and reporting.

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

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

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

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



FINNISH SPECIAL INVESTMENT FUNDS INVESTING IN PROPERTY

Commercial properties	Residential properties	Public use properties	Building lots
Aktia Affärsfastigheter	Aktia Bostäder+	eQ Community Properties	Ålandsbanken Tomtfond
eQ Finnish Real Estate	OP-Rental Yield*	OP-Public Services Real Estate Fund	S-Pankki Tontti
Evli Vuokratuotto	Ålandsbanken Bostadsfond	Titanium Hoivakiinteistöt	
LähiTapiola Sijoituskiinteistöt*	S-Pankki Asunto		
UB Nordic Property Fund	Titanium Asunto		
UB Suomi Kiinteistöt	Taaleri Real Estate Fund*		
Elite Alfred Berg Rental Income*	eQ Residential		
S-Pankki Toimitila			
Mandatum AM Suomi Kiinteistöt II			
CapMan Nordic Property Income Fund			

*Invest in both commercial and residential properties

Source: Bank of Finland, Fund Reports

The first fund under this framework was launched in late 2012. Special investment funds have grown substantially in recent years as low interest rates and the strong performance of property investments have attracted capital to these funds. There are currently 20 funds investing in property or land plots managed by 13 management companies, and their property holdings reached €10 bn in 2021. Many of these funds are, to a large extent, targeted at private investors, and therefore, these funds apply very low minimum investment rules. Also, some institutions, smaller ones in particular, are showing increasing interest in them.

"Finnish special investment funds currently hold some €10 bn of property"

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

Property companies

In the Finnish context, the majority of property companies operate in the form of limited liability companies. They are

regulated by the Limited Liability Companies Act and are taxed as normal companies.

The amount of listed property companies is rather small in Finland. The companies currently listed in the main list of the Nasdaq Helsinki Exchange include Kojamo, Citycon, Investors House, Ovaro Kiinteistösijoitus and Toivo Group. Listed companies that have been delisted in recent years due to acquisitions of the shares by large investors include Sponda, Technopolis and Hoivatilat.

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

The possibility for tax-exempt listed property companies, a structure resembling internationally known REIT-structures, has currently been given only for companies investing in rental residential properties. The provisions for tax transparency for these kinds of companies are very limiting, and there are no companies presently operating under this framework.



Photo: YIT

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

3.1 Investment market in 2021

The Finnish property transaction market was active in 2021, and the total volume increased by 25% from the previous year and amounted to €7 billion. The first quarter of the year was quiet with a total volume of €0.9 billion, but the activity increased towards the end of the year, and in the last two quarters, the volume exceeded €2 billion.

"Transaction volume increased to €7 billion in 2021"

Measured by the number of transactions, 2021 was the second most active year ever in the KTI statistics, which cover transactions exceeding €1 million euro carried out by professional investors. Compared to 2020, the number of transactions increased by almost 30%, while the average size of transactions remained stable at approximately €21 million.

The largest transaction of 2021 was carried out by the Swedish office property specialist Castellum, who bought the whole portfolio of Kielo AB, a company managed by Brunswick Real Estate. The portfolio comprised 22 office properties in large cities, and the transaction price amounted to €640 million. After the transaction, Castellum sold the 9 properties located in Jyväskylä further to Nyfosa, who also co-operates with Brunswick Real Estate in Finland. Nyfosa was the largest newcomer in the Finnish property market in 2021, and it acquired commercial properties worth approximately €360 million in several transactions throughout the year. The company has continued its

expansion in the beginning of 2022, and increased its portfolio by more than €200 million already by the end of February.

"The Swedish Nyfosa was the largest newcomer to the Finnish property market in 2021"

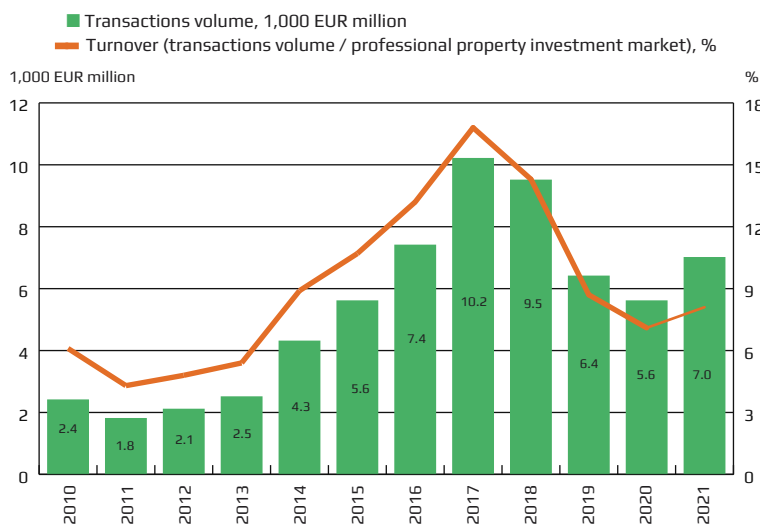
The second largest transaction in 2021 was the acquisition of over 1,800 rental apartments by CapMan Nordic Real Estate. The seller of the portfolio was a fund managed by ICECAPITAL, and the transaction price was approximately €500 million.

The German Patrizia reached the top-10 transaction list of 2021 with two transactions exceeding €100 million. Firstly, a fund managed by Patrizia acquired a portfolio of 461 rental apartments from Taaleri's fund for €145 million, and secondly, the fund invested €101 million in the fourth residential tower being developed in Kalasatama by SRV.

The Nordic NREP also had two transactions in the list of largest transactions of 2021. In the beginning of the year, the company invested €90 million in an office property in Tapiola, Espoo, and in the last quarter, NREP acquired the Columbus shopping centre in Vuosaari from Citycon.

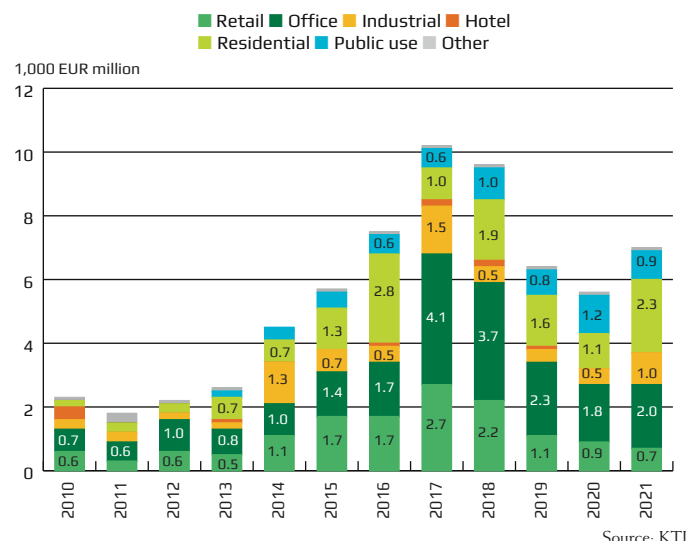
The fifth largest transaction in 2021 was carried out by special investment fund eQ Community Properties, who acquired six public use properties from the city of Jyväskylä for €141 million.

TRANSACTIONS VOLUME AND TURNOVER IN THE FINNISH PROPERTY MARKET



Source: KTI

TRANSACTIONS VOLUME BY PROPERTY SECTOR 2010–2021



"Residential properties accounted for 33% of the transaction volume in 2021"

Offices were the most traded property sector for four years in a row between 2017 and 2020. In 2021, however, the transaction volume of residential properties exceeded that of offices and amounted to €2.3 billion, which is the sector's second highest annual volume ever. The volume consisted of both large portfolio deals and a couple of exceptionally large single asset transactions. Office properties were the second most attractive sector with their €2 billion volume.

Industrial properties represented 15% of the total transaction volume in 2021. The sector's volume comprised an exceptionally large number of mainly smallish transactions. The public use property sector continued to attract investors, but the transaction volume decreased from its record level of €1.2 billion in 2020 to €0.9 billion in 2021. Retail properties'

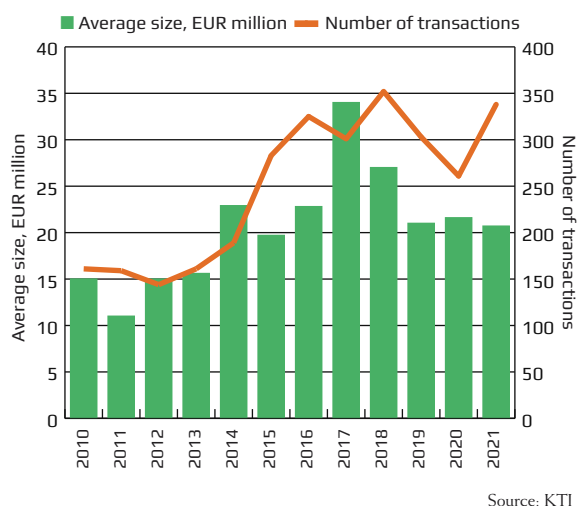
transaction volume was the lowest since 2013, and only amounted to approximately €700 million.

The share of foreign investors of all transactions increased slightly from 2020 and stood at 54% in 2021. Foreign interest was, again, widely spread among various property sectors. For instance, foreign investors acquired residential properties worth approximately €0.7 billion, which is the second highest annual volume ever. For instance, funds managed by Patrizia, Union Investment and DWS made significant investments in the Finnish residential properties. The Swedish Heimstaden also entered the Finnish residential property market in 2021.

"Foreign investors accounted for 54% of all transactions in 2021"

Between 2012 and 2021, foreign investors have accounted for 49% of all transactions in Finland. Net investments of foreign investors have been positive every year since the start of KTI's transaction follow-up. In 2021, net investments amounted to €0.7 billion.

NUMBER AND AVERAGE SIZE OF PROPERTY TRANSACTIONS 2010–2021



In 2020 and 2021, investors from other Nordic countries have been the largest group of foreign players, and in 2021, they represented more than 60% of all foreign investments. Nordic investors typically have their own local offices in Finland, which has made it easier for them to operate during the pandemic. Investors from other European countries represented 35% of the foreign investment volume in 2021.

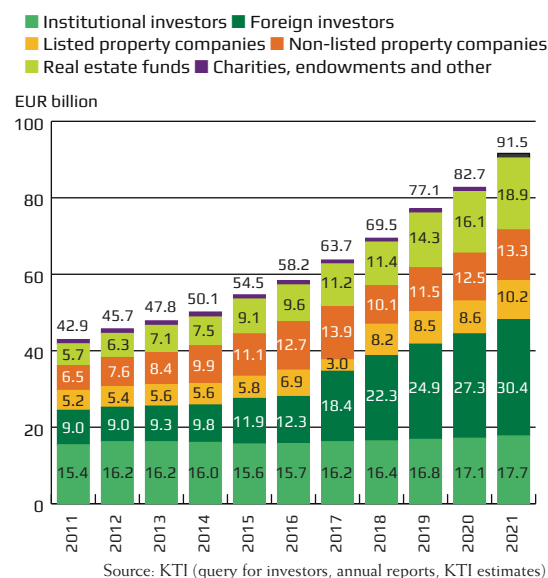
3.2 Ownership structure

The total size of the invested market continued to increase in 2021. At the end of the year, the total size of the Finnish professional property investment market amounted to some €91.5 billion. Compared to the previous year, the market increased by 11%.

"The Finnish property investment universe increased by 11% to over €91 billion in 2021"

THE STRUCTURE OF FINNISH PROPERTY INVESTMENT MARKET BY INVESTOR GROUP

DIRECT PROPERTY INVESTMENTS IN FINLAND EUR BILLION



Foreign investors currently represent 33% of the total invested market. At the end of 2021, foreign investors owned Finnish properties worth approximately €30.4 billion, up from €27.3 billion in 2020. In addition to net acquisitions, portfolio values were increased by an increase in market values of the properties. Some foreign investors also execute property development in Finland.

The Finnish institutional investors' direct domestic property investments amounted to €17.7 billion in 2021, up from €17.1

billion in the previous year. Institutional investors remained net sellers in the transaction market, which indicates that the increase in their holdings was generated through property development and, to some extent, also through capital growth of their existing investments.

"Foreign investors' share amounts to 33% of the total investment market"

Of the domestic investors, various kinds of property funds, special investment funds in particular, have increased their portfolios actively in recent years. In 2021, domestic funds' total portfolios increased by €2.7 billion to €18.9 billion, and their share of the total market increased to 21%. Special investment funds currently represent a majority of the funds' total property holdings.

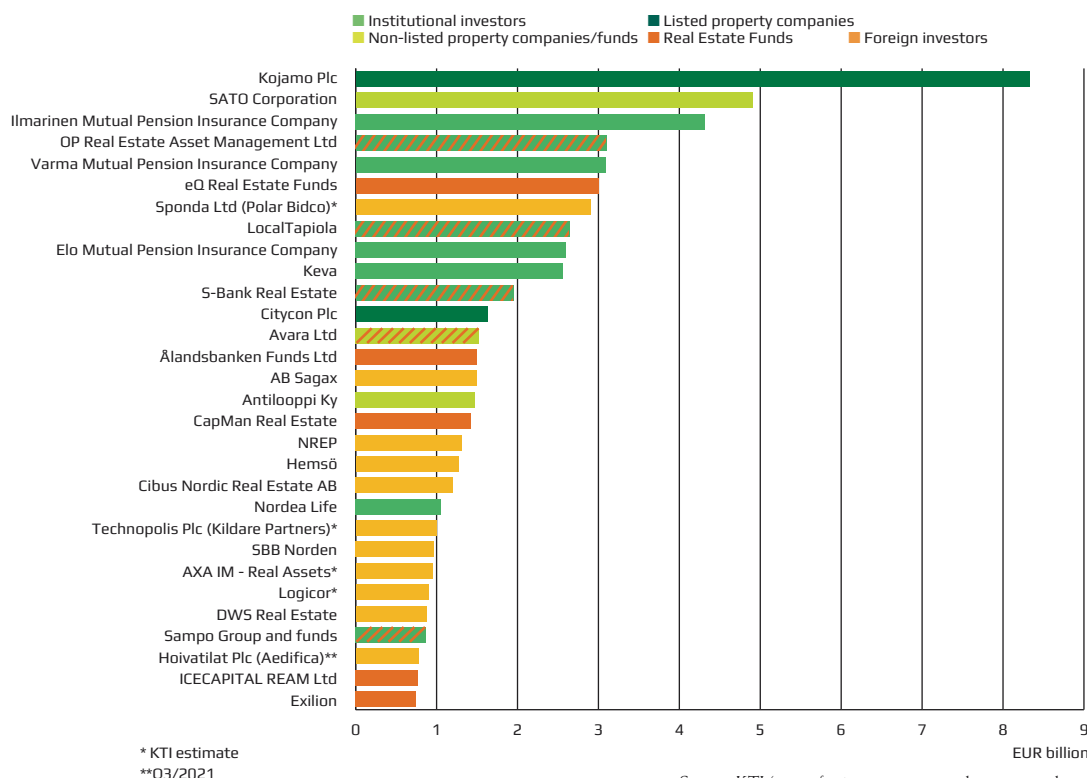
The listed property sector in Finland remains small, with five companies listed in the Nasdaq OMX Helsinki stock exchange. Only two of these companies are of a significant size: Kojamo is, with a clear margin, the largest property investor in Finland with a property portfolio worth €8.3 billion, and Citycon's Finnish property portfolio amounted to €1.6 billion at the end of 2021.

On the other hand, the share of non-listed domestic companies remained at 15%. In this group, for instance, SATO and Antilooppi continued to increase their portfolios in 2021.

In recent years, many foreign investors have established their position in the top 30 list of largest investors, while some domestic players have descended on the list. Of the foreign investors, however, Sponda, owned by Blackstone's

DIRECT PROPERTY HOLDINGS OF THE 30 BIGGEST PROPERTY INVESTORS IN FINLAND

PROPERTY ASSETS UNDER MANAGEMENT AT THE END OF 2021, EUR BILLION



subsidiary Polar Bidco, is the only one currently reaching the top-10 list of the largest property investors in Finland.

On the list of largest investors, SATO holds the second place after Kojamo, but, despite the growth also in SATO's portfolio, the margin between these companies increased in 2021. The four large pension insurers Ilmarinen, Varma, Elo and Keva all retained their positions in the list of 10 largest investors with direct domestic portfolio values varying between €2.6 and €4.4 billion.

OP Group and LocalTapiola have mainly increased their property holdings through their funds' investments in recent years. Another significant player in the property fund sector is eQ, whose property holdings increased from €2.3 billion to €3 billion in 2021, which lifted their position in the ranking of largest investors from tenth place in 2020 to sixth at the end of 2021.

"The ten largest investors increased their portfolios by more than €3 billion in 2021"

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.

"Funds administered by the Finnish pension schemes increased by €30 billion in 2021"

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 €245 billion at the end of the third quarter of 2021 (compared to €210 billion at the end of the third quarter of 2020). For the first three quarters of the year, the real return on the pension schemes' investments amounted to 9%, boosted by equity investments in particular, which produced a nominal return of more than 20%, and a real return of 17.4%. In addition to strong investment returns, the growth of pension schemes was also supported by increasing pension contributions due to strengthening employment.

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.

In the private-sector occupations, the Finnish pension system is a partly funded system, where some of the pension contributions paid each year are put into a fund for future years, and some are used to pay current pensions. The public sector pension system is, in principle, a pay-as-you-go system, where current employees' pension contributions are used to pay pensions each year, but they also include some buffer funds.

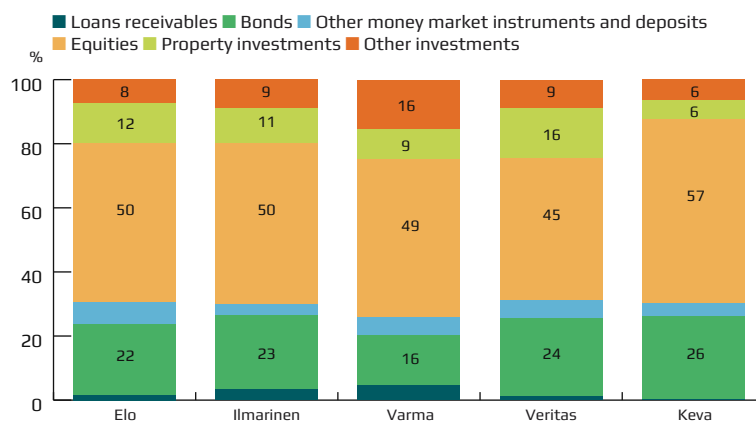
"Strong investment returns boosted the growth of pension schemes"

The reserves collected in the past form the basis of the Finnish institutional investment assets. Due to the retirement of large numbers of people from the 1940s generations, the amount of pensions being paid out is now larger than the amount of annual contributions. In 2020, the net amount of funds from investments and their returns used to pension payments amounted to approximately €3 billion. The increase in pension funds' investment assets is thus currently based on returns on existing investments.

Calculations on the long-term pension money flows are based on the assumption of a 2.5% annual real return on investments until 2028, after which the return expectation will be increased back to its original level of 3.5%. According to TELA, the real return on private sector pension institutions' investments has amounted to 4.6% per annum on average between 1997 and Q3/2021.

In the private pension sector, pension insurance companies are the biggest players. There are currently four major companies: Varma, Ilmarinen, Elo and Veritas. In addition, there are several smaller company or industry specific pension funds. In total, the investment assets of private

INVESTMENT PORTFOLIOS OF PENSION INSURANCE COMPANIES, 31.12.2021



Source: The Finnish Pension Alliance TELA

sector pension institutions amounted to €153 billion at the end of September 2021. In the public sector, there are two major pension institutions: Keva administers the pensions of local government, State, Evangelical Lutheran Church and Kela employees, and the State Pension Fund (Valtion Eläkerahasto / VER) is a fund through which the state balances state pension expenditure and prepares to finance future pensions. Public sector pension institutions' investment assets totaled some €92 billion at the end of the third quarter of 2021.

Finnish public sector pension institutions operate under a different solvency framework than private sector institutions, and thus have different investment strategies and allocations. They typically have a larger equity exposure, resulting in slightly higher investment returns.

On average, at the end of the third quarter of 2021, 53% of all pension schemes' assets were invested in listed shares or in other equity investments, compared to 49% in the previous year. The share of bonds and other loan and money market instruments amounted to 30% (33% in 2020). Properties accounted for 8% and other alternative asset classes also for 8% of the total investment assets.

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

The total property assets in pension schemes' investment portfolios amounted to €20 billion at the end of the third quarter of 2021 (€19 billion at the end of September 2020). For private sector pension insurance companies, the share of property investments stood at 10% on average, while in the public sector pension schemes the share was 5.2%.

Ilmarinen and Varma are the largest private sector pension insurance companies in Finland. At the end of 2021, the market value of Ilmarinen's investment portfolio totalled €60.8 billion (€53.3 billion in 2020), and that of Varma stood at €59 billion (€50.2 billion in 2020). Ilmarinen's property investments amounted to €6.7 billion at the end of 2021, representing 11% of the total portfolio. The value of Varma's property portfolio was €5.4 billion, representing 9% of the total portfolio.

At the end of 2021, Ilmarinen's direct domestic property portfolio amounted to €4.4 billion. In 2021, Ilmarinen did not enter into any significant transactions, but continued to divest some smaller assets from the portfolio. In new development, Ilmarinen has concentrated on residential properties and the company has also been active in redeveloping its existing assets, for example, the major commercial assets in the Helsinki CBD.

Varma's direct Finnish property portfolio amounted to €3.1 billion at the end of 2021 (€2.9 billion in 2020). In 2021, Varma entered into a joint venture with Ylva for the Lyra block in central Helsinki. The company also continued active residential property development. Varma is also the investor in the first phases of the OOPS office project in Perkkää, which were completed in 2021. In the hotel sector, Varma is currently redeveloping the traditional Torni hotel in the Helsinki CBD, and, just two blocks away, converting an office building into hotel use. Varma is also about to begin

the development of the Katajanokan Laituri office and hotel building in the Helsinki centre.

"Varma is active in developing office and hotel properties"

The third largest private sector pension insurance company is Elo, with a total investment portfolio of €29.4 billion (€25.9 billion in 2020). Properties represent approximately 12.4% of the total portfolio. At the year-end, Elo's direct property investments amounted to €2.6 billion (€2.4 billion in 2020). In 2021, Elo did not participate in any major transactions, but the development of the Swing office project was completed and a hotel project was still underway at the year-end. Also Elo continues to invest in residential properties through new development.

The smallest of the private sector pension insurance companies, Veritas, has an investment portfolio of €4.4 (€3.6 billion in 2020), 15.6% of which is invested in properties. The main events in Veritas' property portfolio in 2021 included the completions of Hotel Matts in Espoo and the Art University building in Helsinki.

The public sector pension institution Keva is the biggest player in the Finnish pension sector; its investment portfolio amounted to €66.8 billion at the end of 2021. Of Keva's investment portfolio, 6.0% is invested in property, and, at the year-end, the value of Keva's direct domestic property holdings amounted to €2.6 billion. Keva currently focuses on redevelopment of existing assets in its portfolio, as well as in residential property development.

The State Pension Fund VER was managing an investment portfolio of approximately €23 billion at the end of the third quarter of 2021. VER focuses solely on indirect property investments, as the fund's statutes prevent them from making direct property investments.

"The Finnish pension schemes reported strong investment returns for 2021"

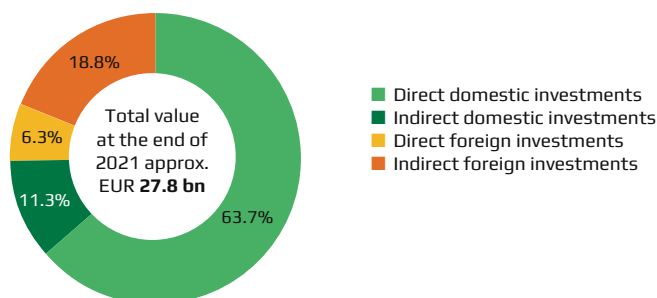
All major pension schemes reported strong returns for 2021. The returns were boosted by the strong performance of listed shares in particular. The highest annual return, 18.5%, was reported by Varma. For Ilmarinen, Keva and Elo, returns amounted to 14-16%.

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

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

Finnish pension funds are not typically allowed to use leverage in their investments. There is, however, a temporary legislation whereby pension insurance companies can

REAL ESTATE EXPOSURE OF FINNISH INSTITUTIONS IN 2021



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

leverage their residential property investments up to 50% until the end of 2022. The purpose of this legislation is to enhance the supply of rental residential property in the main cities. Many of the institutions have used this opportunity and have increased their investments in residential development.

Other institutional property investors in Finland include life insurance and insurance companies. Their investment portfolios are, however, markedly smaller than those of pension institutions. At the end of the third quarter of 2021, the total amount of investments of life insurance companies amounted to €20.8 billion, of which 7.7% was invested in property. The investment portfolios of other insurance companies amounted to €15.2 billion, where the share of properties stood at 13.5%, according to the statistics of FSA, the Financial Supervisory Authority.

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

The property assets of the whole institutional investor sector, including pension insurers as well as life and other insurance companies, amounted to €27.8 billion at the end of 2021, indicating a growth of more than 9% from 2020. Direct domestic investments dominated the institutions' property portfolios with a share of 63.7% at the end of 2021. The share of indirect investments has increased in recent years. Institutions are major investors in many domestic property funds and companies.

"Foreign investments account for 25% of institutional property portfolios"

Institutional investors' foreign property investments currently account for 25.1% of all property assets, and amounted to almost €7 billion at the end of 2021 (€5.7 billion in 2020). 75% of foreign investments are invested in indirect vehicles.

Listed property sector

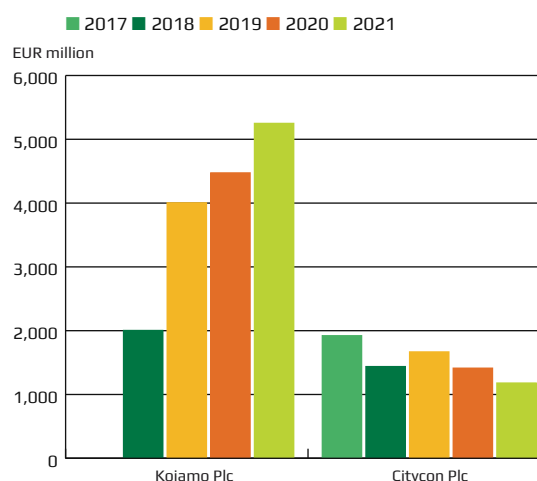
The Finnish listed property sector remains small, and is dominated by two large companies, Kojamo and Citycon. At the end of 2021 the Finnish property holdings of the five property companies listed in the Nasdaq Helsinki stock exchange amounted to €10.2 billion. The total market value of these companies stood at €6.6 billion, of which Kojamo and Citycon represent 97%.

"Kojamo concentrates its portfolio in the key growth centres"

Kojamo is the largest property investor in Finland with a property portfolio of €8.3 billion (€6.9 billion in 2020). Kojamo only invests in residential properties, and at the end of 2021, its portfolio comprised almost 37,000 apartments, mainly under the brand Lumo Kodit. The majority of the portfolio is located in the largest city regions. In late 2021, the company announced it is evaluating the possibilities to further concentrate its holdings in the Helsinki, Tampere and Turku regions and to dispose the assets outside these regions. The company has been increasing its property portfolio mainly through its own development projects, and in 2021, the company completed almost 1,300 apartments.

MARKET VALUES OF THE LARGEST FINNISH LISTED PROPERTY COMPANIES

MARKET VALUES AT THE END OF YEAR



Source: NASDAQ OMX Helsinki

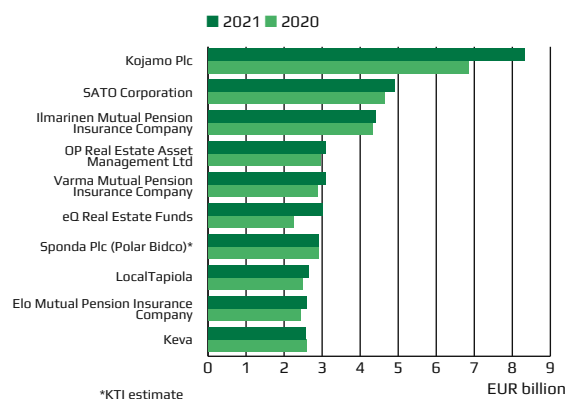


Photo: City of Helsinki Material Bank / Antti Pulkkinen

Citycon is a property company that owns, develops and manages mixed-use centres including retail, office and residential premises in the Nordic and Baltic countries. The company is especially known for its shopping centres. The value of Citycon's property portfolio was some €4.2 billion at the end of 2021, of which some 36% is located in Finland. In total, the company currently owns and manages some 40 shopping centres, of which 7 are located in Finland. The shopping centre Iso Omena in Espoo is the largest of the company's assets, with a gross leasable area of 101,000 sqm. Citycon is currently reconstructing and extending the Lippulaiva centre in Espoo to comprise some 44,000 sqm of leasable space, as well as 500 residential apartments, scheduled for completion in 2022. In 2021, Citycon divested four centres that do not fulfil the

DIRECT PROPERTY HOLDINGS OF THE 10 BIGGEST PROPERTY INVESTORS IN FINLAND

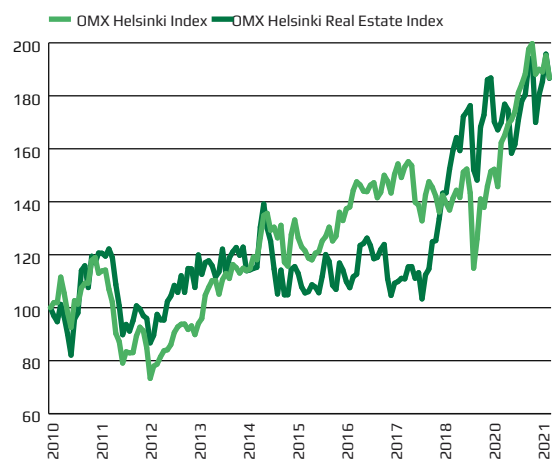
PROPERTY ASSETS UNDER MANAGEMENT, EUR BILLION



Source: KTI (query for investors, annual reports)

SHARE PERFORMANCE OF THE FINNISH LISTED PROPERTY COMPANIES

OMX HELSINKI INDEX AND OMX HELSINKI REAL ESTATE INDEX
(INDEX 1/2010=100)



Source: Nasdaq OMX

company's current strategic targets including the Columbus Centre in Helsinki.

Toivo Group was listed in the Nasdaq Helsinki Oy:n First North Growth Market Finland in summer 2021. The company concentrates on rental residential property development and investment; at the end of 2021, the company had a property portfolio of €98 million. The smallest listed property companies include Ovaro Kiinteistösijoitus and Investors House. The market values of these two companies only amounted to approximately €30 million at the end of 2021.

The OMX Real Estate Sector price index increased by some 9.2% in 2021. The sector index was clearly outperformed by the overall OMX Helsinki price index, which increased by approximately 16.5%.

Non-listed property companies

The normal limited liability company is a common structure for property investors and developers. The largest Finnish non-listed property companies include SATO and Avara, who both specialize in residential properties. The largest company investing in commercial properties is Antilooppi, which specializes in office properties in the Helsinki metropolitan area.

SATO's residential property portfolio comprises some 26,800 apartments. The value of SATO's property portfolio amounted to €5 billion at the end of 2021. The total number of apartments in SATO's portfolio remained stable in 2021.

Almost 80% of SATO's portfolio is located in the Helsinki metropolitan area. SATO also has some investments in Saint Petersburg, Russia, and the portfolio comprises approximately 500 dwellings. The Swedish Balder owns the majority of the shares of SATO, with the Dutch pension fund APC and the Finnish Elo as other main shareholders.

Another residential investment company, Avara Oy, currently owns and manages almost 8,400 rental apartments with a total worth of some €1.5 billion. Avara's largest shareholders include major Finnish institutions, including Elo and OP Group's and Fennia's funds. According to the company's current strategy, they also pursue growth through private equity funds, co-investments and joint ventures as well as investment management services. Avara also develops and manages state-subsidised residential properties. Avara has a joint venture company with the US Starwood Capital Group, which owns a portfolio of 2,200 dwellings in Finland. Avara also owns the property management company Avara Isännöinti Oy. In early 2021, Avara expanded the portfolio of one of the domestic funds by acquiring a portfolio of 400 apartments from funds managed by S-Bank.

Antilooppi invests in office properties in the Helsinki metropolitan area. The company is owned by the Finnish pension insurer Ilmarinen and the Swedish AMF Pensionförsäkring. At the end of 2021, Antilooppi's portfolio value amounted to almost €1.5 billion. Antilooppi is an active redeveloper of its existing properties, and in 2021, the company completed the redevelopment of a 22,000 sqm office and retail property in Hakaniemi in Helsinki.

Ilmarinen and AMF are also owners in Mercada Oy, along with the Finnish retailer Kesko. 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.

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

Turku Technology Properties is a real estate company that owns and manages business premises in Turku, mainly located in the Kupittaa area, where the company owns the majority of the office properties. Turku Technology Properties has also invested in some educational and sports properties in

Kupittaa. The company is an active developer in the area, and in 2021, it completed the InfraCity office property in the area and started another office project. The company is also redeveloping an old big box retail property in the area into office and manufacturing use. The shareholders of the company are the City of Turku, the Swedish Hemsö Fastighets and a group of local investors. The company has a property portfolio of over €450 million.

Ylva is an investment company owned by the student union of the University of Helsinki. The company's €380 million property portfolio is concentrated in the Helsinki CBD. Ylva is currently redeveloping a traditional office and hotel property in the Helsinki CBD, where the Grand Hansa Hotel will be opened in 2023. Ylva is also carrying out the Lyyra project in Hakaniemi, comprising office and retail space, a hotel and residential premises, where pension insurer Varma is the co-investor.

Julius Tallberg-Kiinteistöt, A. Ahlström Real Estate, Rettig Fastighetsutveckling, Conficap and Onvest are examples of traditional Finnish family corporations active in the property market. They typically have property portfolios of €100-200 million. Some of them are active in new development; for instance, A. Ahlström Real Estate announced a significant office development project in Tampere as well as an acquisition of a 25% share of the residential property investor and developer Avain Yhtiöt Oy. Avain Yhtiöt currently owns and manages approximately 10,000 residential dwellings, of which two thirds are in right-of-occupancy use. The company has recently increased its rental residential investments markedly.

KPY Novapolis is a local office property investor active in Kuopio. The company's holdings mostly originated from the acquisition of the Technopolis Kuopio Campus in 2019.

Agore Kiinteistöt is another joint venture company, owned by pension insurance company Elo, the Swedish pension insurer Första AP-fonden and Trevian Asset Management. The company owns 12 retail and office properties across Finland. In early 2022, the company completed the refurbishment of the Tullintori shopping centre in Tampere, whereby the supply of office premises within the centre was significantly increased.

Renor is an example of a specialised property investment company owning mainly old industrial properties, which it develops into new uses. The company's largest asset is the shopping centre Porin Puuvilla, which it owns together with Ilmarinen. The company is currently redeveloping the old silk factory complex in Vantaa, where the first office property was completed in 2020, and further theatre and office premises in 2021.

Real estate fund and investment management companies

The supply of non-listed property funds has increased significantly during the past years. The supply of property funds currently covers a wide spectrum of different kinds of products offered to various investor groups. The property holdings of domestic funds continued to increase in 2021, and amounted to €18.8 billion, up from €16.1 billion at the end of 2020.

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. Some of these structures can be characterized as joint ventures servicing the needs of a limited group of investors.

In recent years, the number and size of the special investment funds investing in property have increased markedly, and their property holdings currently exceed those of other fund structures. These funds are stipulated by the Real Estate Funds Act and Alternative Investment Fund Managers Directive, and are regulated by the Finnish Financial Supervisory Authorities. Many of these funds are targeted at private investors and distributed through banks and wealth management companies. Some institutions, the smaller ones in particular, also invest in these funds. Some funds have also attracted foreign capital.

"The property holdings of special investment funds increased to almost €10 billion"

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

Measured by Finnish property assets under management, the largest fund management companies are eQ Fund Management Company, OP Group's OP Real Estate Asset Management, LocalTapiola Property Asset Management, CapMan Real Estate and S-Bank.

OP and LocalTapiola groups are traditional Finnish institutions, who manage their groups' direct property investments but also offer fund investment opportunities to other clients. They also manage both limited partnerships and special investment funds investing in the Finnish property market. The total value of Finnish property assets under management of OP Real Estate Asset Management amounted to over €3 billion at the end of 2021, and that of LocalTapiola to €2.7 billion, including both the direct portfolios managed for their internal clients and property funds. Both OP and LocalTapiola continued to be active in property development in 2021, but did not enter into any major transactions. In early 2022, LocalTapiola's fund invested €295 million in a hospital property in Espoo.

eQ Fund Management, a subsidiary of eQ Bank, manages two large special real estate investment funds. eQ Community Properties is specialised in public use properties and eQ Commercial Properties invests in commercial properties. Both funds continued to be active in the transaction markets in 2021. eQ Community Properties' largest acquisition was carried out in Jyväskylä, where the fund bought a portfolio of three educational and free fire station properties for €141 million. eQ also manages the eQ Finnish Residential Fund, which made its first investments in 2021. The fund has a target size of over €300 million. Altogether, eQ's property assets under management amounted to €3 billion at the end of 2021.

S-Bank is another bank active in the property market operating through its subsidiaries S-Bank Real Estate and S-Bank Fund Management. After the acquisition of Fennia Group's property fund and asset management operations in 2020, S-Bank Real Estate currently manages the property investments of the Fennia insurance group. S-Bank manages two special investment funds investing in properties, one in

residential and one in commercial property markets, and in total, their property assets under management amount to €1.9 billion. In addition, the company manages one property development and investment fund targeted at professional investors, as well as funds investing in forestry, plots, and agricultural land.

"Mandatum acquired Trevian Asset Management and expanded into property fund management"

Mandatum, part of the Nordic Sampo Group, is a financial services company offering, for instance, life insurance and wealth management services. In 2021, Mandatum's subsidiary Mandatum Asset Management acquired the Trevian Asset Management AIFM, and expanded thus into property fund management business. Altogether, Mandatum Asset Management AIFM's property assets under management in Finland amounted to €0.9 billion at the end of 2021.

Another structural change in the property fund market in 2021 was the acquisition of Aktia Bank's property fund management operations by Taaleri Real Estate, including the management of the special investment fund Aktia Toimitilakiinteistöt. Taaleri currently manages several real estate funds comprising properties worth €500 million. Aktia acts as the sales partner for Taaleri's property funds.

Other bank-related real estate fund management companies include Ålandsbanken and Evli. Ålandsbanken manages two special property investment funds, of which the larger specialises in rental residential units, and the other invests in plots. The combined portfolio value of the funds amount to €1.5 billion. Evli also manages one special investment fund and two other funds structured as a limited partnership, with a combined portfolio value of €0.5 billion.

The Elite Alfred Berg Group manages four property funds, one of which is a special investment fund and others that are structured as limited partnerships. The funds continued to be active in the transaction markets in 2021, and, at the year-end, the funds' property portfolio comprised €340 million.

"The number of real estate fund managers and the range of their strategies continues to grow"

CapMan Real Estate manages five funds, one of which is a special investment fund. Three of the funds have a Nordic strategy and invest in commercial properties. The fourth fund invests in hotel properties. In 2021, CapMan established a Nordic residential property fund, which invested approximately €500 million in a residential portfolio in the Helsinki metropolitan area. CapMan's Finnish property assets under management amounted to €1.4 billion at the end of 2021. CapMan also manages the German BVK's Nordic residential property investment mandate.

ICECAPITAL Real Estate Asset Management is a Finnish property fund management company specialising in residential property funds structured as limited partnerships and targeted at Finnish institutional investors. ICECAPITAL Ream currently manages four active funds with a combined portfolio value of €770 million. The company has exited several funds, the latest being made in 2021 by selling a

portfolio of 1,800 dwellings in the Helsinki metropolitan area to a fund managed by CapMan.

Titanium is a fund management company managing two special investment funds investing in property – one of the funds investing in residential, and the other in care properties. The total size of the funds was over €700 million at the end of 2021.

United Bankers is another example of Finnish wealth management and investment companies that also offer property funds for their clients as an alternative asset class. Of the two special investment funds managed by UB, one invests in Finland and the other has a Nordic strategy. The funds' total investments amount to approximately €860 million, of which two thirds are in Finland.

Sirius Capital Partners is a fund and investment management company that manages property funds and makes co-investments on a deal-by-deal basis. Sirius exited two out of its three property funds in an IPO in early 2018, whereby Cibus Nordic Real Estate was created. The currently active Sirius funds invest in both commercial and residential properties and have property portfolios of €145 million. Sirius is currently redeveloping an office property in the Helsinki centre, where consulting firm EY will move its headquarters in 2023.

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

Many of the Finnish funds can be considered as club-deal-like or joint venture arrangements where a limited number of investors join forces to establish a property fund for specific purposes. Examples of these kinds of arrangements include Exilion and VVT. Exilion is a joint venture of four Finnish institutional investors, and the company owns and manages a portfolio of some €750 million comprising office, retail and hotel properties. VVT is a joint venture of Varma, the State Pension Fund and Tradeka. The fund invests in commercial properties in the largest Finnish cities.

International investors

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

International investors continued to increase their investments in the Finnish property market in 2021. At the end of the year, the total holdings of foreign investors amounted to €30.4 billion, up from €27.3 billion in 2020, and their total share of the invested property markets remained stable at 33%.

"Foreign investors own €30 billion worth of properties in Finland"

The largest foreign property investor in Finland is Polar Bidco, owned by Blackstone and Areim, which owns the formerly listed property company Sponda Plc. The company owns office and shopping centre properties in the largest Finnish cities, mainly in prime areas in the Helsinki metropolitan area and in Tampere. Sponda currently holds the 7th place in the list of largest property investors. In 2021, Sponda divested a newly built office and healthcare property complex in Tikkurila, Vantaa, to funds managed by eQ, and also divested some smaller retail properties.

In the list of largest foreign investors in Finland, the second place is held by the Swedish Sagax, which has steadily increased its portfolio in Finland in recent years, and whose total investments amounted to €1.5 billion at the end of 2021. The company has invested mainly in industrial and logistics properties. The largest acquisition of Sagax in 2021 was the €85 million sale-and-leaseback deal of HKScan's industrial property in Vantaa. The company also sold a retail property portfolio of 72 assets to Cibus Real Estate.

Another rapidly growing player is the Nordic NREP, which applies varying strategies in investing, developing



Photo: Castellum / Martin Sommerschild

and operating properties in various sectors. In 2021, NREP became the third largest foreign investor in Finland with a total portfolio of €1.3 billion. NREP has a diversified portfolio in Finland, comprising, for instance, a residential portfolio of 5,000 dwellings, shopping and retail centres, logistics and office properties as well as hotel properties. NREP also operates their Noli Studios short-term housing concept and develops logistics properties under the NREP Logicensers concept. NREP is also co-owner in Avia Real Estate, through which the company is involved in the development of the Helsinki airport area. In 2021, NREP acquired two large office properties and shopping centre Columbus in the Helsinki metropolitan area. The company also completed two logistics, one retail, one hotel and several residential property development projects and, at the year-end it had three hotels, one logistics and several residential projects underway.

"NREP continued to increase its Finnish portfolio through both acquisitions and property development"

The largest foreign player in the Finnish public use property market is the Swedish Hemsö, which has a portfolio of nearly €1.3 billion in Finland comprising, for instance, educational, healthcare and fire station properties as well as nursing homes. The company is also a significant shareholder in Turku Technology Properties. In 2021, Hemsö's largest acquisition was the €85 million investment in the Paavola school Kampus in Lahti.

Cibus Nordic Real Estate has a diversified Finnish grocery property portfolio with a total worth of some €1.2 billion. The company also has a smaller portfolio in Sweden and is looking into opportunities in the other Nordic markets. The company is, since June 2021, listed in the main list of Nasdaq Stockholm. In 2021, Cibus continued to actively expand its Finnish portfolio through several acquisitions, the largest of which was the acquisition of 72 assets from Sagax.

Another significant foreign public use property investor is SBB Norden, whose Finnish property portfolio also approaches €1 billion euro. In 2020, the company grew significantly through large company and portfolio transactions, but in 2021, the company only acquired some smaller assets and portfolios. The third largest foreign investor in the public use sector is currently the Belgian listed company Aedifica, who, since 2020, owns the Finnish public use specialist Hoivatilat. Also the Belgian Cofinimmo has invested in the Finnish public use properties.

"Foreign investors increase their investments in the public use property sector"

Other foreign investors with portfolios close to €1 billion include, for instance, Logisor, which is part of a European logistics and warehouse property platform owned by China Investment Corporation along with office property investor Technopolis, which is owned by Kildare Partners. In late 2021, Kildare Partners announced it is investigating the possibilities to divest the Technopolis portfolio. AXA Investment Management also has a diversified Finnish

property portfolio close to €1 billion. After a couple of years, AXA IM was active in the transaction market in 2021 and acquired three logistics properties from NREP Logicensers.

Castellum is a Swedish listed property company concentrating on office properties in Sweden, Finland and Denmark. Castellum has significantly increased its Finnish portfolio in 2020 and 2021, and currently has a portfolio of approximately €700 million. In 2021, Castellum's largest acquisition was the Kielo AB's portfolio comprising 22 office properties in the largest cities in Finland for €640 million.

Another Swedish-originated investor is Nyfosa, who only entered the Finnish market in 2021, and, after a year of operations, has a portfolio of almost €600 million. Nyfosa made several acquisitions in 2021 and in early 2022, the largest of which were the purchases of the 9 properties from the Kielo portfolio located in Jyväskylä as well as the mixed-use portfolio of 43 assets from Partners Group. Nyfosa's Finnish partner is Brunswick Real Estate.

Other Nordic investors in the size category of €600-700 million include the retail property specialist Redito Property Investors as well as Nordisk Renting, who mainly invest in large sale-and-leaseback deals. NIAM has several structures in Finland, and, having previously only invested in commercial properties, also expanded into the residential sector in 2021.

"Several German investors have broadened their investment focus in Finland"

There are several German-originated investors active in Finland, many of which have recently expanded their investment focus. Most of them have previously mainly concentrated on large prime office assets in the Helsinki metropolitan area. The largest of these is DWS Real Estate, which has increased its holdings in recent years. DWS currently has a Finnish portfolio of almost €900 million, comprising several large office assets in Espoo, Keilaniemi, as well as some 800 rental residential dwellings. DWS has also invested in some assets in Finland on behalf of its investor clients.

Other major German investors active in Finland include Deka Immobilien and Union Investment, with portfolio values of €600-700 million. In 2021, Union Investment was active in the Finnish residential market and invested in two large rental residential properties under construction in Vuosaari. At the end of 2021, Union divested an office property in Espoo to a fund managed by Corum.

Other German investors who increased their Finnish holdings in 2021 include, for instance, funds managed by Hansainvest, MEAG and Quadoro Doric. Also, Patrizia invested in Finland after a couple of years by acquiring a €145 million residential portfolio from Taaleri, as well as the fourth phase of SRV's residential towers in Kalasatama for over €100 million. The German investors Commerz Real, GLL Real Estate Partners, KanAm Grund Group, Allianz Real Estate and Warburg HIH-Invest also all have investments in Finland.

The Nordic fund management business of Aberdeen Standard Investments was sold to the Danish DEAS Asset

Management in 2021. The transaction included one Finnish fund, Aberdeen Property Fund Finland I. Aberdeen Standard Investment's European Funds, currently operating under their abrdn brand, also had investments in Finland. In 2021, a fund managed by abrdn invested €75 million in the Fredriksberg office building in Vallila.

Aside from Logicor, Asian investors in Finland comprise the two South Korean investors, NH Investment & Securities (NHIS) and Shinhan Investment Corp, which, together with the Finnish pension insurer Varma, have invested in the head office of OP Group in Vallila. In addition, there are some smaller Japanese and South Korean investors active in Finland.

Other Swedish-originated investors in the Finnish commercial property market include, for instance, Genesta, AREIM and Alma Properties. Swedish capital is also channeled to the Finnish market through significant share ownership in several companies. Balder is a majority shareholder in the residential company SATO and in the retail property company Serena, and also has some direct investments. Heimstaden entered the Finnish market in 2021 by acquiring approximately 500 rental residential dwellings, and in addition, a significant stake in the listed company Kojamo.

Some Swedish institutional investors have also entered into joint venture structures with Finnish pension funds: AMF Fastigheter is an investor in Antilooppi and Mercada, whereas Agore Kiinteistöt is a joint venture between Elo, AP1 and Trevian.

The Finnish rental residential sector has increasingly attracted foreign investors in recent years. The market has attracted both specialised residential funds as well as investors who were previously active in other property sectors. In total, foreign investors currently own some 25,000 rental dwellings in Finland. The largest non-Finnish investor in the residential sector is Round Hill Capital, who, under their Finnish brand Olo Asunnot, owns approximately 5,300 rental apartments in Finland. NREP also has invested in almost 5,000 residential apartments, more than half of which are still under construction.

"Foreign investors own approximately 25,000 rental residential units in Finland"

Starwood Capital Group, together with their Finnish partner Avara, owns some 2,200 apartments in Finland. Also, Morgan Stanley Real Estate Investing and the German Bayerische Versorgungskammer's (BVK) Finnish residential portfolios comprise close to or over 2,000 apartments. Morgan Stanley's fund also owns the shopping centre Itis in Helsinki.

Public sector

Public sector entities are important players in the Finnish property market. The Finnish state has concentrated most of its property holdings on a government-owned enterprise called Senate Properties, who develops, manages and lets the state's property holdings, and also acts as an intermediary in lease agreements between state agencies and private sector property investors. Senate Properties' property portfolio comprises 9,000 properties worth approximately €4.2 billion including offices, prisons and cultural buildings as well as

properties used by the Finnish Army. Senate Properties operates under the control of the Ministry of Finance. The state agencies pay cost-based rents for the properties administered by Senate Properties.

Due to the changing operations of the state agencies, as well as an ambitious workplace strategy pursued in recent years, significant amounts of space have been freed in Senate Properties' portfolio. The company has a business unit whose sole purpose is to develop and/or dispose of properties that are not needed by state agencies in the long term. Premises needed for state operations are also increasingly leased from private investors in cases where there are no specific needs from the point of view of, for instance, security or specialised facilities or equipment.

In 2021, the Finnish state published new property and workplace strategies including even more ambitious targets for space efficiency. The new workplace strategy, pursues, for instance, to significantly increase the joint use of facilities by various public authorities, as well as the amount of coworking premises offered for state agencies.

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 its ownership spread across nine universities and twelve cities throughout Finland. The Finnish state is also a shareholder in this company.

"Health and social service reform will have a significant impact on municipalities' properties"

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

The reform of healthcare and social services taking place in 2023 also has a major impact on municipalities' properties. Municipalities currently own and occupy approximately 4,500 buildings and 4 million square metres of healthcare and social service premises. As of the beginning of 2023, the new counties will rent the premises currently used by municipalities for a minimum period of three years. After this, the counties will have the opportunity either to continue lease agreements or to give up the premises they do not need for their operations. For the municipalities, the reform is likely to cause significant needs for reforms and adaptations with regard to their properties.

In recent years, municipalities have started to apply more varying strategies in their service provision, which has also

impacted property ownership. For instance, an increasing number of schools, day care and sports facilities have been developed by private investors, and they rent the premises either directly to municipalities or to private sector service providers who sell their services to municipalities. One driver behind the new approaches is the tight economic situation of most of the municipalities, for which the ageing of the population creates additional pressures. The increasing interest from private sector investors also enables the municipalities to pursue these kinds of operations better than in the past.

"Private sector investor interest supports the implementation of municipalities' property strategies"

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

Examples of major transactions in the municipality property sector in 2021 include the €85 million agreement between the City of Lahti and Hemsö on the Paavola school campus, as well as the €141 million acquisition of educational and fire station properties in Jyväskylä carried out by eQ.

Corporations

Among Finnish corporations, owner-occupation of properties is becoming less common in office markets in particular. The vast majority, more than 85% of the Finnish office property stock, is currently owned by professional investors, and of the remaining 15%, the majority is owned by public sector organisations. Large retail properties, shopping centres in particular, are also very often owned by professional investors. Only in the industrial sector, the majority of the total stock, more than 80%, is still owned by Finnish industrial corporations.

The broadening investor base in the property investment and finance market has enabled the execution of corporations' evolving property strategies. Most new properties – office properties in particular – are developed by professional investors or developers. In recent years, several major head office moves have been published, and in all cases the user has entered into a long-term lease agreement with an investor, who thereby commits to develop the new premises.

"Several significant corporate head office projects are underway"

In 2021, NCC completed the Keilaniemi Next project, where Fiskars Group moved its headquarters, as well as the OOPS project in Perkkää, where the main user is Trimble Solutions. At the year-end, new head offices were under construction for Deloitte in Ruoholahti, the broadcasting company MTV and Nordea Bank in Vallila, as well as for EY in the Helsinki city centre. In addition, new head office development projects are planned to be started for Stora Enso in Katajanokka as well as for F-Secure in Jätkäsaari.

S Group and Kesko, the two major Finnish retail chains, have traditionally been active players in the property market. Kesko owns, for instance, in addition to a portfolio of smaller

retail locations, the shopping centre Easton in Helsinki, and is a shareholder in Mercada, for whom Kesko and its brands are also the main tenants. S Group and its co-operatives are major owners and developers of retail, shopping centre and hotel properties across Finland.

The German retail chain Lidl typically owns its retail and logistics properties in Finland, with the exception of stores located in shopping centres and city centres. All retail chains have also invested in their logistics properties recently. SOK, for instance, has developed a 270,000 sqm logistics centre in Sipoo, Bastukärr, where its logistics subsidiary Inex Partners is the main user and is currently developing a smaller logistics facility in Lieto close to Turku.

3.3 Real estate service sector

Asset and property management services

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

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

Realia Group is, through its daughter companies, a major player in the residential property brokerage and management markets. The group is currently owned by the Nordic private equity firm Altor. Realia Management, another affiliate company of the Group, manages some major investors' residential portfolios, and also offers management services for commercial property management, valuation and advisory services.

Colliers International Finland offers services for property management and development for commercial, residential and shopping centre properties. The company's commercial property asset and property management clients include domestic and international investors as well as corporations. Colliers International Finland also offers shopping centre management and development services.

CBRE offers asset and property management services for investors in Finland. The company also offers property and facility management services to corporations, as well as shopping centre management services.

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

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

"The supply of shopping centre management has expanded in recent years"

Some property fund managers also act as co-investors and managers in Finnish portfolios on behalf of their investment partners. Premico is an example of a company that mainly specialises in residential property management and is also active with domestic property funds. The company is also involved in a joint venture with Morgan Stanley Real Estate Investing and the Swedish RIM and acts as the local manager of a rental residential portfolio comprising over 2,000 apartments. Olo Asunnot works as partner and manager for Round Hill Capital's residential portfolio in Finland.

Another example of a company that mainly manages foreign investors' assets in Finland is Avant Asset Management, which, for example, is involved in the management of the OP head office property in Vallila on behalf of the Finnish-South Korean investor consortium. In the past, the company has acted as partner and manager in, for instance, the Ideapark shopping centre in Oulu, as well as in some residential property portfolios.

Housing investor Avara operates as co-investor and manager for Starwood Capital's residential property portfolio in Finland comprising over 2,000 dwellings. Avara has also expanded its operations in the housing management business and has an in-house management unit for its clients' residential portfolios, and is also selling housing management services to housing companies. In total, the company manages some 17,400 residential units.

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

Advisory, transaction and valuation services

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

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

According to the transaction statistics of KTI, JLL retained its position as the largest advisor in the Finnish transactions market in 2021, followed by Newsec and Catella.

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

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

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

Property financing

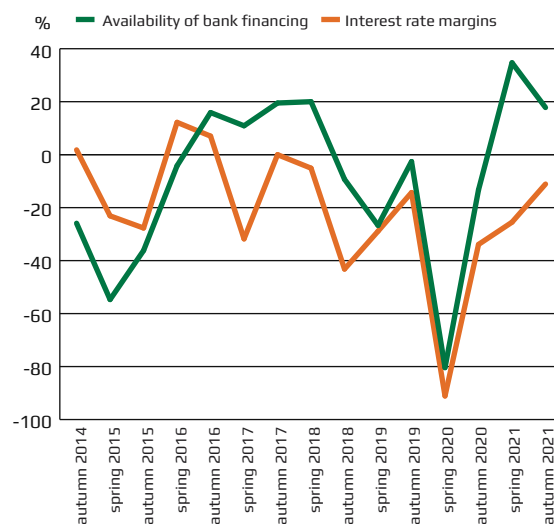
The debt financing market for property investment has been traditionally dominated by banks. The major part of real estate financing is provided by the major local and Nordic banks, including SEB, Nordea Bank, Danske Bank and OP Group. Only a few international specialised property finance banks are currently active in the Finnish market.

"Nordic banks dominate the property finance market in Finland"

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

In recent years, bank debt has been available for property investments with rather favorable terms. After a short dip in spring 2020, the assessments of the availability and terms of debt financing recovered in the RAKLI-KTI Property Barometer, and in autumn 2021, the majority of respondents estimated that the availability of finance will remain stable

AVAILABILITY OF BANK DEBT AND DEVELOPMENT OF INTEREST RATE MARGINS, NEXT 6 MONTHS (BALANCE FIGURES)



If the balance figures are positive, greater amount of the respondents expects the availability of bank financing to improve and interest rate margins to decrease.

Source: RAKLI-KTI Property Barometer

BONDS ISSUED BY FINNISH PROPERTY INVESTORS

Issued by	Issue date	Maturity date	Years	EUR million	Annual interest	Other information
Citycon	22.8.2018	15.1.2027	about 8.5	300	2.375%	Secured
University Properties of Finland	2.11.2018	2.11.2023	5	100	1.80%	Unsecured
SATO	31.5.2019	31.5.2024	5	350	1.75%	Unsecured
eQ Finnish Real Estate	27.6.2019	29.1.2024	about 4.5	100	2.75%	Secured
SATO	7.4.2020	7.4.2023	3	300	2.25%	Unsecured
Kojamo	27.5.2020	27.5.2027	7	500	1.875%	Unsecured
SATO	24.9.2020	24.2.2028	about 7.5	350	1.375%	Unsecured
Citycon	24.11.2020	24.11.2023	3	800 NOK	3 months NIBOR + 2,80 %	Unsecured
Citycon	12.3.2021	12.3.2028	7	350	1.625%	Unsecured
Kojamo	28.5.2021	28.5.2029	8	350	0.875%	Unsecured
Citycon	4.6.2021	n/a	n/a	350	3.625%*	n/a

Source: Press releases

or even improve. However, the risk-awareness of the banks has increased, and availability and pricing of debt is highly dependent on the asset and debtor.

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

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.

"Largest investors issue bonds in order to broaden their access to finance"

The biggest property investors have access to several sources of finance. In addition to relatively good access to equity, many of the biggest Finnish property companies currently use corporate bonds for financing their balance sheets. Listed companies Citycon and Kojamo use bonds to finance their balance sheets. Residential company SATO is also an active issuer of bonds. Some of the largest companies have also acquired credit ratings in order to improve the availability and terms of bond financing. In 2021, for example, the listed companies Kojamo and Citycon issued new bonds.

Also some mid-sized property companies have issued bonds in recent years in order to balance the use of different financing instruments. These bonds are typically secured. Examples of these kinds of companies include shopping centre investor Mercada, the development company Regenero, University Properties of Finland and eQ Commercial Real Estate Fund.

Some property investors also have access to special institutions' financing. For example, both SATO and Kojamo have received financing from the European Investment Bank for the development of new nearly zero energy buildings.

EIB has, together with NIB and some commercial banks, also provided financing for the Mall of Tripla project.

Property development

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

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

YIT is currently the largest Finnish and a significant North European construction company, which has operations in 10 countries. In Finland, YIT develops and builds both residential and commercial properties. In its current organisation, YIT has a specialised business segment for property development that works together with property investors, tenants and users. The segment focuses on office and logistics space, hybrid projects, commercial space and development of social infrastructure premises like schools, daycare centers, healthcare and assisted living buildings. YIT also pursues hybrid projects in larger urban areas, for instance, the Keilaniemenranta area in Espoo and the Maria area in Helsinki centre. YIT also offers remote working facilities under its coworking concept Workery+.

Through its joint venture company Regenero, which YIT owns together with the private property developer HGR Property Partners, YIT has also been involved in major redevelopment projects in the Helsinki metropolitan area. In addition to the redevelopment of a landmark Accountor Tower property in Keilaniemi the company is also planning to develop a 160-meter high Keilaniemenranta Torni tower in the area. Elevator company Kone is planning to move its head office to the building, which is also planned to comprise a hotel.

"NCC is an active office property developer in the Helsinki metropolitan area"

In recent years, NCC Property Development has been active in office property development in the Helsinki metropolitan area. In 2021, NCC completed, for instance, the first two phases of the OOPS office project as well as the Keilaniemi Next project in Espoo. Three phases of the Fredriksberg office complex in Vallila are completed and the fourth phase is scheduled for completion in 2022, and the broadcasting company MTV will be the main tenant of the building. All properties have been sold to foreign investors including Swiss Life, KanAm Grund Group and abrdn. NCC is also developing the We Land office concept in Ruoholahti, and Deloitte will move its Finnish head office in the building.

Skanska has organised its development operations in the Nordics through Skanska Commercial Property Development Nordic, which can also remain as an investor in the buildings it develops. Skanska's most significant recent projects comprise the office building for the European Chemicals Agency ECHA in Telakkaranta area in Helsinki, and the two phases of the Aviabulevardi office project in Vantaa. In late 2021, Skanska CDF acquired an office building in Keilaniemi, which it will redevelop and also take advantage of the unused building area in the plot. In 2021, Skanska was also active in developing residential units for investors, and sold, for instance, two large residential properties in Vuosaari, Helsinki to a fund managed by Union Investment.

SRV is the main developer in Kalasatama, where it developed the shopping centre REDI and continues to develop high-rise residential buildings, and is also about to start an office tower in the area. One of the residential towers has been sold to

Kojamo, and the fourth one was sold to Patrizia at the end of 2021. The company is also developing the Wood City project in Jätkäsaari, comprising two residential buildings and two office buildings. The mobile game company Supercell is occupying the first office building, and in late 2021, the IT security firm F-Secure announced it will move its head office to the other. SRV is also the developer in the Tampere Deck and Arena residential, sports and culture arena project, where OP, Ilmarinen and LocalTapiola are investors. The first phases of the project were completed in late 2021. In addition, the first phase of SRV's Pressi Smart Office premises is underway in Vantaankoski, and the next phases are being planned.

"Kojamo and Patrizia have invested in SRV's residential towers in Kalasatama"

Hartela is a family-owned traditional Finnish property development and construction company active across Finland and in all property sectors. Some of the recent projects of Hartela include the 25,000 sqm local commercial centre Hertsi in Herttoniemi and the Ilmalan Tori office project in Pasila, where the second phase is being planned.

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

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

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

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

"Institutional investors have increased their development activity"

The current tight availability of investment assets has, however, encouraged some institutions to pursue more active development strategies. For example, Varma has entered into



Photo: Castellum / Mikael Linden



several office development projects within the past years, and Elo is developing a major office and hotel property in Keilaniemi.

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

Property investment companies also actively develop assets in their own portfolios. Sponda, Citycon and Technopolis are active players in property development in their own core areas both in Finland as well as in other countries included in their strategies. Large residential companies, Kojamo and SATO in particular, are also active property developers.

Many non-listed property companies and funds are also active in property development in their niche markets. Ylva, for example, has significantly increased its development activity in recent years in central locations in Helsinki. Antilooppi has been active in redeveloping its existing assets to better meet its clients' needs. Auratum is also an example of a property fund that redevelops existing properties, often into residential use, in its core locations in the Helsinki metropolitan area and in Turku.

"Conversion projects have increased in volume in recent years"

An oversupply of offices in the Helsinki metropolitan area has generated lots of conversion and redevelopment projects in recent years. Conversion projects are most often developed by their owners; for instance, many institutions have redeveloped their properties into new uses. In some cases, the properties are sold to investors who are willing to carry the development risk. Regenero, the joint venture of YIT and HGR Property Partners, is an example of a developer who mainly invests in existing buildings to be redeveloped. HGR also has some own projects and acquired, for instance, the Kaartin Lasaretti complex in Helsinki from Senate properties to be redeveloped for office, retail and educational use.

"NREP is an active property developer in Finland"

In recent years, some international investors have also increased their involvement in property development. In this group, NREP is the most active player with ongoing development projects in many sectors including residential, logistics and hotel properties. Niam is another Nordic player who also pursues property development projects and is currently developing, for instance, an office building in Keilaniemi.

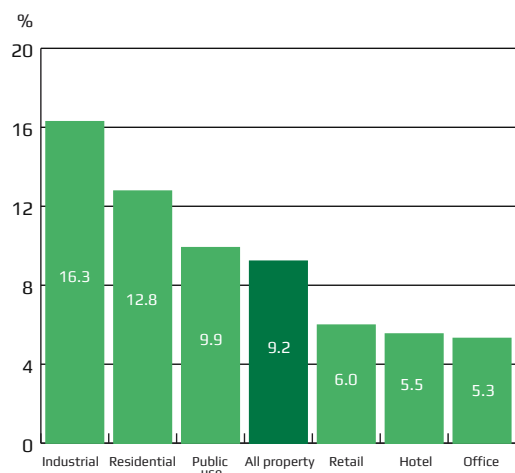
4 Property sectors: market structure, practices and investment performance

In terms of property sector structure, the Finnish property investment market has changed markedly in recent years. Residential properties have always been a recognised sector in the Finnish institutional and other investors' portfolios, and their share has increased steadily in recent years. Residential properties are currently the biggest sector – by a significant margin - in the investment market with the share of 34%. In 2021, the growth in the invested residential property sector continued to be the most significant source for the overall growth of the Finnish property investment universe. Both increases in market values and active new development contributed to the growth of the residential market, which amounted to €4.3 billion in 2021. At the end of the year, professional investors owned approximately €31 billion worth of residential properties, representing a growth of 16% compared to the previous year.

"Residential properties represent more than a third of the total invested property market"

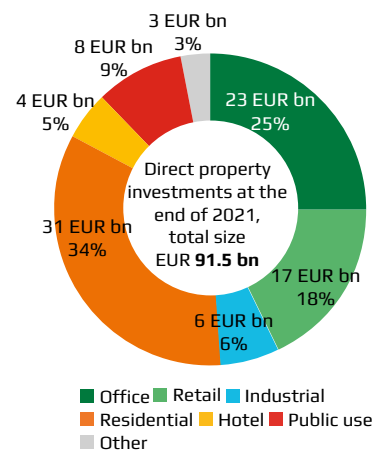
Public use properties represent another sector that has increased in significance during the past decade and currently represents 9% of the total market. At the end of 2021, the value of professional investors' public use property investments amounted to €7.9 billion, up from €5.8 billion in 2020. Also in the public use property sector, both new property development and increases in market values fuel the growth of the sector.

TOTAL RETURNS BY PROPERTY SECTOR IN 2021



Source: KTI Index

THE STRUCTURE OF THE FINNISH PROPERTY INVESTMENT MARKET BY SECTOR



Source: KTI

Traditional commercial property sectors - office, retail and industrial properties - currently account for approximately 50% of the total investment market. In the office market, the development of polarisation between prime assets in good locations and less attractive assets has been further highlighted by the COVID-19 pandemic. In 2021, the value of office properties in the investment market amounted to €23 billion, and they represented 25% of the total market, compared to 26% in 2020.

Retail properties' relative share of the total invested property market started to decline even before the COVID-19 pandemic, due to negative capital growth and mitigated new investments in retail properties in comparison with other sectors. In 2021, despite of the 1.0% increase in market values, the sector's share of the total market decreased to 18%.

In the industrial property market, logistics properties in particular have increased in attractiveness in recent years. In 2021, both positive developments in market values and increased development activity contributed to the growth of the industrial property sector, and its share of the total property market stood at 6%.

"Capital growth was positive in all property sectors in 2021"

According to the KTI Index, the total return on the Finnish property market amounted to 9.2% in 2021 (3.2% in 2020). Capital growth increased to 4.8% (-1.1% in 2020) and net income remained stable at 4.3%. The highest total returns were produced by industrial properties in 2021.

OWNER-OCCUPIED AND RENTED DWELLINGS IN THE HELSINKI METROPOLITAN AREA 2020

Size of household-dwelling unit					
Tenure status	1 person	2 persons	3 persons	4+ persons	Total
All owner-occupied dwellings	39 %	57 %	58 %	64 %	296,451
All rented dwellings	57 %	38 %	37 %	31 %	272,122
Right of occupancy dwellings and other or unknown tenure status	4 %	5 %	5 %	5 %	27,689

Source: Statistics Finland

4.1 Rental residential sector

Stock

According to Statistics Finland, there were some 2.77 million occupied housing units in Finland at the end of 2020. Of these, 46.8% were dwellings in apartment buildings, which accommodate approximately 37.5% of the population.

The average size of a Finnish household has been decreasing steadily, and in 2020, some 45% of all households consisted of only one person, and another 33% of two persons. The share of small households is typically larger in the largest cities.

In 2020, a little more than 62% of Finnish households lived 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. In recent years, however, the share of owner-occupied housing has decreased, while that of rented housing has increased.

Some 953,000 dwellings, representing 34% of the total stock, are rented dwellings. Of the households living in rented dwellings, 87% comprise one or two persons. Rented housing is more common in the largest cities than in the whole country on average.

"Rented housing is common in larger cities and smaller households"

In the Helsinki metropolitan area, some 46% of all dwellings are rented. In Helsinki, of the total 345,000 dwellings some

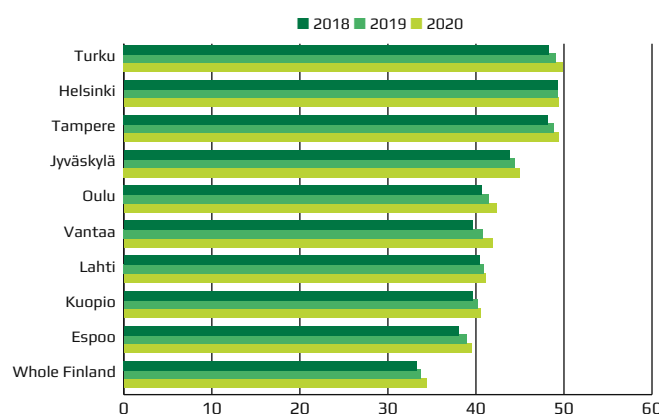
170,000 are rented, and the number of rented dwellings is larger than that of owner-occupied dwellings. Other large cities with the largest shares of rented housing include Turku and Tampere, where 49.9% and 49.4% of all households live in rented dwellings, respectively.

"In Helsinki, 49% of all households live in rented dwellings"

Of all rented dwellings, some 37% have been provided with some kind of public subsidy, most commonly a state-guaranteed loan or an interest subsidy. The majority of subsidised dwellings are owned by the Finnish municipalities' daughter companies. Other major providers of subsidised housing include non-profit organisations offering rental housing for specific groups such as students, elderly people or the disabled. Y-Foundation, TA-Yhtymä, as well as numerous student housing foundations are examples of these kinds of players. Kojamo, SATO and Avara also hold this non-profit status enabling them to offer subsidised housing. This currently applies to a limited part of their businesses, and they are currently reducing the share of subsidised dwellings in their portfolios.

In the subsidised markets, the terms and regulation of different types of public subsidy for housing supply vary significantly between different forms. Some have specific rules for tenant selection and the buildings can only be sold to organisations with an approved non-profit status by the Housing Finance and Development Centre ARA. The so-called normal rental housing includes both the so-called long interest housing subsidy production, where

THE SHARE (%) OF RENTED HOUSING IN LARGEST CITIES



Source: Statistics Finland

restrictions are tighter and rents are cost-based, as well as the 10-year interest subsidy and state guarantee framework, during which period the dwellings have to be rented to low-income tenants at moderate rental levels. After this period, these dwellings can be freely let at market price.

In recent years, the construction of some 8,000-9,000 subsidised apartments has been started annually. In 2021, subsidised housing production represented approximately 20% of all housing construction starts, according to the Confederation of Finnish Construction Industries RT, and the construction of some 9,000 ARA-dwellings was started.

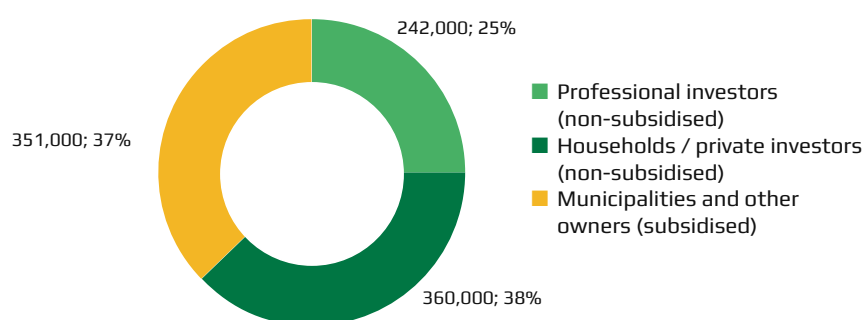
Tenants with low income may also be subsidised through public housing support. This subsidy may be granted for tenants living in both subsidised and non-subsidised dwellings, and also for both rented and owner-occupied housing. The amount of subsidy depends on the household's income and size, as well as the dwelling's location. In 2021, the number of households receiving public housing support decreased slightly from its peak levels of 2020, but still stood at over 391,000 households in December. The majority of households receiving housing support are single-person households.

According to KTI estimations, non-subsidised rental housing stock exceeded 600,000 dwellings in 2020, up from approximately 570,000 in 2019. Of these, approximately 240,000 were owned by large professional investors. All professional investor groups - institutions, property companies and funds as well as foreign investors - have increased their residential investments in recent years. Finnish households and smaller companies owned some 360,000 rental dwellings at the end of 2020.

Residential construction activity increased again in 2021, and the construction of 48,000 new dwellings was started, compared to 39,000 in 2020. The amount of residential building permits remained high at some 44,000 dwellings in 2021.

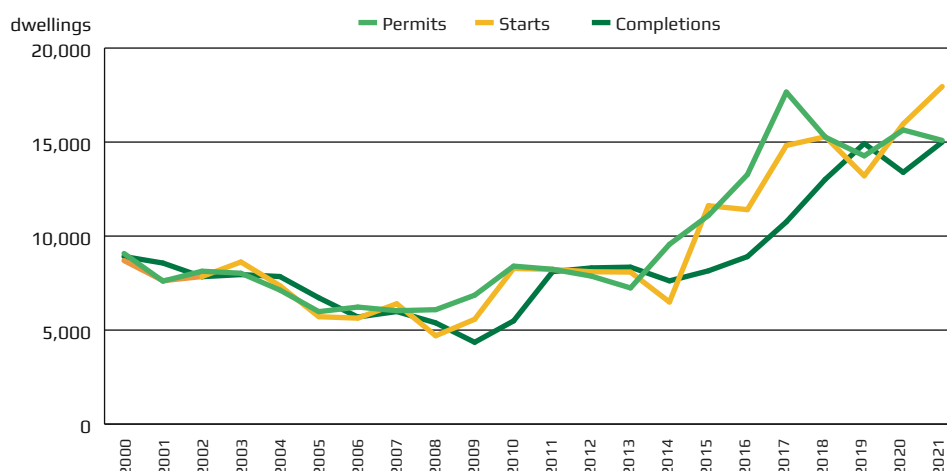
In the largest cities, in the Helsinki metropolitan area in particular, rental housing development has had a significant role in new construction. According to KTI statistics, more than 9,000 dwellings were completed in 2021 in apartment buildings that are targeted 100% for rental use. At the end of the year, almost 18,000 dwellings were under construction, compared to approximately 13,500 in the previous year. In addition to these, a part of apartments located in normal housing production will end up in rental use through smaller investors.

OWNERSHIP STRUCTURE OF RENTAL APARTMENTS IN FINLAND IN 2020 TOTAL 953,000 RENTAL APARTMENTS



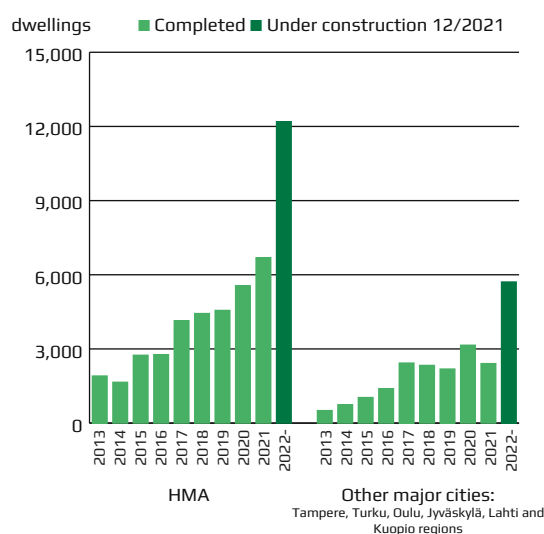
Source: ARA, Statistics Finland, Suomen Vuokranantajat, KTI

RESIDENTIAL CONSTRUCTION ACTIVITY IN THE HELSINKI METROPOLITAN AREA



Source: Statistics Finland

RENTAL RESIDENTIAL DWELLINGS COMPLETED 2013-2021 / UNDER CONSTRUCTION AT THE END OF 2021



"Residential construction activity increased in 2021"

Of the rental dwellings under construction at the year-end, more than 12,000 are in the Helsinki metropolitan area, up from 10,500 at the end of 2020. Outside the metropolitan area, the majority of new rental housing construction is concentrated in Tampere and Turku.

Players

The majority of subsidised housing stock is owned by Finnish municipalities. Heka Oy, a company owned by the city of Helsinki, is the biggest player in this segment with approximately 50,000 apartments, which accommodate some 92,000 residents. The city of Espoo's housing company owns some 16,000 dwellings. Other large municipal companies with 9,000-11,000 dwellings include those of Turku, Vantaa and Tampere.

In the non-subsidised rental residential market, the so-called professional investors have increased their holdings rapidly in recent years. In this segment, specialised residential investment companies Kojamo, SATO and Avara are the biggest players with 37,000, 27,000 and 8,400 dwellings, respectively.

Kojamo and SATO currently hold positions one and two in the ranking of the largest property investors in Finland. In recent years, both companies have been active in restructuring and increasing their portfolios through both property development and acquisitions. In 2021, Kojamo's holdings grew by some 1,100 dwellings. At the year-end, there were almost 2,700 apartments under construction in Kojamo's portfolio.

SATO completed some 230 new rental apartments in 2021, and at the year-end, there were some 1,100 dwellings under construction.

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

There are also several non-listed property funds specialising in residential property investment. Funds managed by, for instance, ICECAPITAL and LocalTapiola Real Estate are targeted at domestic institutions. The Nordic fund managed by CapMan has also increased its exposure in residential properties, and in 2021, it acquired a portfolio of over 1,800 apartments from ICECAPITAL. CapMan also manages the German BVK's residential holdings in the Nordic countries, currently comprising approximately 2,100 dwellings in Finland.

In recent years, open-ended special mutual investment funds targeted at private investors have attracted a lot of equity from both private investors and smaller institutions. Special funds that invest in residential properties targeted at private investors are managed by OP Real Estate Asset Management, Ålandsbanken, Titanium, S-Bank, eQ and Taaleri.

"Foreign investors invested actively in the Finnish residential properties in 2021"

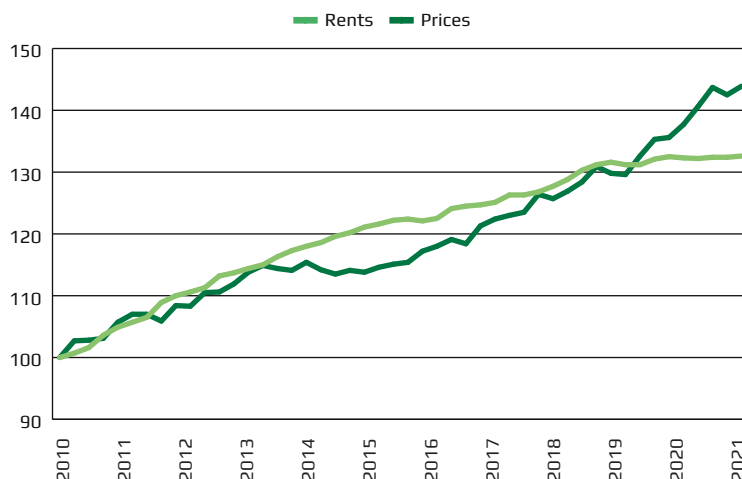
Foreign investors' interest in the Finnish rental residential investments has increased markedly in recent years. The largest foreign player is currently Round Hill Capital, who through its local brand Olo Asunnot owns some 5,300 rental

BIGGEST FOREIGN INVESTORS IN THE FINNISH RESIDENTIAL PROPERTY MARKET

INVESTOR	NUMBER OF RENTAL APARTMENTS IN FINLAND (ca.)
Round Hill Capital	5,300
NREP	5,000
Starwood Capital Group	2,200
Bayerische Versorgungskammer (BVK)	2,100
Fund managed by Morgan Stanley Real Estate Investing	2,100
Funds managed by AXA IM	1,800
AREIM	800
Aberdeen Standard Pan-European Residential Property	800
DWS	800
Patrizia	700
M&G European Property Fund	600
Fund managed by Union Investment Real Estate	500
Catella Wohnen Europa	400
Heimstaden Bostad AB	400
Fund Managed by Barings Real Estate Advisers	300
Niam AB	300

Source: KTI

RESIDENTIAL PRICE AND RENT INDEXES, HELSINKI METROPOLITAN AREA, INDEX (2010=100)



Source: KTI and Statistics Finland

dwellings across Finland. Other large foreign investors include, for instance, funds managed by Morgan Stanley Real Estate Investing, Starwood Capital and NREP.

Investors who had previously only invested in commercial properties in Finland but who expanded in the residential sector in 2021, include NIAM and Union Investment Real Estate. Also Patrizia made significant new investments in the Finnish residential market after a couple of year's break in this sector. The most significant newcomer in the Finnish residential property investment market in 2021 was the Swedish Heimstaden, who acquired approximately 400 dwellings in two transactions, and, in addition, is currently the largest shareholder in Kojamo with its 10% share of the company.

Foreign investors implement various kinds of strategies in their Finnish residential investments. Many of them, German

funds in particular, only invest in modern properties in good locations in the Helsinki metropolitan area, which they acquire typically from construction companies or property funds. Some apply more opportunistic strategies by investing in older properties in secondary locations, where yields are markedly higher. Examples of these kinds of investors include Round Hill Capital and Morgan Stanley. Foreign investors only rarely develop new properties themselves, with NREP being the only player with significant development activity.

Foreign capital is also invested indirectly in the Finnish residential market. For example, the Swedish Balder owns the majority of SATO, with the Dutch APG being the second biggest investor in the company. After the public listing of Kojamo in 2018, a significant share of the company is owned by non-Finnish investors. There is foreign capital also invested in some domestic property funds.

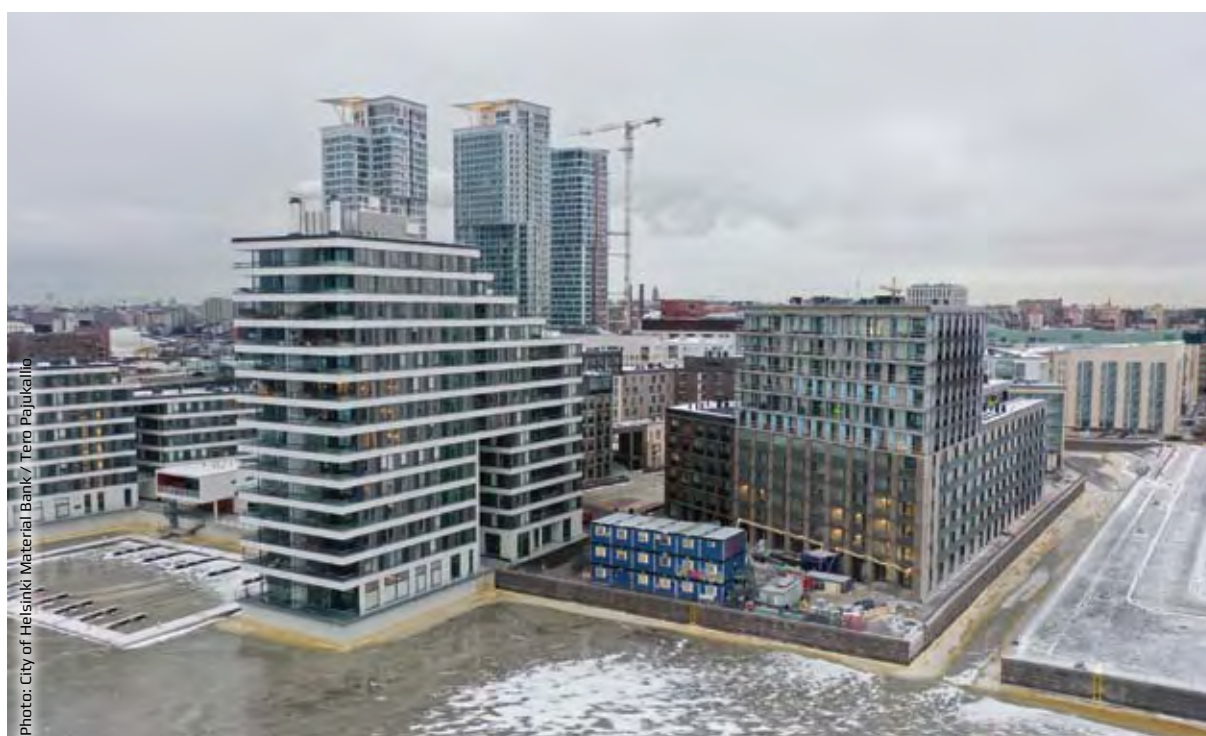
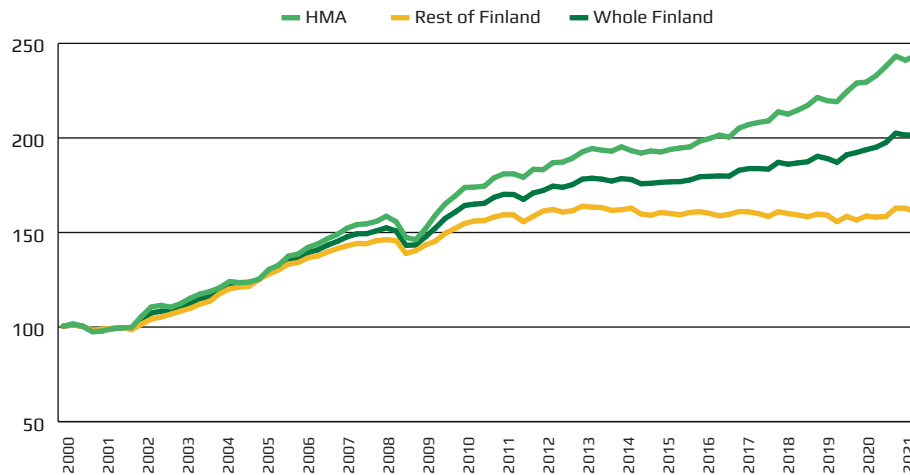


Photo: City of Helsinki Material Bank / Tero Pajukallio

PRICES OF OLD RESIDENTIAL DWELLINGS, INDEX (1983=100)



Source: Statistics Finland

Rental practices

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

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

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

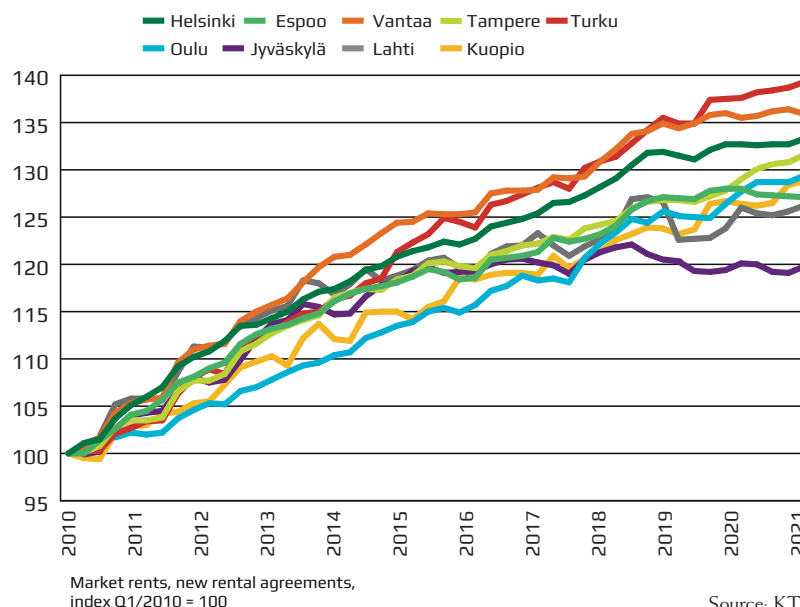
Rents are typically indexed, with the cost of living index being the most used. It is also common to agree on a higher level of rental increases, for instance a minimum of 3 or 5 per cent. This kind of indexation is used by professional

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

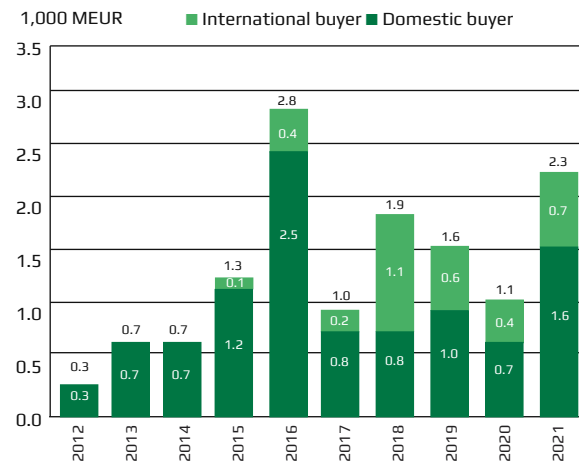
In some interest subsidy dwellings, there might be varying conditions for tenant selection or the holding period of buildings, but rents are typically market-oriented. In the current 10-year subsidy model, there are restrictions for annual rental increases, the amount of dividend paid to the investor,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

KTI RESIDENTIAL RENT INDEX, MAIN CITIES



Source: KTI

VOLUME OF RESIDENTIAL PORTFOLIO TRANSACTIONS 2010-2021



Source: KTI

The residential market in 2022

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

The COVID-19 pandemic has further strengthened the polarisation of the housing market. In 2021, the increase in prices for residential dwellings in old apartment buildings accelerated to 3.7% in the whole country on average. In the Helsinki metropolitan area, prices increased by 5.5%, and elsewhere in the country, the increase was 2.0% on average. Of the other large cities, prices increased the most in Turku (5.8%) and Tampere (5.4%). In Kuopio and Lahti, housing prices increased by approximately 4%, whereas in Kuopio and Jyväskylä, prices decreased slightly in 2021.

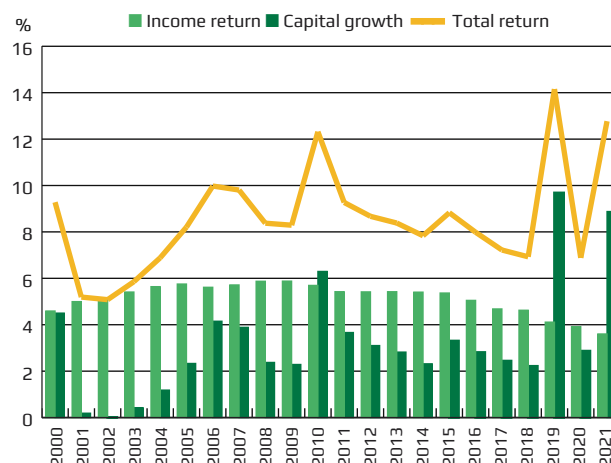
"Housing prices increased by 3.7% in the whole country on average in 2021"

Pellervo Economic Research PTT forecasts that in 2022, the increase in housing prices will slow down to 2.5% on average. The difference between different cities remains prominent. Housing prices are expected to increase the most, by 3.5%, in Helsinki and Tampere.

The differences in demand are also reflected in the residential rental markets. Rental demand remains strongest in the Helsinki metropolitan area, as well as in the Tampere and Turku regions. In Jyväskylä and Lahti, the increasing supply has mitigated rental growth potential in recent years, and rents have at least temporarily declined as new stock is being completed.

Also in the Helsinki metropolitan area, rental growth has slowed down markedly in the past two years due to active new development, together with the slump in demand caused by the pandemic. The KTI Rental Residential Index for new rental agreements showed an annual increase of 0.2 % in 2021 and 0.6% in 2020 for the Helsinki metropolitan area. Rents increased in Helsinki and Vantaa, whereas in Espoo, the rapid increase of supply kept rental growth negative.

TOTAL RETURN ON RESIDENTIAL PROPERTY INVESTMENTS 2000-2021



Source: KTI Index

In other large cities, rents increased steadily by 1.3% on average. Outside the metropolitan area, rental demand is strongest in Tampere and Turku, where rents increased by 2.0% and 1.3% in 2021, respectively. In Oulu, rental demand has even strengthened during the pandemic, with rents increasing by 1.3% in 2021. Rental market in Kuopio has shown fluctuating development in recent years, and in 2021 rental growth was positive, whereas in Lahti and Jyväskylä, the change in rents was close to zero.

"Rents remained stable in the Helsinki metropolitan area in 2021"

The COVID-19 pandemic has, to some extent, impacted the trends in rental demand, which has been slightly weighted towards larger apartments and less central locations. In the Helsinki metropolitan area, for instance, the increase in rents for apartments with two or more bedrooms increased by 0.7% in 2021, whereas those for one-bedroom apartments decreased by 0.4%. The pandemic has also increased rental residential supply, as apartments previously offered as temporary accommodation options, for instance, through Airbnb, are now offered in the normal rental markets.

Increase in supply and changes in demand have also pressured the occupancy rates of residential properties, which, until 2019, remained very high. In the KTI Index database, the average financial occupancy rate stood at 94.5% in 2021, down from 95.9% in 2020 and 96.8% in 2019.

"The average financial occupancy rate for residential properties stood at 94.5% in 2021"

In the KTI rental database, the residential occupancy rate stood at 91.5% in the Helsinki metropolitan area in December 2021, having been two percentage points higher

in December 2020. In large cities outside the Helsinki metropolitan area, occupancy rate stood at 93.9% on average, varying from approximately 92% in Jyväskylä to some 95% in Tampere and Turku.

In the RAKLI Residential Barometer, carried out in September 2021, rental outlook turned clearly more positive than in the two previous surveys. Rents for small apartments were expected to increase the most in Tampere and Turku and the outlook is also positive in the Helsinki metropolitan area. In Kuopio, rents were expected to remain stable, whereas in Lahti and Jyväskylä, rental outlook remained negative. For the first time in the barometer's history, the outlook for the rents for large apartments was more positive than for small apartments in the Helsinki metropolitan area, Tampere and Turku. Pellervo Economic Research PTT also forecasts residential rental growth to accelerate slightly in 2021.

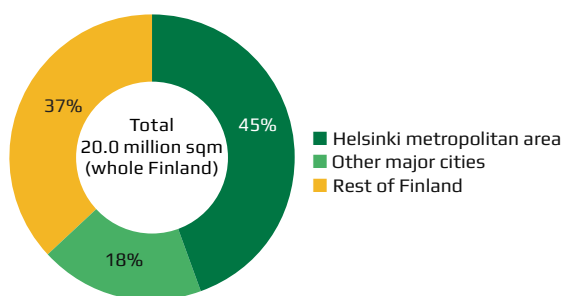
The residential property and portfolio transaction volume more than doubled from the previous year and amounted to €2.3 billion in 2021, representing the second highest annual volume ever. The largest transaction, amounting to €500 million, was carried out between CapMan's and ICECAPITAL's fund in the summer and comprised more than 1,800 dwellings.

The volume of residential property transactions carried out by foreign investors amounted to approximately €700 million. Among foreign investors, the largest transactions were carried out by Patrizia, who in two transactions invested almost €250 million in the Finnish residential property sector, as well as by Union Investment's Unilimmo Global fund, who invested €174 million in two large residential assets.

"Foreign investors invested €700 million in the Finnish residential property market in 2021"



DISTRIBUTION OF OFFICE STOCK BY LOCATION, SQM



Source: Statistics Finland

OFFICE CONVERSIONS IN THE HELSINKI METROPOLITAN AREA



*If information on rentable area hasn't been available, rentable area has been estimated based on gross area information.
 **Projects are allocated between years according to the point of time when they are not offered for office use; ie. when the new plan is confirmed / conversion project has been started. "Other" includes also the projects where old office property has been demolished and new office property has been built in the same site.

Source: KTI, RPT Byggfakta Oy

Abundant investor demand has continued to pressure residential property yields. In the RAKLI-KTI Property Barometer, the yield for a residential property in a central location in Helsinki decreased to 3.2% in October 2021, down from 3.4% in the previous survey.

In the KTI Index, residential properties' capital growth has remained positive every year since the index's start in 2000. In 2021, residential properties continued to perform well, producing a total return of 12.8%. Income return continued to decline and stood at below 4%.

4.2 The office market

Stock

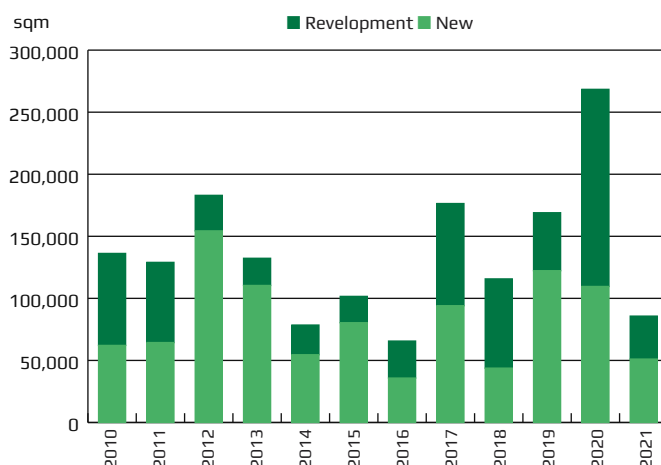
The total stock of office properties in all of Finland is some 20 million square metres, according to Statistics Finland. The Helsinki metropolitan area has a dominant position within the Finnish market, and of the total stock, 45%, some 9 million sqm, is located in Helsinki, Espoo and Vantaa. Office stock in Tampere amounts to some 1.1 million sqm, and that of Turku to 0.75 million sqm.

New office development is also concentrated in the Helsinki metropolitan area. Within the past decade, approximately 86,000 sqm of new office space has been completed annually on average in the Helsinki metropolitan area. During the same period, however, the volume of demolitions and conversions has increased, and amounted to approximately 96,000 sqm per annum on average.

Almost 60% of the converted office premises have been redeveloped for residential use. In the central locations in Helsinki, it has also been common to convert former offices into hotel use. Old offices have, although to a lesser extent, been converted into educational or care property use.

In 2021 the volume of new office completions almost halved from the previous year and amounted to 51,000 sqm. The largest project was NCC's OOPS in Espoo, which accounted for more than a third of all completions. Pension insurer

COMPLETIONS OF OFFICES IN THE HELSINKI METROPOLITAN AREA IN 2010-2021



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

Source: KTI, RPT Byggfakta Oy

Varma has invested in the properties. The Keilaniemi Next project, also developed by NCC, was the second largest completion in 2021. The Finnish Fiskars is the main tenant in the building, which has been sold to Warburg HIH-Invest.

"51,000 sqm of new offices were completed in HMA in 2021"

At the end of the year, approximately 130,000 sqm of office premises were under construction in the Helsinki metropolitan area. The largest ongoing projects are the 21,000 sqm WeLand project in Ruoholahti, developed by NCC, as well as the 14,500 sqm Nordea office project in Vallila, developed by Pembroke Real Estate.

Also in the main cities outside the Helsinki metropolitan area, the volume of office completions decreased markedly in 2021, and amounted to a total of 28,000 sqm, compared to 88,000 in 2020. In Tampere, Turku, Jyväskylä and Oulu, one office project was completed. In Kuopio, the stock grew by two office properties, whereas in Lahti, no new offices were completed and no new projects started. At the year-end, the volume of ongoing office construction varied between 10,000 and 14,000 sqm in Tampere, Turku, Oulu and Kuopio. In Jyväskylä, there was one smallish project underway.

Players

According to KTI estimates, the total value of the Finnish office property stock amounts to almost €25 billion. Of this, some 85-90% are owned by professional investors.

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. Modern buildings with one anchor tenant have attracted investors in recent years. These can be found both in the Helsinki CBD, and in some other established office areas in the Helsinki metropolitan area. The third office category is business-park-type properties located near good traffic connections.

The biggest investors in the office sector include large Finnish institutions such as Varma, Ilmarinen and Keva, as well as specialised investment companies such as Sponda, Antilooppi and Technopolis. Foreign investors, for instance Castellum, Niam, DWS, Deka Immobilien and Union Investment, also have significant investments in Finnish office properties. Some domestic funds have also increased their investments in office properties in recent years, including, for instance, those managed by eQ, Taaleri and S-Bank.

The total office property transactions volume amounted to €2 billion in 2021, representing 29% of the total volume. The Swedish Castellum was involved in two largest property transactions of 2021: firstly, the company acquired 22 office properties for €640 million from Kielo, a company managed by Brunswick Real Estate, and soon after the acquisition, Castellum sold 9 of the properties further to the Swedish Nyfosa, who also operates in co-operation with Brunswick Real Estate. The transaction price of the latter amounted to €208 million. At the end of the year, the total value of Castellum's Finnish office portfolio amounted to €730 million.

Other foreign investors active in the office transaction market in 2021 included the Swedish Altaal, who entered the Finnish property market in 2021 by acquiring three office properties in the Helsinki metropolitan area, as well as NREP, who acquired a large office asset in Tapiola, Espoo for €90 million in the beginning of the year and the so called Bread Factory in Sörnäinen later in 2021. Also, a fund managed by abrdn invested in Finland by acquiring the phase D of NCC's Fredriksberg project late in 2021.

Rental practices

Rental practices in the office market are varied. The terms of rental agreements differ significantly between different office sub-categories. In multi-tenant office buildings, rents are most often gross rents, which include operational costs. Operating costs can also be charged separately to tenants. Typical operating costs for office properties vary between €4 and €5 per square metre per month, depending on the location, age and other characteristics of the building. Office rents are typically linked to the Cost of Living Index.

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

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



Photo: Skanska / Vertti Luoma



Photo: YIT

Business parks compete by offering flexible agreements and an extensive service supply, such as reception, security, cleaning, catering, postal services and meeting facilities. Business park rents typically consist of a fixed rent plus a separate service charge.

"YIT acquired Technopolis's UMA concept in 2021 and rebranded it as Workery+"

In recent years, the increase in office occupiers' flexibility demands has likewise increased the need for more flexible office space supply. Property owners have responded to this need through new kinds of co-working or flexible space concepts, where occupiers can rent space and acquire business services for short-term and temporary use with very flexible contracts. These kinds of space concepts are currently offered by, for instance, Sponda and Turun Teknologiaikiinteistöt. In 2021, Technopolis sold its co-working concept UMA to YIT, who rebranded the offering under its Workery+ concept. Of the international players, IWC's brands Regus and Spaces as well as the Swedish

Epicenter are represented in the market. The need for more flexible terms is expected to increase due to the COVID-19 pandemic's impact on working practices.

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

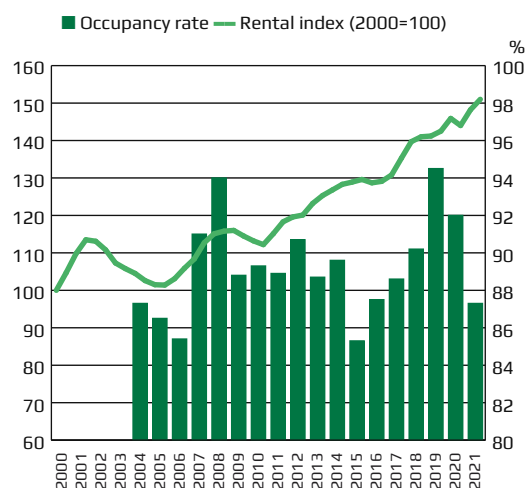
Rental market – offices

During the past years, the differences in the rental performance of prime and secondary office areas have remained distinctive. The quality of office space has a major impact on rental levels and vacancy rates. The polarisation between prime and lower quality premises is increasing further due to the changes brought by the COVID-19 pandemic.

The Helsinki CBD is the most appreciated office area in Finland. After a slight decline in 2020, rental growth in the Helsinki CBD turned positive again in 2021, and the KTI rental index for new rental agreements increased by 4.9%.

"Office rents increased by 4.9% in the Helsinki CBD in 2021"

KTI OFFICE RENT INDEX AND OCCUPANCY RATE, HELSINKI CBD



Source: KTI

In the KTI rental database, the upper quartile of new rental agreements stood at above €35 per sqm per month in the agreements started between March and September 2021, up from €33.50 in 2020. Median and average rents increased to €31 and €32, respectively. As a result, the KTI rental index increased by 4.9% in 2021. However, the rental market was very quiet, both in terms of number and floor area of new agreements.

The increase in rents indicates that in this quiet market, occupier demand has mainly been targeted at high-quality premises in the best locations. However, at the same time, the amount of vacant space has increased even in the CBD. In the KTI database, the occupancy rate of offices fell from 92% in autumn 2020 to 87% in 2021.

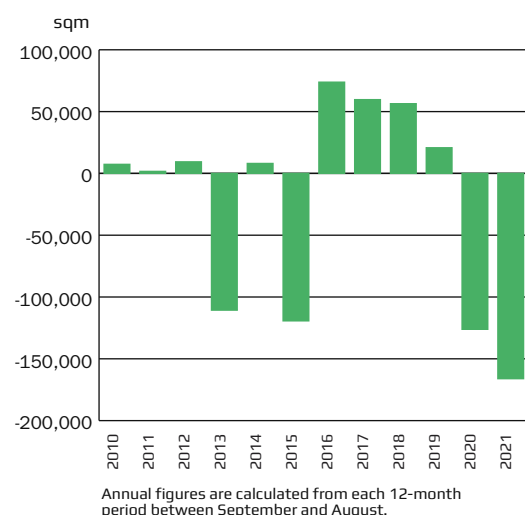
Also in many other office areas in the Helsinki metropolitan area, the amount of vacant space increased in 2021. However,

OFFICE STOCK AND VACANCY RATE IN KEY OFFICE SUBMARKETS IN THE HELSINKI METROPOLITAN AREA Q4/2021

Area	Total floor area (sqm)	Vacancy rate (%)
Aviapolis	188,116	15.80 %
Helsinki CBD	643,572	11.80 %
Hakaniemi	150,408	6.20 %
Kalasatama	203,674	12.10 %
Keilaniemi	164,482	7.30 %
Leppävaara	265,761	12.80 %
Otaniemi	180,602	19.90 %
Pasila	441,577	5.10 %
Pitäjänmäki	390,814	26.30 %
Ruoholahti	347,637	16.60 %
Sörnäinen	153,135	17.00 %
Vallila	378,337	13.20 %
Total	3,508,115	13.70 %

Source: Helsinki Research Forum

OFFICE NET TAKE-UP, HELSINKI METROPOLITAN AREA



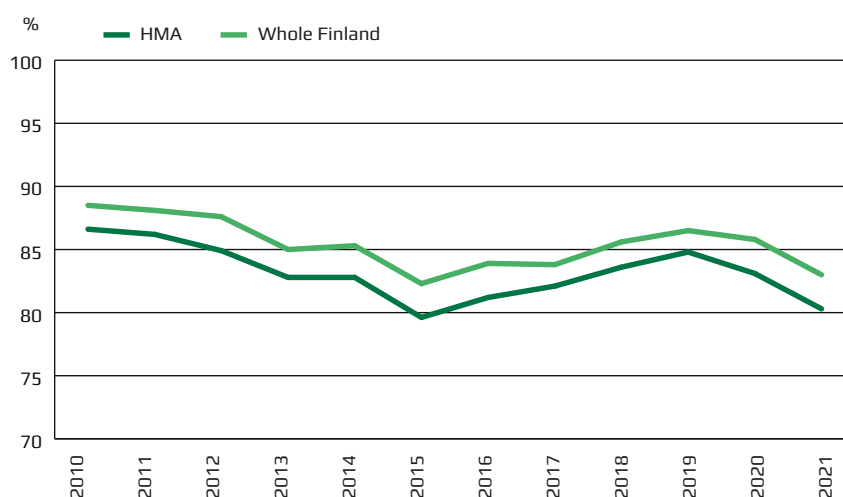
Source: KTI

the development differed between various submarkets, which also illustrates the increasing polarisation between assets and areas.

The Helsinki Research Forum is a working group aiming at improving the transparency of the Helsinki metropolitan area office market. The Forum has defined the amount of office stock in the key submarkets in the Helsinki metropolitan area, and tracks the amount of vacant space in these submarkets on a quarterly basis. The Forum currently covers 12 office market areas with a total stock of approximately 3.5 million square metres. According to the Forum, the average vacancy rate in these areas amounted to 13.7% at the end of 2021, up from 12.9% at the end of the first quarter of 2021.

Areas with an increasing amount of vacant space included, in addition to the CBD, the Pitäjänmäki, Sörnäinen, Ruoholahti, Otaniemi and Aviapolis areas. On the other hand, the vacancy rate decreased during 2021 in Leppävaara, Kalasatama and Vallila.

OFFICE OCCUPANCY RATES IN THE HELSINKI METROPOLITAN AREA AND WHOLE FINLAND



Source: KTI Rental database

EXAMPLES OF MAJOR CORPORATE HEAD OFFICE RELOCATIONS

Property	Rentable area	Main user(s)	Owner(s)	Completion / Moving date
Tripla Workery offices	50,000*	Telia, HOK-Elanto	Fund managed by Commerz Real	Q1/2020
Wood City	13,650*	Supercell Oy	Supercell Oy	Q4/2020
Keilalampi	12,500*	If Insurance	DWS Real Estate	Q4/2020
OOPS (Phase A & B)	18,500	Trimble Solutions Corporation	Varma	Q3/2021
Keilaniemi Next	9,500	Fiskars Group	Warburg-HIH Invest	Q4/2021
Fredriksberg D	9,200	MTV	Fund managed by abrdn	Q3/2022
Headquarters of Stora Enso	20,000*	Stora Enso	Varma	2023
Korkeavuorenkatu 32-34	7,000	EY	Sirius Fund III	Q1/2023
We Land	21,000	Deloitte	NCC	Q4/2023
Wood City	8,700*	F-Secure	SRV	2024
Headquarters of KONE	48,000*	KONE Oyj	Regenero (HGR Property Partners Oy & YIT Oyj)	2025

*Gross area

Source: KTI

In the KTI rental database covering the professional investor portfolios, the occupancy rate of Helsinki metropolitan area offices declined from 83% in September 2020 to approximately 80% in 2021. In addition to the submarkets mentioned above, there is plenty of vacant space in, for instance in the Kilo-Mankkaa areas in Espoo.

"The amount of vacant office space increased in HMA in 2021"

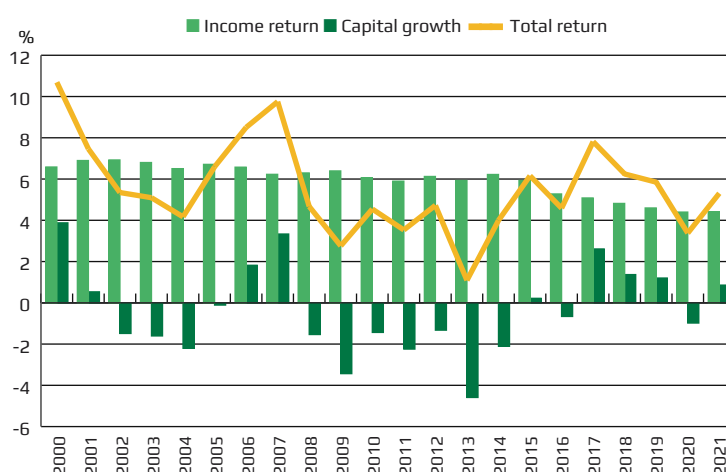
Supported by the strengthening economy, office net take-up remained positive between 2016-2019 in the Helsinki metropolitan area. In 2020, however, net take-up turned negative, and the negative trend continued in 2021. According to KTI data, net take-up amounted to approximately -166 000 square metres in 2021.

"Office net take-up remained negative in 2021"

The office market has recently been characterised by several large head office relocations, in most cases to newly developed buildings. In 2020, for instance, Telia and HOK-Elanto moved to the Tripla Workery offices, and the Urban Environment Unit of the City of Helsinki moved to new premises in Kalasatama. Other head office relocations included those of If Insurance in Keilaniemi and Supercell in Jätkäsaari. Other corporations expecting head office moves include Stora Enso, the Fiskars Group, Kone and Deloitte. New premises are typically more efficient than the old offices, which contributes to the decline in the total amount of occupied space.

In the other main cities, the office supply and demand are more balanced, mainly due to a more limited scale and smaller amount of speculative development. According to Catella, the office vacancy rate stood at slightly above 11%

TOTAL RETURNS ON OFFICE INVESTMENTS, 2000-2021



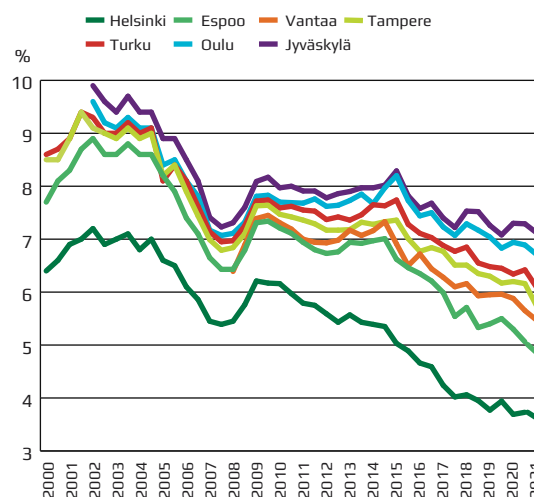
Source: KTI Index

in Tampere at the end of 2021. In the RAKLI-KTI Property Barometer in October 2021, prime office rent in Tampere was quoted at €22.40 per square metre, up from €21 a year earlier, and prime yield decreased by 0.4 percentage points to 5.7%.

In Turku, office demand has even strengthened within the past year, and vacancy rate remained stable at approximately 7%. Prime rents in Turku are 1-2 euros lower than in Tampere, but also increased slightly in 2021. Prime office yield also continued to decrease in Turku in 2021, but still stood at above 6%. In the KTI Regional barometer survey carried out in January 2022, office demand was assessed to increase in Turku within the next year, whereas in Tampere, the balance figure for space demand was negative.

The scale of office markets in Oulu and Jyväskylä is somewhat smaller than in Tampere and Turku. Yields in Oulu stand 0.5-1.0 percentage points higher than in Turku, and for Jyväskylä, the premium is typically another 0.5 percentage points. Prime rents in these cities stand at approximately 19-21 euros.

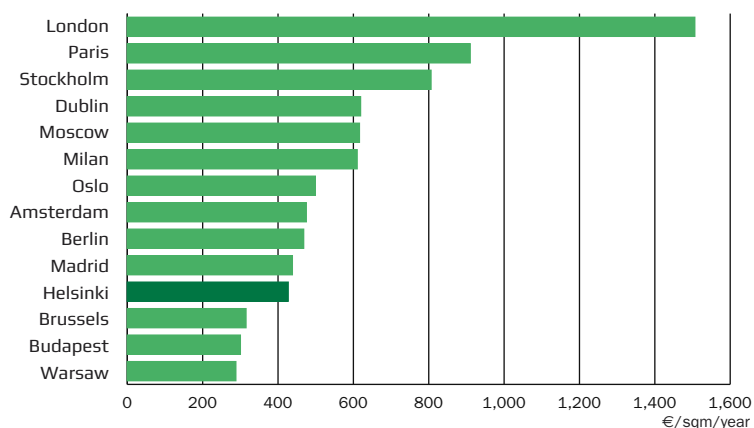
PRIME OFFICE YIELDS IN MAJOR FINNISH CITIES



Source: RAKLI-KTI Property Barometer

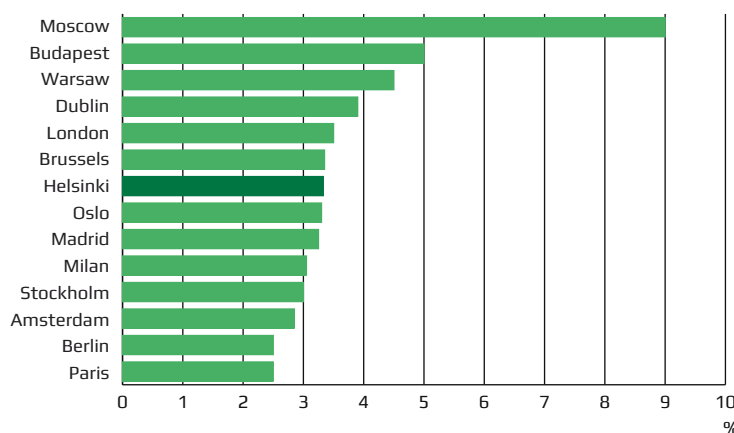
"Total return on office properties increased to 5.3% in 2021"

PRIME OFFICE RENTS IN HELSINKI AND OTHER EUROPEAN CITIES, Q4/2021



Source: JLL, KTI (Helsinki)

PRIME OFFICE YIELDS IN HELSINKI AND OTHER EUROPEAN CITIES, Q4/2021



Source: JLL, KTI (Helsinki)

The investment performance of office properties has, for many years, reflected the polarisation between prime and non-prime assets. In 2021, the total return of offices amounted to 5.3% (3.4% in 2020). Capital growth returned to positive territory, and net income remained stable. Rents and rental values remained stable in 2021, but the occupancy rate continued to decrease compared to the previous year. Yield compression supported the capital growth in the Helsinki CBD in particular.

Office rents and yields in Helsinki and other European capitals

For many years, the Helsinki CBD has outperformed most other office submarkets due to more positive capital growth. In 2021, the Helsinki CBD offices provided clearly higher total returns than offices on average, due to a healthy capital growth.

Prime office yields in the Helsinki CBD decreased steadily between 2009 and 2019, supported by low interest rates and strong investment demand. After a slight increase caused by the COVID-19 pandemic in 2020, yields continued to compress again in 2021. In the RAKLI-KTI Property Barometer carried out in October, the Helsinki CBD office yield stood at 3.6 % on average (3.7 % in 2020). The lower quartile of the answers given in the survey amounted to 3.3 %, down from 3.5 % in 2020.

Prime yields in Helsinki currently stand close to the levels in Oslo and Brussels. Due to the strong investment demand, the yield premium between Helsinki and Stockholm has compressed to approximately 0.2-0.3 percentage points within the past years.

"Outlook for office rents turned positive in Helsinki CBD"

The outbreak of the COVID-19 pandemic turned the rental outlook negative in all areas in 2020, due to the increased uncertainty related to future space demand. In 2021, the balance figure for rental outlook returned to positive

territory in the Helsinki CBD, but remained negative in all other cities.

Despite the increase in recent years, prime office rents still stand below most other European capitals. For instance, prime rent in the Helsinki CBD only represents approximately 53% of that in Stockholm, and the difference has even increased within the past couple of years.

4.3 The retail market

Stock

Altogether, there are some 31 million sqm of retail space in Finland. In Statistics Finland's data, this also includes hotel properties. About 4.6 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 of Shopping Centers, there were 112 shopping centres with a total leasable retail area of some 2.5 million sqm in Finland at the end of 2020. In 2021, there were no shopping centre completions.

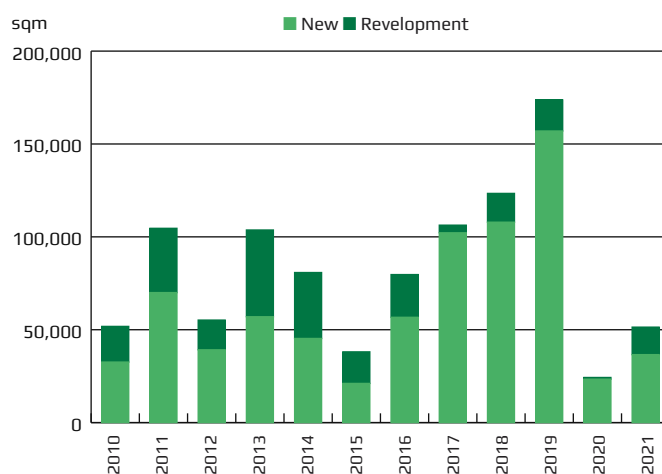
Retail property stock owned by professional investors amounted to some €17 billion at the end of 2021.

"Some 37,000 sqm of new retail space was completed in the HMA in 2021"

In 2021, approximately 37,000 sqm of new retail space was completed in the Helsinki metropolitan area. At the year-end, some 94,000 sqm was under construction. The largest ongoing project is Citycon's 44,000 sqm Lippulaiva project in Espoonlahti, which is due for completion in the first quarter of 2022.

"Lippulaiva shopping centre is scheduled to open in April 2022"

COMPLETED RETAIL SPACE IN THE HELSINKI METROPOLITAN AREA IN 2010–2021



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

Source: KTI, RPT Byggfakta Oy



In the Tampere, Turku, Oulu, Jyväskylä, Kuopio and Lahti regions, some 36,000 sqm of new retail premises were completed in 2021, and, at the year-end, approximately 44,000 sqm were under construction. The volume was rather evenly split between the cities with the highest volume of completions in 2021 being found in Tampere, whereas the amount of ongoing projects is the highest in Oulu.

Players

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

The largest specialised shopping centre investor in Finland is Citycon, which currently owns and operates 7 shopping centres across Finland. Iso Omena in Espoo is the portfolio's largest asset, and Lippulaiva centre is underway. In 2021, Citycon divested the 22,000 sqm Columbus shopping centre in Helsinki to NREP for €106 million.

Another major shopping centre investor is Sponda, whose biggest centres include Forum and Citycenter in the Helsinki CBD, Ratina in Tampere centre, Elo near Tampere as well as Zeppelin in the Oulu region. Another large retail investor is Mercada, which owns three shopping centres and 31 other retail assets in Finland. The majority of Mercada's properties

are leased to Kesko Group. Both large retail chains, Kesko and S Group, also own some shopping centre properties.

Many Finnish institutional investors, including, for instance, Ilmarinen, Varma, Elo, LocalTapiola and Keva, own whole shopping centres across Finland. In larger centres, they also often enter into joint investments with other investors. For example, the Sello shopping centre in Espoo is owned jointly by three pension institutions – Keva, Elo and Ilmarinen. Pension insurers Varma and Elo are also investors in the joint venture company owning the Jumbo-Flamingo centre in Vantaa. Varma also owns the Rajalla centre in Tornio, as well as Willa in Hyvinkää. Elo's indirect investments in shopping centres include co-ownership in the shopping centre Hansa in Turku, as well as in Agore Kiinteistöt, which owns several smaller centres throughout Finland.

"Finnish institutions often invest in shopping centres through joint venture structures"

The pension insurer Ilmarinen is a co-investor in the Mall of Tripla and REDI shopping centres in Helsinki, as well as in IsoKristiina centre in Lappeenranta, and Puuvilla in Pori. Ilmarinen also owns the shopping centres Kämp Galleria

TOP 10 SHOPPING CENTRES IN FINLAND

CENTER	RETAIL NLA	MAIN OWNERS	LOCATION
Ideapark	116,107	Private investors	LEMPÄÄLÄ
Jumbo-Flamingo	115,900	Vantaan Valo Ky (Varma & Elo), HOK-Elanto, Kesko	VANTAA
Sello	91,900	Keva, Ilmarinen, Elo	ESPOO
Mall of Tripla	86,279	YIT, Ilmarinen, Conficap, Fennia	HELSINKI
Iso Omena	85,200	Citycon Finland	ESPOO
Itis	78,562	Fund advised by Morgan Stanley Real Estate Investing	HELSINKI
Ideapark	69,000	Private investors	SEINÄJOKI
REDI	59,000	Ilmarinen, OP Group, LocalTapiola	HELSINKI
Mylly	58,695	Kauppakeskus Mylly	RAISIO
Hansakortteli (Hansa)	53,038	Kauppakeskus Hansa Ky, Keva, Nurmi-yhtiöt	TURKU

Source: Finnish Council of Shopping Centers

in the Helsinki CBD and Karuselli in Kerava, and is a co-owner in Mercada.

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

Domestic funds investing in shopping centre and other retail properties include those managed by, for instance, eQ, Exilion, OP and Trevian.

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

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

One of the largest foreign players in the Finnish retail property sector is the Swedish Cibus Nordic Real Estate, who continued to expand its portfolio in several transactions in 2021, the largest of which was a portfolio of 72 smallish assets across Finland, which the company bought from Sagax for approximately €72 million. At the year-end, the value of the Finnish portfolio of Cibus amounted to €1.2 billion.

Another significant player in this segment is Trophi Fastighets, managed by Redito, whose portfolio comprises more than 100 retail assets across Finland. Another Swedish retail property investor is Serena Properties, also managed by Redito. The Finnish pension insurer Varma sold its stake in the company in early 2022. After the transaction, the

Swedish Balder and Redito are the only investors in the company, whose portfolio comprises approximately €500 million of retail assets, of which 60 % are located in Finland.

"Swedish investors and domestic funds increase their holdings in the retail property market"

In recent years, many Finnish special investment funds have invested actively in the retail sector, mainly in smaller assets. In 2021, for instance, funds managed by EAB, eQ and Evli were active in the market. The largest transaction in this segment was carried out by the fund managed by UB, who acquired the 24,000 sqm Ideapark shopping centre for €60 million in late 2021.

The Finnish daily goods market is dominated by S Group and Kesko, with shares of 46% and 37% of total sales in 2020, respectively. They operate in all store categories – hypermarkets, supermarkets and smaller stores – under different brands. The German chain Lidl is the third largest player in the daily goods market with a share of some 10%. In 2020, total sales of daily goods increased by 6.6% and amounted to some €20.2 billion. The share of online trade in daily goods increased from only 0.6% in 2019 to approximately 2% in 2020. In 2021, the estimated share increased to some 3%.

"Online trade accounts for 3% of the daily goods market"

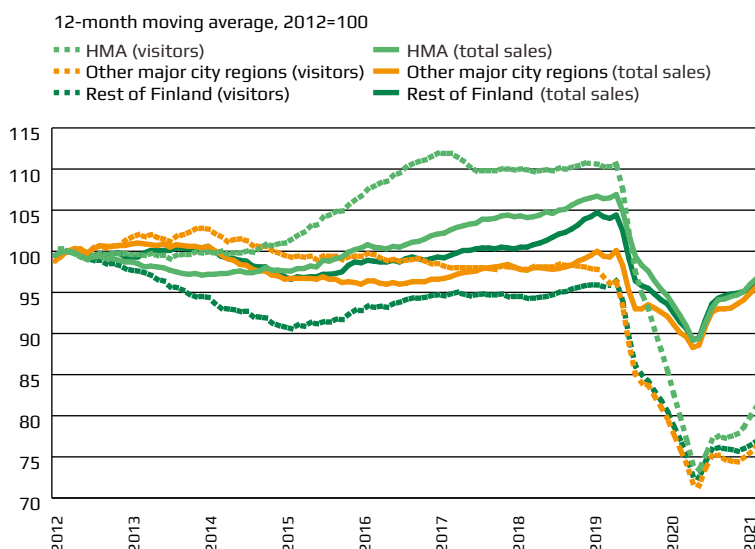
The regulation of retail business has been markedly liberated in the past couple of years. For example, opening hours of retail units are currently totally deregulated, and the sales of low-volume alcoholic drinks have been liberated.

Rental practices

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



SALES AND VISITORS IN FINNISH SHOPPING CENTRES



Source: KTI and Finnish Council of Shopping Centers

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

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

In shopping centres, anchor tenants often have leases of five to ten and even fifteen years, with renewal options sometimes applied in shorter leases. Other tenants typically have varying terms, and, also in shopping centres, leases are currently becoming shorter. The use of turnover leases is increasing in shopping centres. According to the KTI rental database, 40% of the total retail space of shopping centres is leased for rent partly or totally based on the tenant's turnover.

The retail market in 2022

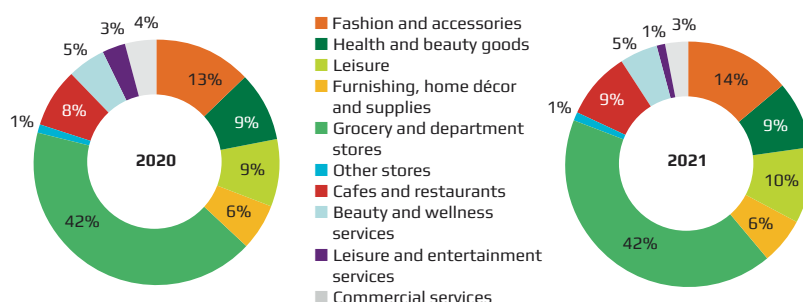
The total volume of retail sales increased by some 5.5% in 2021, according to Statistics Finland. In these statistics, daily goods have a weight of more than 50%.

According to the sales and visitor indexes produced by KTI in co-operation with the Finnish Council of Shopping Centers, the total sales of shopping centres increased by 5.2% in 2021, after a drop of 11.6% in 2020. The number of visitors increased by 0.9%. The growth accelerated towards the end of the year, and, in the last quarter, total sales increased by 8.5%, and number of visitors by 14.5%, compared to the corresponding period in 2020.

"Total sales of shopping centres increased by 5.2% in 2021"

During the pandemic, there has been significant differences between the performance of various retailer categories, but, in the last quarter of 2021, all main sectors increased their sales. The strongest growth was seen in the sales in cafes and restaurants, where sales increased by almost 34% compared to the corresponding period in 2020.

TOTAL SALES OF SHOPPING CENTRES BY RETAILER CATEGORY IN 2020 AND 2021



Source: KTI and Finnish Council of Shopping Centers

The share of daily goods is typically high in the sales of Finnish shopping centres, and in the largest centres there might be even two hypermarkets as well as several smaller grocery stores. The importance of these anchor tenants has become even more pronounced during the COVID-19 pandemic. Despite the slight decline in 2021, the share of grocery and department stores of the total sales of the shopping centres stood at 40% in 2021. The sector has increased steadily throughout the pandemic, and in 2021, the sales increased by 4.4%.

"Grocery and department stores represent 40% of the total sales of shopping centres"

In recent years, the supply of various kinds of services has increased in shopping centres. Many of the service sectors have suffered severely from the restrictions caused by the pandemic, and their share of the total sales has dropped. In 2021, cafe and restaurant sales increased by 11%, after a drop of nearly 30% in 2020, and their share of the total sales increased to 10%.

The sales of fashion and accessories have been declining in shopping centres for several years. In 2021, however, the strong sales of the last quarter supported the sector's growth, and the annual sales of fashion and accessories increased by almost 5% compared to the previous year. However, the sector's share of the total sales of shopping centres has decreased to 14%

"The sales of fashion and accessories increased by almost 5% in 2021"

The Helsinki CBD has an undisputed position as the prime retail area in Finland. The CBD's main shopping streets include Aleksanterinkatu and Northern Esplanade as well as streets interconnecting these two streets. The city centre also accommodates several shopping centres, including Kämp Galleria, Kluuvi, Forum, Kamppi and Citycenter. Some of the property owners in these centres have taken advantage of the pandemic period and renovated their centers to better meet current needs. For instance, Citycenter is currently under renovation, where the comfort and lighting of the centre will be improved.

Prime retail area has suffered severely from the COVID-19 pandemic, due to the lack of both people working in the city centre as well as tourists. The outlook improved throughout 2021, but still, in the RAKLI-KTI Property Barometer conducted in October, the balance figures for rental outlook remained negative also in the CBD. In the survey, the respondents assessed the prime retail rent in the Helsinki CBD at €125 per sqm per month on average.

"Retail rental outlook remains negative"

In the Helsinki CBD, there are significant changes in the retail markets. For example, the traditional Aleksis 13 fashion department store was closed in late 2020. The owner, pension insurer Ilmarinen, is aiming at developing the property's four upper floors into office use, while the two lower floors will remain in retail use. In the vicinity,

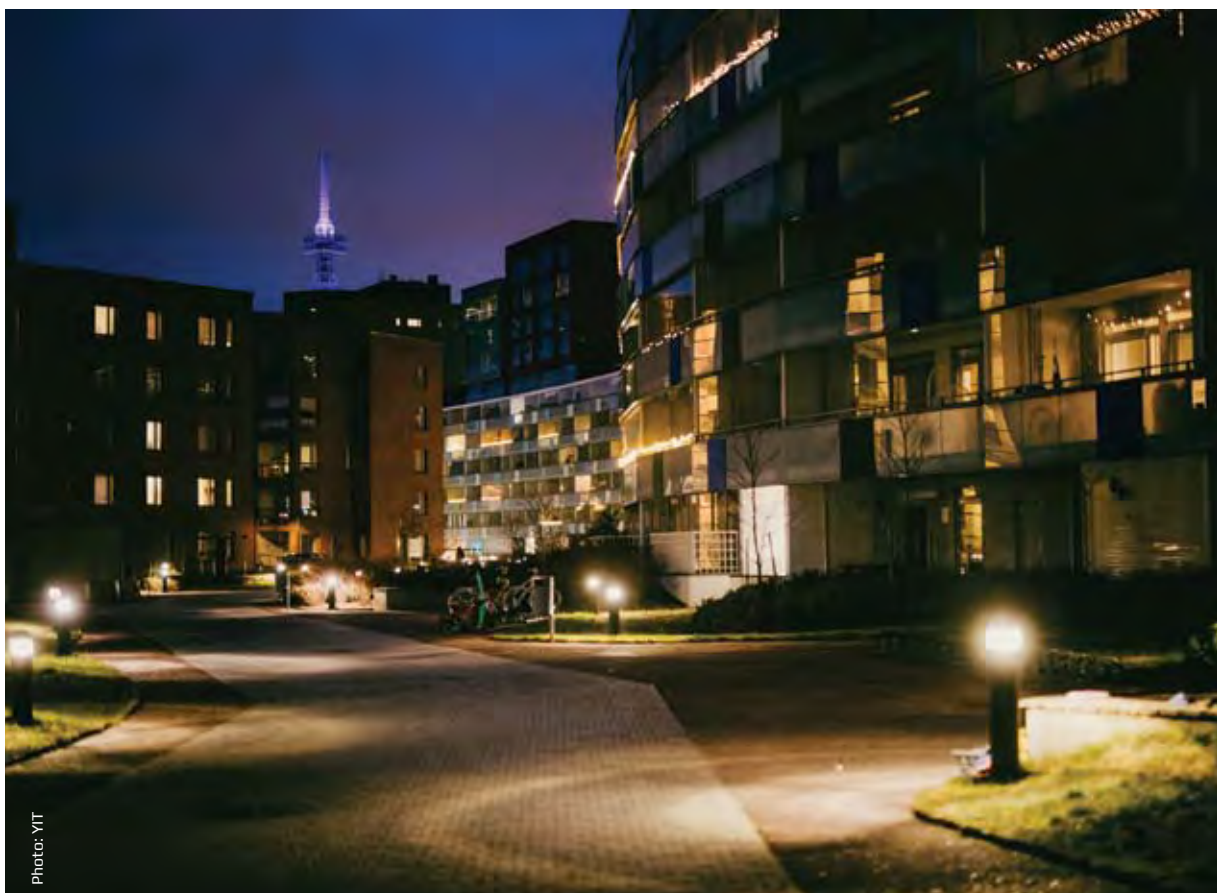
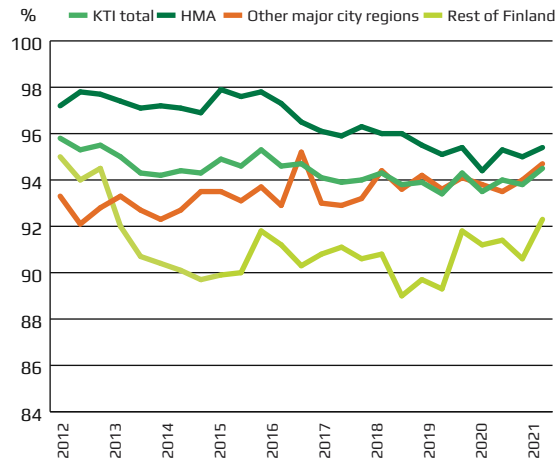


Photo: YIT

OCCUPANCY RATES OF SHOPPING CENTRES



Source: KTI and Finnish Council of Shopping Centers

the traditional Stockmann department store building is to be sold as part of the corporate restructuring process of Stockmann Group, with the transaction expected to take place in spring 2022. Another initiative affecting the CBD retail market is the planned development of Elielinaukio and Asema-aukio next to the main railway station. The City and the property owners of the area have organised an international architecture and conceptual design competition to develop the area, where commercial and public premises, as well as outdoor and indoor pedestrian areas will be developed alongside with the existing buildings. In the next phase, the preparation of a local detailed plan will begin in collaboration between the winning team, the development company, and the City of Helsinki.

While the rental outlook for retail premises remains negative, the occupancy rates of retail premises have remained healthy throughout the pandemic. During 2021, occupancy rates of shopping centres even increased in all areas, and, in centres outside the main cities, they exceeded 92% in the last

quarter, which is the highest level since 2016. In the Helsinki metropolitan area shopping centres, the average occupancy rate stood at 95.4% at the end of the year. According to Catella, the Helsinki metropolitan area overall retail vacancy rate decreased to 3% in 2021.

"Occupancy rates of retail premises increased in 2021"

In the investment market, the attractiveness of retail properties has decreased in recent years, and this has declined further during the pandemic. Therefore, the transaction volumes have remained rather low, and the sector's relative share of the total invested property market has declined.

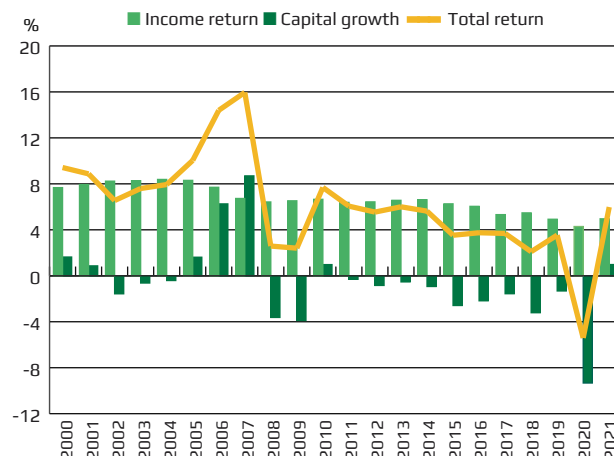
In 2021, the retail property transaction volume also decreased, and only amounted to approximately €700 million, which is the lowest annual volume since 2013. The share of retail properties in the transaction market amounted to 10%, which is significantly lower than the sector's relative share of the investment market, which stood at 18% at the end of 2021.

"Retail property transaction volume decreased to €0.7 billion in 2021"

The majority of the retail property transactions in 2021 were portfolio transactions comprising mainly smallish assets in the grocery store or big box segments. The largest transactions of this type were carried out by Cibus Real Estate, Sagax and Serena Properties. In the shopping centre segment, acquisitions were made by NREP, who invested in the Columbus centre in Helsinki, UB's special investment fund who acquired the Ideapark property in Oulu, as well as by eQ's fund who bought the Kivistö retail centre. The €106 million Columbus shopping centre acquisition was the only retail property transaction exceeding €100 million in 2021.

"Retail property transactions were mainly made on supermarket and big box properties"

TOTAL RETURN ON RETAIL INVESTMENTS, 2000-2021



Source: KTI Index

The investment performance of retail properties has been relatively poor in recent years, and the capital growth for retail properties has been negative for the past decade in the KTI Index. In 2021, however, capital growth turned positive for both shopping centres and other retail properties, and the sector produced a total return of 6%. Supported by both a markedly higher net income and stronger capital growth, other retail properties outperformed shopping centres by a clear margin and produced a total return of 8.3% in 2021.

"Capital growth of shopping centres turned positive in 2021"

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 and care homes, but during the past years, other kinds of public properties such as educational and cultural buildings have also started to attract investors.

Properties used for the provision of public services are a diversified market segment ranging from police and fire stations to highly specialised hospital buildings and nursing homes. Asset size varies from small daycare properties to large hospital or university buildings worth hundreds of millions of euros. Municipalities and the Finnish state are still the predominant owners of these properties. During the past couple of years though, the market has increasingly started to attract private investors. At the same time, public sector operators are also increasingly considering alternative opportunities for providing both the services and the premises needed for service provision.

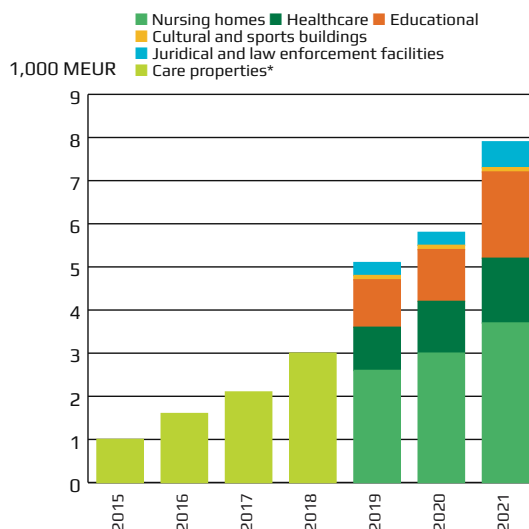
The demand for healthcare and other social sector properties is increasing with the ageing of the population. These services are mainly provided by the Finnish municipalities, but they are also increasingly outsourcing these to private sector service providers. Another factor increasing municipalities'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

"The amount of public use properties in professional investors' portfolios increased to €7.9 billion in 2021"

The healthcare property segment is the largest of the various public use property segments, including various kinds of medical facilities and 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. Currently, properties for private sector healthcare units and hospitals are commonly owned by private sector property investors.

The second biggest public use property category is assisted living segment, including nursing homes for different target groups (e.g. elderly people and mental patients as well as

PUBLIC USE PROPERTIES IN THE INVESTMENT MARKET



* In 2015-2018 care properties includes only nursing homes, healthcare and day care properties

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

disabled people). This category is favoured by many investor groups.

The third largest and increasing public use property segment is educational properties, which includes, for example, children's day care properties, municipal school buildings as well as higher education and university buildings.

In other public use property segments, the amount of private investments is still rather small in relation to the total supply of these properties. Private sector investors own, for instance, various cultural and sports buildings, but these typically represent individual assets in investors' portfolios. In recent years, investments have also been made in, for instance, police and fire station buildings, court houses and other kinds of properties related to rescue and security services.

It is also increasingly common for public sector organisations to rent normal office premises from private sector investors. For instance, premises for various state agencies are currently leased from private sector investors. These properties are, however, included in the normal office property sector.

Players

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

The largest domestic property funds investing in public use properties are managed by eQ, Titanium, OP and Evli. eQ's special mutual fund eQ Community Properties is the largest investor in this sector, and, at the end of 2021, the market value of its property portfolio amounted to almost €1.7 billion. The Gross Asset Value of Titanium Hoivakiinteistöt stood at approximately €700 million at the end of 2021. Another special investment fund investing in public use properties is OP-Palvelukiinteistöt, whose property portfolio value amounted to approximately €400 million at the end of 2021.

LocalTapiola's closed-end fund investing in public use properties made its first investments in late 2021 by acquiring two properties in Oulu and one in Kuopio. In early 2022, the fund acquired a 29,000 sqm hospital property for €295 million from the city of Espoo. Pension insurers Keva, VER, Verso as well as the Church Pension Fund are anchor investors in the fund. Evli Healthcare I is another closed-end fund structured as a limited partnership. Northern Horizon's newest fund, Nordic Aged Care, invests in healthcare properties across the Nordic region, and the fund expanded its Finnish portfolio in a couple of transactions in 2021.

Finnish public use properties have also increasingly interested foreign investors in recent years. The largest specialised foreign investor in the sector is the Swedish Hemsö Fastighets. At the end of 2021, Hemsö's Finnish portfolio amounted to almost €1.3 billion, comprising healthcare, educational and other kinds of public use properties. The company increased its Finnish portfolio in 2021 in several transactions, the largest of which was the acquisition of the €85 million Paavola school campus from the city of Lahti. Another significant Swedish public use property investor is SBB Norden, whose property portfolio amounted to €970 million at the end of 2021.

The Finnish public use property specialist Hoivatilat is currently owned by Aureit Holding, a company managed by the Belgian listed care property investor Aedifica. The company is active in new development of educational, children's daycare and healthcare properties and mainly provides premises for the Finnish municipalities. In 2021, the company carried out several transactions to increase its portfolio.

Another foreign player in the Finnish public use property sector is the Belgian Cofinimmo, which operates in Finland together with its partner Mirabel Partners. Cofinimmo also carried out several transactions in the nursing and care home property sector in 2021. The Norwegian Kinland entered the Finnish property market in 2021 by acquiring

two portfolios comprising 33 healthcare properties across Finland for €37 million.

In addition to these specialised investors there are some general property investors who have also invested in public use properties, including, for instance, Dekka Immobilien, who owns a health and wellbeing centre in Kalasatama, Helsinki, and AXA IM – Real Assets, which owns a portfolio of care properties.

Market practices

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

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

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

"Public use property leases can be made for 15-20 years"

Leases of public use properties are typically long, normally 10–15 years. In larger assets, leases can be even longer; for instance, in two recent transactions, those of the Espoo hospital as well as the Paavola Campus, leases were agreed



Photo: City of Helsinki Material Bank / Tero Pajukallio

for 20 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.

Due to long leases and the characteristics of the special use properties, vacancy issues are not typical for the public use properties. In the KTI Index, the sector's occupancy rate stood at nearly 98% in 2021.

The market in 2022

The transaction volume of public use properties has increased in recent years as the sector has grown and the number of players has increased. In 2021, the transaction volume decreased slightly from previous year and amounted to approximately €900 million.

In the public use property market, 2020 was characterised by several exceptionally large portfolio transactions, which boosted the total volume to €1.2 billion. In 2021, the volume consisted mainly of single asset and smaller portfolio transactions. The largest transaction in 2021 was carried out by eQ's special investment fund, which acquired a portfolio of three educational and three fire station properties from the city of Jyväskylä for €141 million. The second largest transaction where the price was published was Hemsö's acquisition of the €85 million Paavola Campus in Lahti. LocalTapiola's fund's hospital property transaction carried out in January 2022 was the largest single asset transaction in the Finnish public use property market ever.

"Public use properties produced a total return of 9.9% in 2021"

In the KTI Index, the public use property sector comprises mainly nursing home, educational and healthcare properties. The sector's investment performance has been strong in recent years. In 2021, the sector produced a total return of 9.9%, up from 7.2 in 2020. Yield compression boosted the sector's capital growth while net income remained stable.

4.5 Industrial / logistics market

Stock

The Finnish industrial and logistics property stock amounts to some 78 million sqm, according to Statistics Finland. Of this, some 9.6 million sqm is located in the Helsinki metropolitan area.

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

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

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

Players

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

Measured by capital value, some 85% of the total stock of industrial and warehouse properties is estimated to be owner-occupied. Big owner-occupiers include, for instance, large industrial and retail corporations. International logistics operators also sometimes develop and own their own properties. The value of industrial properties in the invested property market is estimated at approximately €5.8 billion.

The Swedish listed property company AB Sagax is currently the largest investor specialising in industrial and warehouse properties in Finland. The company continued to increase its portfolio in 2021, and, at the end of the year, its Finnish portfolio amounted to approximately €1.5 billion.

Logicor, owned by the China Investment Corporation, together with its investment partners, is another significant investor in the Finnish logistics and industrial property sector. The company's Finnish holdings comprise some 65 properties totalling 1 million sqm.

Other foreign investors invested in the Finnish industrial properties include, for instance, funds managed by DWS, NREP and abrdn. In 2021, the Swedish Nyfosa, together with Brunswick Real Estate, also invested in industrial property assets in Finland. Also the German fund managers Hansainvest, DEKA and MEAG increased their investments in the Finnish logistics properties in 2021.

Of the domestic funds, those managed by OP, eQ, S-Bank, Taaleri and EAB, for example, also invest in industrial and logistics properties.

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

Market practices

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

The industrial / logistics market in 2022

The amount of vacant logistics and industrial space continued to decrease in 2021 in the Helsinki metropolitan area. According to Catella, the vacancy rate stood at 3.3% at the year-end.

Industrial and logistics property rents have remained fairly stable in recent years. However, by international

comparison, rental levels for modern logistics premises are relatively high, partly explained by high construction costs. In the KTI database, the upper quartile rental levels for the best logistics areas in the Helsinki metropolitan area and surrounding municipalities stand at some €10-11 per sqm per month. In the airport area in Vantaa, the prime logistics rents are typically slightly higher than this. In the RAKLI-KTI Property Barometer, the rental outlook for industrial properties was very positive for the Helsinki metropolitan area in particular.

The transaction volume of industrial and logistics properties doubled from the previous year in 2021 and stood at approximately €1 billion. The volume comprised a large number of smallish transactions. The largest transaction where the price was published was carried out by a fund managed by Barings Real Estate, who acquired a 40,000 sqm logistics property in Hyvinkää from NREP for €86 million. Another large single asset transaction was carried out by Sagax, who entered in a sale-and-leaseback deal with the food company HKScan Corporation for a 51,000 sqm logistics and industrial property in Vantaa. The price of the transaction amounted to €77 million.

"Transaction volume of industrial property sector doubled to €1 billion in 2021"

New development of logistics and industrial properties in the Helsinki metropolitan area has recently been concentrated in the airport area and its surroundings. In 2021, some 75,000 sqm of new industrial and logistics premises were completed in the Helsinki metropolitan area, almost all in Vantaa. Another 22,000 sqm were completed elsewhere in the Helsinki region. The largest industrial property projects in 2021 were completed in Vaasa, where industrial corporation Wärtsilä's two Smart Technology Hub buildings were completed totalling over 70,000 sqm. The properties are leased from SEB Leasing.

At the year-end, there were approximately 107,000 sqm of projects underway in the Helsinki metropolitan area, again, mainly in Vantaa. In addition, another 88,000 sqm are under

construction elsewhere in the Helsinki region. The largest projects, in the scale of 30-35,000 sqm are being developed by a fund managed by abrdn in Vantaa, Posti Kiinteistöt in Sipoo, as well as by NREP in Nurmijärvi.

"Almost 200,000 sqm of industrial properties underway in the Helsinki region"

Outside the Helsinki region, there were 14-15,000 sqm of new logistics and industrial properties completed in the Tampere, Turku and Lahti regions. At the year-end, the largest development volume was found in Turku, where almost 50,000 sqm of logistics and manufacturing properties were underway. The volume comprises several projects, the largest of which are in the size range of 9-10,000 sqm. The investors in these projects include local developers, domestic funds and foreign investors. In the Tampere region, there were almost 30,000 sqm of industrial projects underway, and also in Jyväskylä, the development volume exceeded 20,000 sqm.

"Industrial properties produced highest returns in 2021"

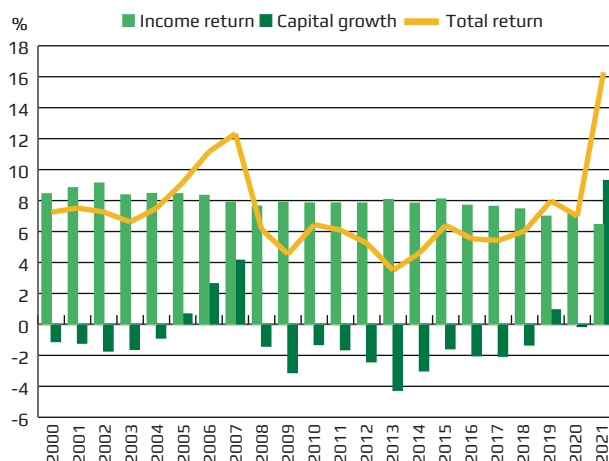
Industrial properties outperformed all other property sectors in the KTI Index in 2021. The total return of the sector amounted to 16.3% (7% in 2020). Of the various sub-sectors, the total return of logistics properties exceeded 17%, but also warehouse and manufacturing properties produced healthy returns. Boosted by a significant yield compression, capital growth exceeded 9%, while net income declined by 0.7 percentage points from the previous year.

4.6 Hotels

Stock

According to Statistics Finland, there are 613 hotels in Finland, comprising some 52,000 rooms. Of these, 117 hotels with almost 16,000 rooms are located in the Uusimaa region, up from 102 hotels and 13,000 rooms in 2020. According to

TOTAL RETURN ON INDUSTRIAL PROPERTY INVESTMENTS
2000-2021



Source: KTI Index

KTI estimates, the market value of hotel properties owned by professional investors stood at some €4.2 billion at the end of 2021, up from €3.8 billion in 2020.

Players

The two biggest hotel property investors in Finland are CapMan's hotel fund and the Swedish Pandox. CapMan's hotel fund comprises 28 hotel investments. When restructured in 2019, the fund expanded its strategy to cover also other Nordic countries, but the investments are currently mainly in Finland. The Pandox portfolio comprises 14 hotels, of which 8 are in the Helsinki metropolitan area.

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

The largest hotel operators include Scandic and S Group. Scandic currently operates 52 hotels in almost 30 cities in Finland. In 2021, Scandic opened two new hotels: Hotel Grand Central in Helsinki comprises 491 rooms and the property is owned by a fund managed by Exilion, and Scandic Hamburger Börs in Turku has 272 rooms, and the property investor is LocalTapiola Life insurance company. Scandic Avenue in Helsinki centre, developed by Varma, is scheduled for completion in 2022.

S Group operates some 50 hotels, which are located across Finland as well as in Tallinn and St Petersburg. The chain operates in both rented and its own properties. Two new S-hotels are currently under construction: one in Helsinki centre and another in Otaniemi, Espoo.

"Hotel supply continued to increase in 2021"

Nordic Choice hotels operates 12 hotels in the Helsinki metropolitan area under various brands. The chain is also the operator in the hotel under construction at the Helsinki airport. The hotel has more than 700 rooms and it will become the largest hotel in Finland when completed in 2024. Avia Real Estate is the developer of the project.

Lapland Hotels currently operates 19 hotels, mostly located in Lapland. In recent years, the company has also expanded into the largest cities. In 2021, Lapland hotels opened a new 273-room hotel connected to the new Tampere deck arena. Finlandia Hotels is a chain of 11 hotels across the country.

Noli Studios operated by NREP is a new and expanding operator of a hotel studio concept for both travellers and short-term accommodation purposes. NREP started by redeveloping two obsolete office buildings for studio use, but is currently also developing new buildings. There are currently three completed hotels under this concept, the latest one of which was opened in Myyrmäki, Vantaa in late 2021. Currently, there are three more properties underway in Helsinki, located in Malmi, Herttoniemi and Katajanokka.

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

The hotels market in 2022

According to Statistics Finland, the occupancy rate of hotel rooms increased slightly, to 40%, in 2021, from below 38% in 2020. Before the COVID-19 pandemic, it stood at 56.1% in 2019 in the whole country on average. In the two counties with the most hotels – Uusimaa and Lappi - the occupancy rate decreased from 68 to 36% and 48 to 33% between 2019 and 2021, respectively.

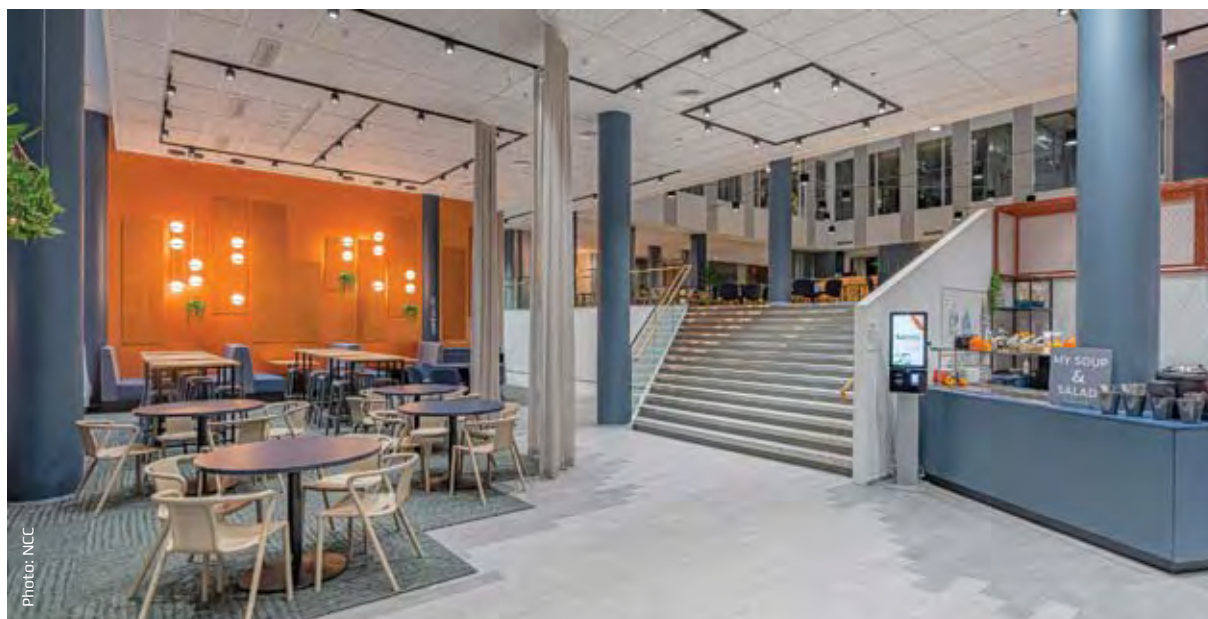


Photo: NCC

HOTEL DEVELOPMENT PROJECTS IN CENTRAL HELSINKI

Hotel	Number of rooms	Investor(s)	Completion
Scandic Grand Central Helsinki	491	Exilion Asemahotellit Ky	2021/Q1
Mestari hotel	232	Rakennusmestarien Säätiö	2022/Q1
Solo Sokos Hotel Torni	154	Varma Mutual Pension Insurance Company	2022/Q1
AX Hotel	173	Terrieri Kiinteistöt Ky (managed by Fennia)	2022/Q2
Music Tower	100	Aberdeen Standard Investments, Ailon Group	2022/Q2
Original Sokos Hotel Helsinki	206	Exilion Real Estate I Ky	2022/Q3
Scandic Avenue	350	Varma Mutual Pension Insurance Company	2022/Q3
Vuorikatu 24	196	SOK, Jatke Oy	2023/Q2
Grand Hansa Hotel	224	Ylva	2023/Q3
Noli Studios	226	NREP	2023/Q3
Citybox Hotel	180	Ylva, Varma	2023

The average room price decreased from some €110 per night in 2019 to approximately €102 in 2020 and 2021. In the Uusimaa region, the drop in average room price was even steeper, from €120 in 2019 to below €100 in 2021.

The room occupancy rate of hotels stood at 40% in 2021

Due to the restrictions caused by the pandemic, landlords have had to grant rent reductions or temporary rent-free periods for hotels in 2020 and 2021. In order to boost their sales, hotels have developed new concepts for staycations for local people, temporary accommodation of students or flexible working premises for remote workers.

Hotel supply continues to increase markedly in the Helsinki metropolitan area in particular. The largest openings in 2021 included the Scandic Grand Central in the Helsinki city centre and Noli Studios in Myyrmäki.

At the year-end, there were 13 new hotel projects underway totalling 108,000 sqm and over 3,200 rooms under construction. In addition, there are some major refurbishment projects underway. In addition to the Avia Real Estate's and NREP's projects, the largest ongoing hotel development projects include, for instance, Scandic Avenue in the Helsinki city centre, Ylva's Grand Hansa in the CBD and Citybox Hotel in Kallio, as well as the Swing hotel project in Otaniemi developed by pension insurer Elo.

"There are 13 hotel development projects underway in the Helsinki metropolitan area"

In addition, there are several large hotel projects planned to be started in 2022, some of which may be delayed or cancelled due to the challenges caused by the pandemic and rapid increase in supply. However, the only major project that has been published to be cancelled so far is SRV's Wood City Hotel project, which has been converted to an office project, where the IT security firm F-Secure will move its head office.

In other large cities outside the Helsinki metropolitan area, there were only two projects completed in 2021: one in Tampere and one in Turku. At the year-end, there was one project underway in Tampere and one in Oulu.

The only transaction in the hotel property market in 2021 was related to Ylva's Lyyra project in Kallio. The project will comprise a 180-room Citybox hotel, offices, restaurants and other retail premises as well as a rental residential property. In 2021, a joint venture was founded for the project, where pension insurer Varma became an investor together with Ylva.

"Hotel property returns returned to the positive territory in 2021"

In the KTI Index, hotel property returned to positive territory in 2021 after having dropped to -0.7% in 2020. The total return on hotels amounted to 5.5%, supported by a 1.5% increase in market values. However, net income continued to decline due to rent reductions and increasing costs.

5 Property markets in different regions

5.1 Main city regions in Finland

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

The share of the 10 largest city regions currently amounts to approximately 62% of the total population and, in forecasts made before the COVID-19 pandemic, it was expected to increase to 67% by 2040. Since 2020, the COVID-19 pandemic has significantly affected people's daily lives, which seems to have also impacted housing preferences and decisions. In a bigger picture, however, the pandemic seems not to have a significant impact on urbanization as a whole, but it may have an influence on choices between and within city regions. Even though the longer-term impacts are still unknown, the pandemic seems to strengthen the position of the frame municipalities of the largest cities, as well as the attractiveness of some mid-sized cities.

The Helsinki region, comprising 14 municipalities, accommodates some 1.5 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 with approximately 1.2 million inhabitants. The population of the city of Helsinki itself amounts to 658,000 inhabitants. In recent years, the population growth of the Helsinki region has been brisk, with net migration both from other parts of Finland and from abroad being the main driver for the growth. However, during the pandemic, the net migration has slowed down

markedly, even turned slightly negative. Compared to other city regions, the Helsinki metropolitan area is more dependent on occupations in private service and tourism sectors, which have suffered from the pandemic. Within the region, the smaller municipalities have attracted people from Helsinki as the supply for larger dwellings is larger and housing prices lower. Some of these trends are expected to turn again as the pandemic and restrictions caused by it are ended.

By 2040, one third of the Finnish population, some 1.8 million people, is forecasted to be living in the Helsinki region. The Helsinki region currently represents some 28% of Finland's total population, 37% of the country's total GDP and 37% of all jobs, even as the land area represents only 1.2% of the whole country.

The Tampere city region, located some 170 km north of Helsinki, currently accommodates some 400,000 inhabitants. The population growth of Tampere has even accelerated during the pandemic, and in 2021, the population of the city stood at 244,000. In addition to Tampere, the region comprises eight municipalities.

The Turku region is located in the south-western corner of Finland, some 160 km west of Helsinki. The population of Turku amounts to around 195,000 inhabitants, and that of the whole region to some 340,000. The region consists of eleven municipalities. In the past decades, the region's growth has lagged behind that of Tampere, but by 2040, the number of inhabitants in the region is expected to grow to almost 360,000.

Southern Finland's three large city regions – those of Helsinki, Tampere and Turku – form the so-called "growth triangle", which accounts for more than half of the whole country's population, jobs and total GDP. It is also an increasingly connected employment area for 1.5 million people, where well-functioning public transport has an important role in connectivity and economic development. Therefore, the development of rail connections between these cities are currently discussed actively, and both the Turku and Tampere regions promote the idea of an hour's train connection to Helsinki. Both projects are still in the early planning phase. The planning of the Turku rail connection is scheduled to be completed by 2023, and the actual construction would take place between 2025 and 2031. Some preliminary development work is underway in the Turku railway yard as well as the city track in Espoo, which are both required for the development of the actual track. For the so-called Suomi-rata project from Helsinki to Tampere, preliminary investigations for the alignment of the track between the Helsinki-Vantaa airport and Tampere are currently being carried out.

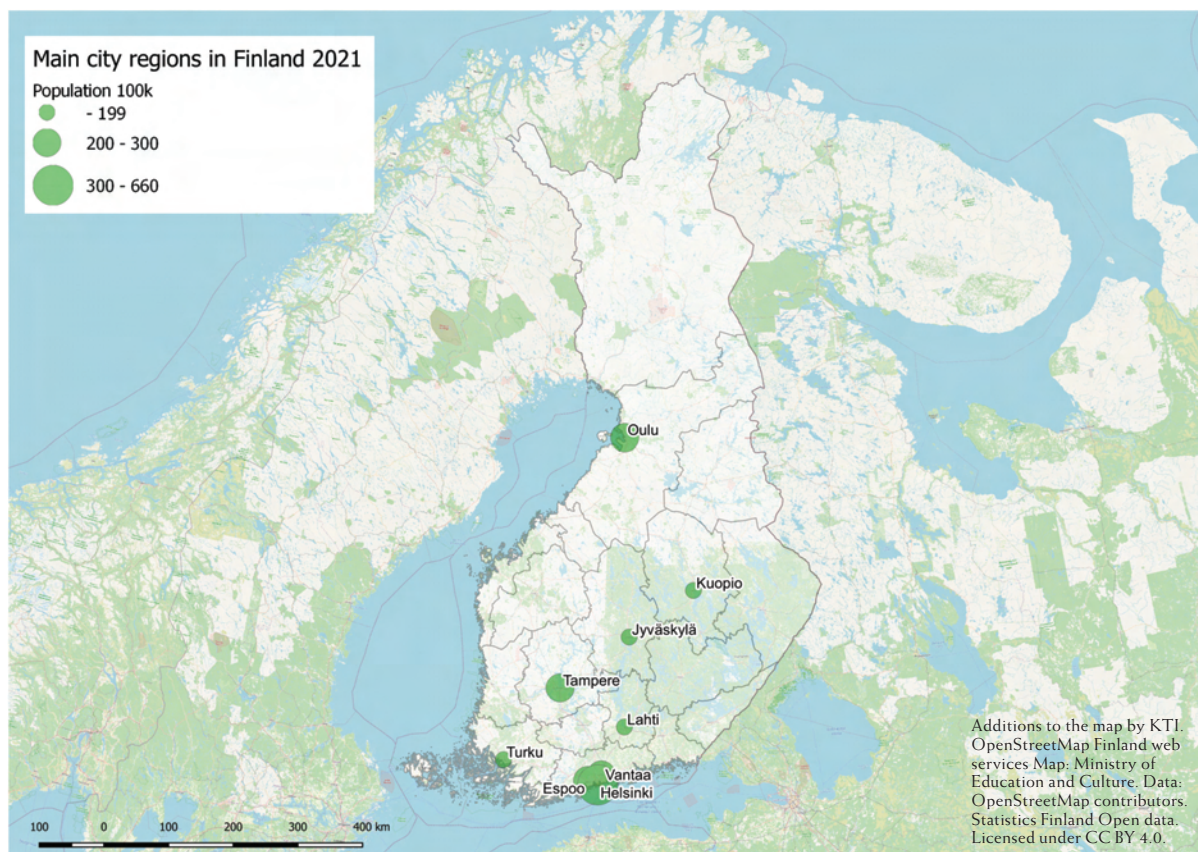
"There are six cities with more than 100,000 inhabitants outside the Helsinki region"

**10 LARGEST CITY REGIONS IN FINLAND:
POPULATION IN 2020 AND FORECAST FOR 2040**

	2020	2040
Helsinki	1,582,200	1,806,800
Tampere	417,00	468,400
Turku	335,100	363,300
Oulu	254,900	281,959
Lahti	205,800	193,200
Jyväskylä	187,100	195,000
Kuopio	141,500	144,900
Seinäjoki	131,100	125,900
Pori	130,600	114,600
Joensuu	127,000	119,900

Source: Statistics Finland

MAIN CITY REGIONS IN FINLAND



Oulu, located some 600 km north of Helsinki, is the largest city in northern Finland, whose area of influence covers almost half of the total area of Finland. There are currently some 206,000 inhabitants in the city itself, and approximately 255,000 in the whole region. The growth of the region's population is expected to continue for the next decade, but is expected to start declining in the 2030s.

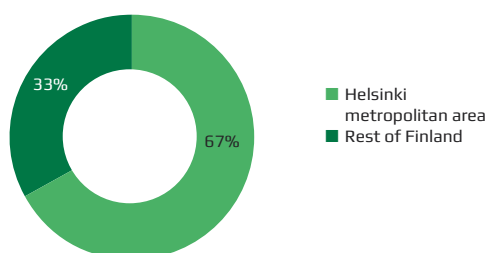
Jyväskylä is located in the centre of Finland, some 270 km north of Helsinki, at the junction of several important national road and rail connections. The city accommodates some 144,000 inhabitants, and the whole region some 188,000 people. The population of the Jyväskylä region is also expected to continue to grow until the 2030s, but after that, the development is forecasted to turn negative, and by 2040, some 195,000 inhabitants are expected to live in the region.

Kuopio is located in eastern Finland, some 400 km north-east of Helsinki. The population exceeded that of Lahti and there are currently some 121,000 inhabitants in Kuopio, and some 140,000 in the whole region. In the Kuopio region, the number of inhabitants is also expected to grow until the early 2030s, but to start to decline after that.

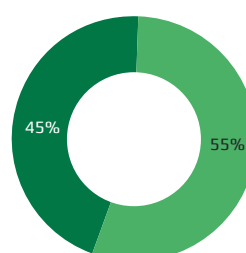
Lahti is the ninth largest city and the region is the fifth largest city region in Finland with some 120,000 inhabitants in the city itself and almost 200,000 in the region. Lahti is located 104 km north-east of Helsinki, and a significant part of the population commutes to work in the Helsinki metropolitan area. Despite its favorable location, Lahti is the only large city region where the population is expected to decrease by 2040, and the number of inhabitants in the region is forecasted to amount to around 185,000.

THE FINNISH PROPERTY INVESTMENT MARKET: HELSINKI METROPOLITAN AREA AND REST OF FINLAND

The Finnish property investment market



Transaction volume 2021



Source: KTI

5.2 The Helsinki metropolitan area

The Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen, is the dominant region in the Finnish property market. Its dominance is the most prominent in the office markets: its 9 million sqm office stock accounts for some 45% of that of the whole country, and measured by value, it represents approximately two thirds.

"The value of the HMA office stock accounts for two thirds of that of the whole country"

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

Most major company headquarters as well as government agencies are located in the Helsinki metropolitan area. The economic base of the region is wide, with information industries, professional and financial services, wholesale trade, logistics, high-tech industries and research and development occupations being the largest occupations. In the Helsinki region, the proportion of jobs in the private service and retail trade sectors is significantly higher, approximately 60%, than across the entire country (46%). On the other hand, the proportions of occupations in manufacturing (16%) and public services (24%) are lower than in the entire country on average, according to the Helsinki Region Industry Review, published by the Helsinki Region Chamber of Commerce.

In recent years, the amount of production and the number of jobs have developed more positively in the Helsinki region than in the whole country on average. After a drop in 2020, the region's growth accelerated again in 2021, and in the third quarter of the year, the number of jobs increased by approximately 6% compared to the previous year.

The region's growth has also fueled construction in the Helsinki metropolitan area. Residential construction activity has remained high, and in 2021, 15,000 new residential units were completed in the Helsinki region, compared to 13,400 in previous year. Also the number of starts remained at a high level and stood at 18,000 dwellings in 2021.

"Housing construction remains active in the Helsinki metropolitan area"

Residential construction has been concentrated in apartment buildings and in smaller dwellings, and supported by the investment demand for rental residential dwellings. During the first three quarters of 2021, dwellings in buildings targeted 100% for rental use represented more than 40% of all completions.

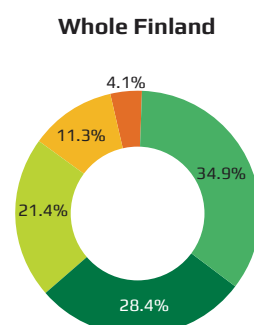
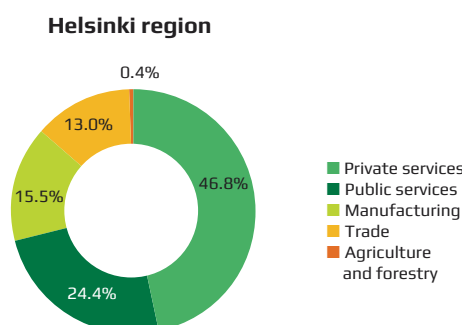
Investments in the public transportation network continue to support the growth and construction in the Helsinki metropolitan area. In recent years, the Ring Rail Road, which connects the Helsinki airport and several significant residential areas with the city centre, as well as the Western metro line to Matinkylä in Espoo have boosted property development in their catchment areas. Currently, the main rail construction projects include the extension of the Western metro line to Kivenlahti and the construction of the so-called Jokeri Light Rail, a fast tram connection from Keilaniemi in Espoo to Itäkeskus in Helsinki. The metro connection is planned to start operations in 2023, and the Jokeri Light Rail is expected to be completed in early 2024. Also in Vantaa, a new light rail connection is being planned to connect the easternmost areas of Hakunila and Länsimäki into rail traffic and create a flexible connection to Tikkurila, Jumbo shopping center, Aviapolis, and Helsinki Airport. The planning phase is expected to be completed in 2023 and the potential building would take place between 2024 and 2028.

"Active development of public transport network continues"

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

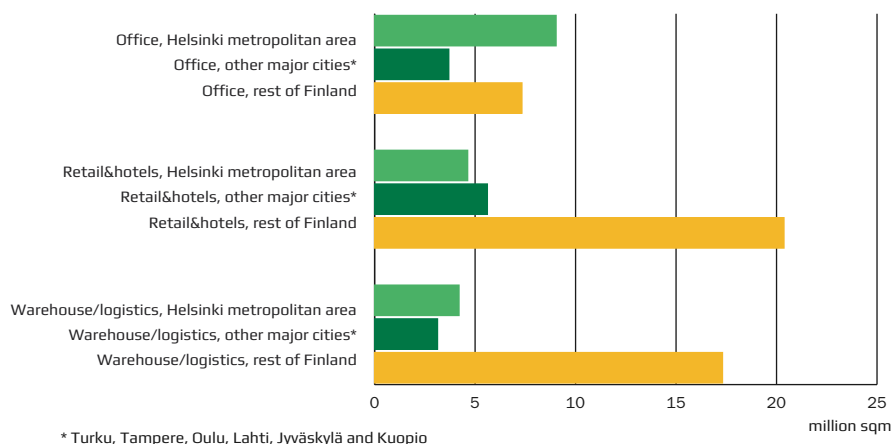
Within the Helsinki metropolitan area property markets, the Helsinki central business district (CBD) has an indisputable position as both the prime office and prime retail market

THE STRUCTURE OF THE ECONOMY
PERCENTAGE OF JOBS, 2020



Source: Helsinki Region Chamber of Commerce

COMMERCIAL PROPERTY STOCK BY REGION AND PROPERTY SECTOR 2020



Source: Statistics Finland

location. Outside the CBD, other prime office locations include Ruoholahti and the Pasila–Vallila–Kalasatama areas in Helsinki, Keilaniemi and Leppävaara in Espoo and the airport area in Vantaa.

In the retail markets, in addition to the CBD, the most important areas include the regional centres of Itäkeskus in Helsinki, Leppävaara, Tapiola and Matinkylä in Espoo and Tikkurila and the surroundings of the airport in Vantaa. Main shopping centres are located near main rail or road connections as well as in the Helsinki CBD.

Of around 9 million sqm total stock of offices in the Helsinki metropolitan area, almost 6 million sqm is located in Helsinki. Espoo accommodates about 1.9 million sqm and Vantaa about 1 million sqm of offices. In recent years, the growth in office stock has been mitigated by active conversion construction.

Retail space stock of the Helsinki metropolitan area amounts to about 4.6 million sqm. Of this, about 2.4 million sqm is located in Helsinki.

MAIN OFFICE AREAS IN THE HELSINKI METROPOLITAN AREA

Area	No. of buildings	Gross floor area (sqm)
Helsinki city centre	243	1,716,006
Pasila	65	787,643
Aviapolis	78	471,222
Ruoholahti	29	423,582
Leppävaara	62	390,340
Sörnäinen & Kalasatama	32	386,391
Kilo & Mankkaa	52	367,072
Otaniemi & Keilaniemi	42	361,799
Pitäjänmäki	38	346,361
Tapiola & Niittykumpu	48	325,363
Vallila	34	316,629
Kallio	21	219,012
Tikkurila area	38	209,438
Myrymäki & Martinlaakso	18	172,244
Töölö	29	167,684
Olari & Matinkylä	30	118,854
Lauttasaari	27	108,995
Espoo centre	20	86,260

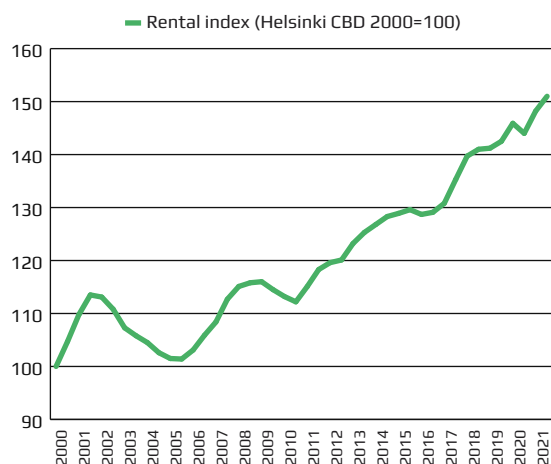
Source: Statistics Finland (31.12.2020)



Additions to the map by KTI.

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KTI RENTAL INDEX, HELSINKI CBD OFFICES



Source: KTI

The CBD office stock also continues to evolve by conversion projects, whereby older office premises are being redeveloped to some other, mostly hotel use. In 2021, the Scandic Grand Central Helsinki Hotel with almost 500 rooms was opened, and in 2022, the Hotel Mestari and Scandic Avenue projects are due for completion. In addition, the Grand Hansa Hotel conversion project and two major hotel refurbishment projects are underway in the city centre.

"Several new hotels are being developed in the Helsinki CBD"

According to Helsinki Research Forum, a joint forum of the four leading property advisory firms, KTI and RAKLI, the office stock in the Helsinki CBD amounts to approximately 640,000 sqm. During the pandemic, the amount of vacant office space has increased from its previously very low level, and the vacancy rate stood at 11.8% at the end of 2021.

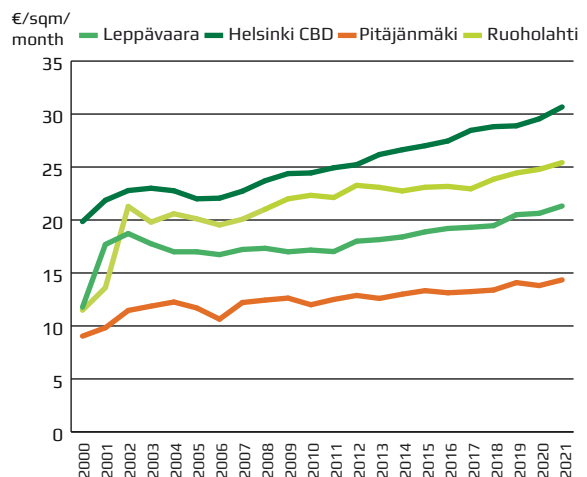
"Office demand is targeted at prime premises, where rents continue to increase"

Despite an increase in the vacancy rate, the rents for prime offices in the Helsinki CBD continued to increase in 2021. The KTI rental index for new office agreements increased by almost 5% in 2021. However, the volume of new agreements remained very low, which illustrates the demand being targeted at the very best premises. In the KTI database, the upper quartile for office rents stood at some 36 €/month/sqm, and in the RAKLI-KTI Property Barometer in October, the average estimate for the rent of prime office premises stood at 37 euros.

"Office rental market activity remained low in the Helsinki CBD in 2021"

In the RAKLI-KTI Property Barometer carried out in October 2021, the prime office yield stood at 3.6% on average, which is the lowest quotation ever.

MEDIAN OFFICE RENTS, ALL AGREEMENTS



Source: KTI

"The prime office yield in Helsinki stood at 3.6% in late 2021"

The Helsinki CBD office market has, in recent years, outperformed most other office areas in terms of total returns. In addition to decreasing yields, investment performance has also been supported by positive rental growth and healthy occupancy rates. Tähän kohdalle seuraava lause: In 2021, the total return of the Helsinki CBD offices amounted to 8.6%.

The main shopping streets in the Helsinki CBD include Aleksanterinkatu and the Northern Esplanade as well as the streets connecting these two streets. The traditional Stockmann department store is located between these two streets. In recent years, pedestrian areas have been developed around the most important shopping locations. The city centre also accommodates several shopping centres, including Kamppi and Forum in the Kamppi area, Kämp Galleria and Kluuvi in the Kluuvi area, and Citycenter next to the main railway station.

In recent years, retail rental markets have faced challenges caused by the increase in e-commerce and changing consumer behavior. In 2020 and 2021, the COVID-19 pandemic has further hampered the best retail locations. Due to the challenges faced by retailers and restaurants, the amount of vacant retail premises increased also in the CBD in 2021.

Due to low demand and changes in the retailer structure, there are downward pressures in retail rents. In the KTI database, the number of new rental agreements has remained very low. The average retail rent amounted to 65, and upper quartile was below 90 euros per square metre in autumn 2021. In the RAKLI-KTI Property barometer, prime retail rent was quoted at 125 euros, and the balance figure of rental expectations remained negative.

"Negative outlook for retail rents in Helsinki CBD "

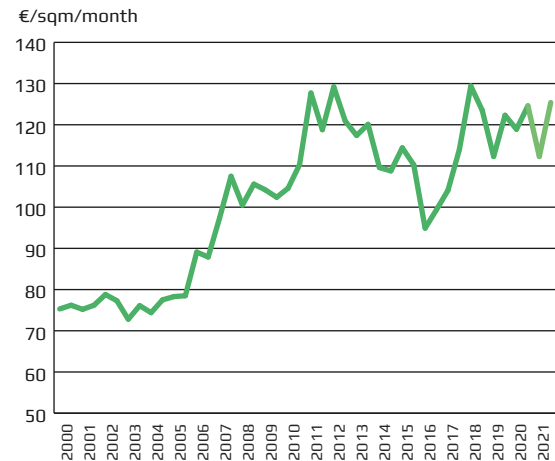
The retail supply in the CBD is undergoing changes. In Aleksanterikatu, the traditional Aleksi 13 department store was closed in late 2020. The owner of the building, pension insurer Ilmarinen, is planning to convert the upper floors of the building into office use.

In the very core of Helsinki, the traditional Stockmann department store has also been facing major challenges, which were highlighted by the outbreak of the pandemic. To avoid bankruptcy, the Stockmann group is currently undergoing a corporate restructuring process, and as a part of this process, the company has announced to sell the iconic building in the Helsinki CBD in order to reduce the company's debt burden. The building's value is being increased by its unique location and image, and, on the other hand, challenged by the economic situation of the main tenant and limited possibilities for redevelopment of the protected building. The targeted schedule of the sale is now by the end of the first quarter of 2022.

"The iconic Stockmann department store building will be sold as part of a corporate restructuring program"

Another initiative, which might impact the Helsinki CBD retail market in coming years, is the development of Elielinaukio and Asema-aukio next to the main railway station. The City and the property owners of the area –

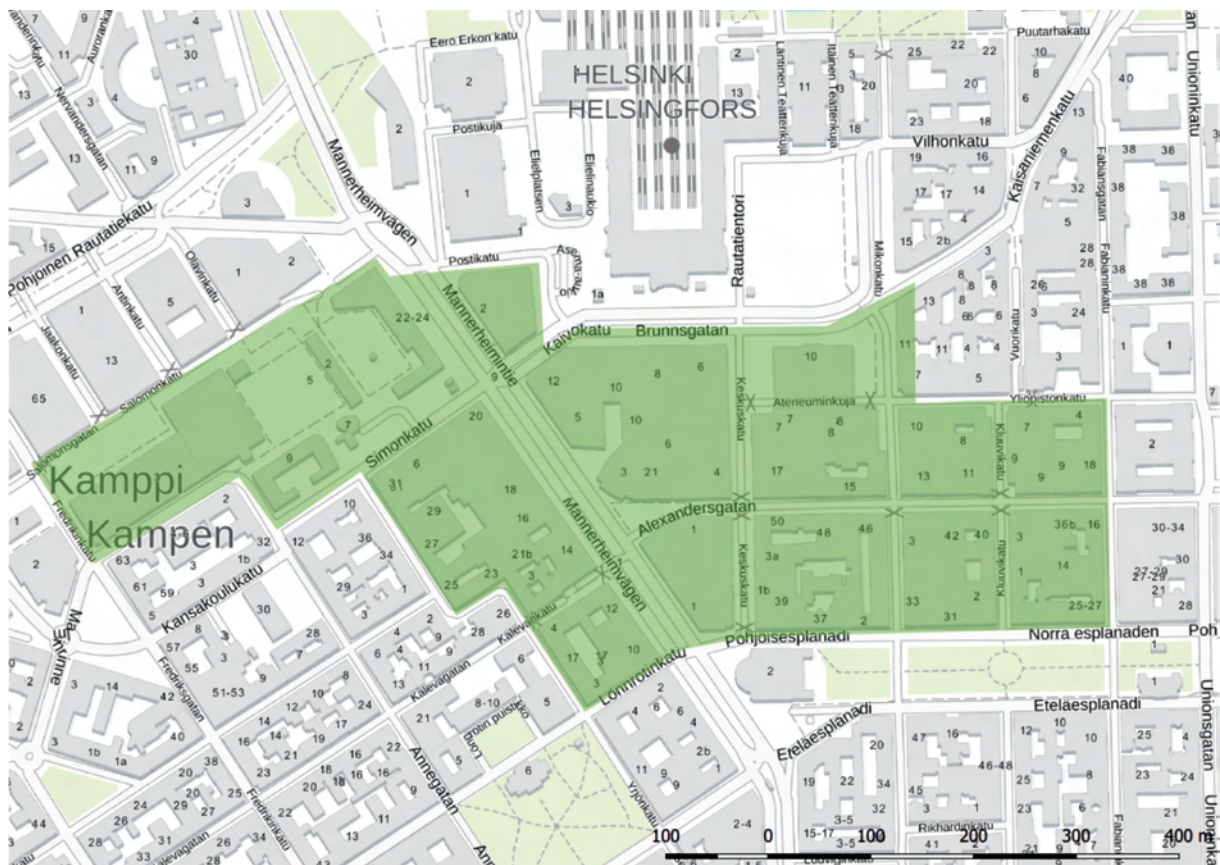
PRIME RETAIL RENT IN THE HELSINKI CBD



Source: RAKLI-KTI Property Barometer

Ilmarinen, SOK, OP-Rental Yield fund, Exilion and VR – have launched an international architecture and conceptual design competition to develop the area. The supplementary construction in the area is intended to increase the supply of shops, offices, leisure services and public meeting spaces.

PRIME RETAIL AREA IN THE HELSINKI CBD



Additions to the map by KTI.

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Maanmittauslaitos & ESRI Finland LITE open data, licenced under CC BY 4.0.



Photo: City of Helsinki / Materia / Bank / Antti Pulkkinen

Ruoholahti – Salmisaari

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

According to the Helsinki Research Forum, the office stock in Ruoholahti amounts to approximately 350,000 square metres. Despite the good location and relatively modern supply, the amount of vacant space has remained rather high in the area. At the end of 2021, the vacancy rate stood at 16.6% in Ruoholahti. In the KTI database, the average office rent in Ruoholahti currently stands at some €25 per sqm per month, and the upper quartile at over €27 per sqm.

"The amount of vacant office space increased in Ruoholahti in 2021"

Investors in the area include domestic institutions and property companies as well as some international funds. In 2021, no major transactions were carried out in Ruoholahti.

In late 2020, NCC started the construction of an office building under a new We Land concept. Deloitte will be the main tenant in the building, which will have a lettable area of 21,000 sqm and is scheduled for completion in 2024. Technopolis is planning to start the construction of the fourth phase of its Ruoholahti Campus in 2022.

In the Cable Factory cultural centre in Ruoholahti, the new Dance House Helsinki was opened in early 2022. Dance House Helsinki will be entirely dedicated to different forms of dance art.

Jätkäsaari

Next to Ruoholahti is the growing Jätkäsaari area, which was freed for development after the harbour moved its operations to Vuosaari. Jätkäsaari accommodates the West Harbour, which serves passenger ferries to Tallinn and Saint Petersburg. By 2030, Jätkäsaari is planned to accommodate some 21,000

residents and 6,000 jobs. Traffic connections to Jätkäsaari were improved in spring 2021, when the new Atlantinsilta was completed enabling a circular tram route around Jätkäsaari. The city is also working on a long-term plan to develop the traffic connections in the southern parts of the city. One of the plans is to construct a tunnel connecting the harbour to Länsiväylä, which will enable more harbour operations to be moved from the city centre to Jätkäsaari. This, in turn, would enable the development of the Southern harbour area next to Market Square, which is planned to accommodate a museum for design and architecture, as well as new services and a promenade along the waterfront.

Both residential and commercial property construction continues to be active in Jätkäsaari. Terrieri Kiinteistöt is developing a 173-room AX Hotel for Primehotels, and abrdn's fund and Ailon Group are developing a 100-room Music Tower Hotel in the area. Both hotels are due for completion in the first half of 2022. At least three more hotels are being planned in the area.

In 2021, SRV and Stora Enso applied for an extension for the schedule of the fourth phase of their Wood City project, and also applied for an option to develop the property for office use rather than for a hotel as originally planned. In early 2022, SRV announced that cyber security company F-Secure will move its head office in the building, the construction of which will be started in spring 2022 and completed in 2024.

"The Wood City project will be extended by another office property in 2024"

One major project in Jätkäsaari is the former warehouse property Bunkkeri, the development of which has been postponed for several years due to appeals about the plan. In late 2021, the appeal was rejected by the Supreme Administrative Court, and the property is thus able to be redeveloped to comprise 300 residential dwellings, a swimming pool and other sports facilities. SRV is the developer of the project.



Next to Jätkäsaari is the old dock and industrial Telakkaranta land area, which accommodates some office buildings, housing projects and a promenade along the seashore with cafes and restaurants. Next to Telakkaranta is the Hernesaari area, which is being transformed from traditional industrial and harbour space into a residential area that will also serve leisure and tourism. The area is planned to accommodate some 7,500 inhabitants and will be the main harbour for cruise ships visiting Helsinki.

Hakaniemi

North-east from the Helsinki CBD, the traditional Hakaniemi area is undergoing major redevelopment. Main players in the area include, for instance, property investment and development company Antilooppi and the Helsinki University Student Union's property arm Ylva. The traffic connections in the area will be affected by the major Kruunusillat project, and, for instance, the bridges between Hakaniemi and Kruunuhaka will be renewed during the project.

By the Hakaniemi square, Antilooppi completed the redevelopment and extension of the traditional Elanto department store in late 2021. The 22,000 sqm Siltasaari 10 project comprises retail, restaurant and office space. Under the Hakaniemi square, Antilooppi is planning to develop parking facilities for 450 cars. By the square, the City of Helsinki is redeveloping the traditional market hall, and the project is due for completion in late summer 2022. In the vicinity, the former office properties of the City of Helsinki have been demolished and will be replaced by Ylva's project Lyyra. The project, which comprises office and retail premises, a hotel and accommodation premises for the university's foreign researchers, is planned to be completed in 2023. In 2021, pension insurer Varma entered into a joint venture with Ylva for this project.

Pasila

Other traditional office areas situated somewhat out of the city centre include Pasila, Sörnäinen, Vallila and Kalasatama. These areas are characterised by a multifaceted office supply. The Pasila–Vallila–Kalasatama area is named as an "axis of growth" in the City of Helsinki growth strategy. The construction of a new tram connection from Pasila to

Kalasatama was started in early 2022, and it is planned to start operations in 2024. The line will be connected to the new Kruunusillat high-speed tram line.

Pasila is an important railway hub and multifaceted property market area north of the city centre. Pasila consists of several areas including the traditional submarkets of Eastern and Western Pasila, the developing Ilmala, Northern Pasila and the old railroad machinery area south of the station. Pasila currently accommodates a colourful mixture of office users, including government and city agencies, insurance companies and business service and media companies. In total, Pasila accommodates approximately 440,000 sqm of offices.

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

The three-block Tripla project was completed in the Central Pasila area in phases in 2019 and 2020. The area accommodates the 85,000 sqm Mall of Tripla shopping centre, the adjacent Sokos Hotel Tripla comprising 430 rooms and the Tripla Workery offices with a gross area of 50,000 sqm. The area's developer YIT remains as a co-owner in the shopping centre, together with some domestic institutions and funds. A fund managed by Exilion has invested in the hotel, and the office properties are owned by Commerz Real.

Next to Tripla, YIT was planning to develop a high-rise project Trigoni, which was to comprise four towers with both residential and commercial premises. In late 2021, however, YIT started negotiations to withdraw from the project because it was not financially viable in current conditions. The City of Helsinki is now reconsidering the future of the area.

In early 2022, pension insurer Varma won the design and land transfer competition for the development of the Central

Pasila area. The project comprises approximately 43,000 sqm of mainly office premises. The telecommunication company Elisa will move its headquarters into the property, the construction of which is scheduled to be started in 2024, once the plan is confirmed.

"More than 40,000 sqm of new office space will be developed in the Central Pasila 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. Currently, residential construction activity is high in these areas.

Skanska plans to develop the so-called Pöllölaakso area in Pasila into residential use accommodating 600-700 residential dwellings. The area is currently occupied by the Finnish media company MTV, which will move out of the area by 2023.

There are currently two new office projects underway: Yleisradio Pension Fund is developing an office property for the national broadcasting company YLE, and GLL Pan European Property Fund is developing the Ilmalanrinne II office property. Hartela is planning to start the second phase of the Ilmalan Tori project in the latter half of the year.

Due to the multifaceted office supply, rental levels vary markedly between modern and older stock in Pasila. In the KTI database, average rents stand at €20-22 per sqm per month. According to the Helsinki Research Forum, the vacancy rate stood at only 5% at the end of 2021.

Vallila

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, head offices of banks and telecommunications companies. Vallila also accommodates a heterogeneous office stock with significant variation in rents between older and modern premises. Office rents in Vallila stand at some €16-18 per square metre on average. There is plenty of vacant office space in the older stock, and, according to the Helsinki Research Forum, the office vacancy rate exceeds 13%.

In late 2021, NCC Property Development sold the D phase of the Fredriksberg project to a fund managed by abrdn for €75 million. The 9,200 sqm project is due for completion in the second quarter of 2022 and its main user is the media company MTV. Phases B and C were completed in 2020 and owned by a fund managed by KanAm.

"The fourth phase of the Fredriksberg office project will be completed in 2022"

Pembroke Real Estate is developing a new 14,500 sqm building for Nordea Bank, next to the other properties used by the bank. The property is due for completion in early 2024.

The old VR machine workshop property area south of the Pasila railway station is also undergoing a major redevelopment, and it already accommodates approximately

2,500 inhabitants and thousands of jobs. YIT is planning to develop a hotel for NREP's Noli Studios concept in the area, but the development has been postponed due to appeals about the plan.

Sörnäinen – Kalasatama

Sörnäinen is a traditional industrial and harbour area that also accommodates a heterogeneous office stock. Next to Sörnäinen is the developing Kalasatama area. Kalasatama is another former harbour and industrial area, where living, working and public and private services will be combined. When completed in the late 2030's, Kalasatama is planned to accommodate some 30,000 people and 10,000 jobs. The current population in the area is approximately 8,000 inhabitants.

The Kalasatama area accommodates the 60,000 sqm REDI shopping centre. Adjacent to the centre, SRV is developing residential towers, the first one of which was completed in late 2019 and a second tower comprising 32 floors and 249 dwellings was completed in autumn 2021. The third tower, branded as Lumo One, was sold to residential investment company Kojamo in 2020, and will comprise 291 rental dwellings when completed in autumn 2022. In late 2021, the fourth tower, comprising 24 floors and 240 dwellings and a nursery, was sold to the German Patrizia for €101 million. The construction was started in January 2022 and is due for completion in late 2023.

"At least two of Kalasatama Towers will be dedicated for rental use"

In total, there will be seven residential towers, which are scheduled to be completed by 2027. SRV is also planning to start the construction of the 26-floor office tower Horisontti. According to the current estimates, the tower is due for completion in 2024. Another new development is being planned by the Swedish Castellum, which is a significant owner in the area, The Rantatie Viitta business park will comprise 11 floors and 10,000 sqm and is scheduled for completion in 2023.

Office stock in Kalasatama currently amounts to approximately 200,000 sqm, and the owners in the area include both domestic and international investors. According to the Helsinki Research Forum, the net take-up was slightly positive in the latter half of 2021, and, at the year-end vacancy rate amounted to approximately 12%. In the KTI database, the office rents vary between 21 and 23 euros per square metre.

In the neighboring Sörnäinen area, the approximately 150,000 sqm office stock is more diverse and its vacancy rate is markedly higher than in Kalasatama. Rents are, on average, some 2 euros lower. In 2021, two transactions were recorded in the area, the Swedish-originated AREIM acquired a 7,000 sqm office and retail property in the area, and NREP invested in the former bread factory building, which currently comprises 13,500 sqm of modern office premises.

"The Sörnäinen Tunnel project will be started in 2022 and completed by 2030"



Traffic arrangements in Sörnäinen and Kalasatama are being planned to be improved through the construction of the 1.6 kilometre Sörnäinen Tunnel. The tunnel will connect the two main roads in the area, Sörnäisten Rantatie and Hermannin Rantatie and would thus significantly facilitate vehicle traffic in the growing Kalasatama area. The politically controversial 180 million euro project was approved by the City Council in late 2021 and it will be carried out in two phases between 2022 and 2030.

Ruskeasuo, Käpylä

Next to Pasila, by Mannerheimintie, is the Ruskeasuo office area with mostly modern space supply. The area currently accommodates, for example, two phases of Skanska's Manskun Rasti project, as well as the two buildings of NCC's Aitio Business Park. In 2020 and 2021, two care property transactions were carried out in the area, where Invalidisäätiö sold its properties to eQ Community Properties special investment fund and to Lehto Asunnot.

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

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.

The office stock of Pitäjänmäki amounts to almost 400,000 sqm, and the amount of vacant space has remained high in

Pitäjänmäki for several years. According to the Helsinki Research Forum, the vacancy rate in the area increased in 2021 and exceeded 26% at the end of the year. In the diverse office stock, the average rent stood at approximately 14 euros per square metre in 2021.

"Vacancy rate in Pitäjänmäki remains high"

Due to high vacancies, property owners seek for new uses for their properties. For instance, pension insurer Varma is planning to redevelop its properties in Kutomotie for residential and commercial use. The project has, however, been postponed due to the slow planning process.

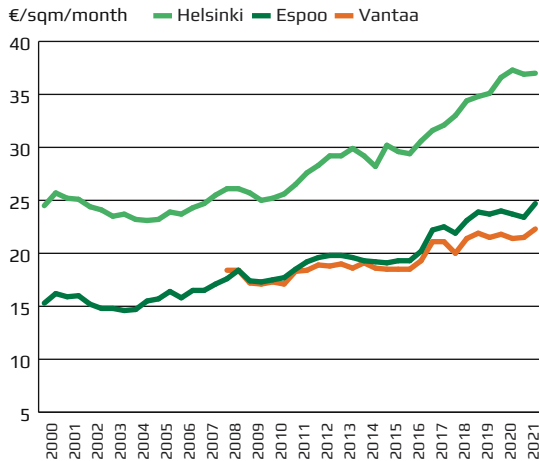
In 2021, two office transactions were carried out in Pitäjänmäki. In the summer, Trevian's special investment fund acquired a 26,000 sqm multi-tenant office property from AREIM, and in the fourth quarter, the Swedish Altaal made its third investment in Finland by acquiring a 18,500 sqm office property from NIAM. The main tenant of the building is IT company CGI.

Herttoniemi – Itäkeskus – Vuosaari

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

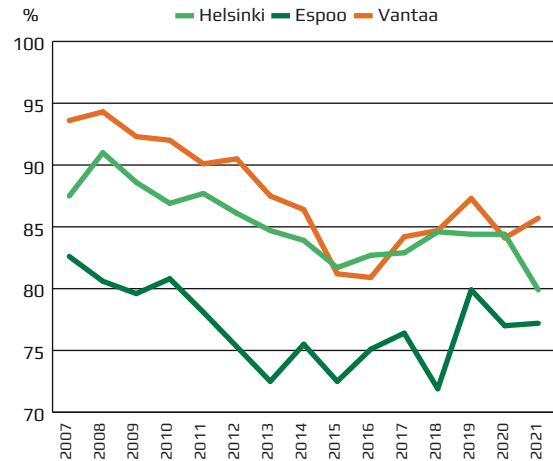
Herttoniemi accommodates the 20,000 sqm local service centre Hertsu, which was opened in 2020 by the Herttoniemi metro station. Rental residential construction activity remains high in the area, comprising both subsidised and non-subsidised supply. In 2021, NREP started the development of a 265-room apartment hotel under its Noli Studios concept close to the metro station.

PRIME OFFICE RENTS IN HELSINKI, ESPOO AND VANTAA



Source: RAKLI-KTI Property Barometer

OFFICE OCCUPANCY RATES IN HELSINKI, ESPOO AND VANTAA



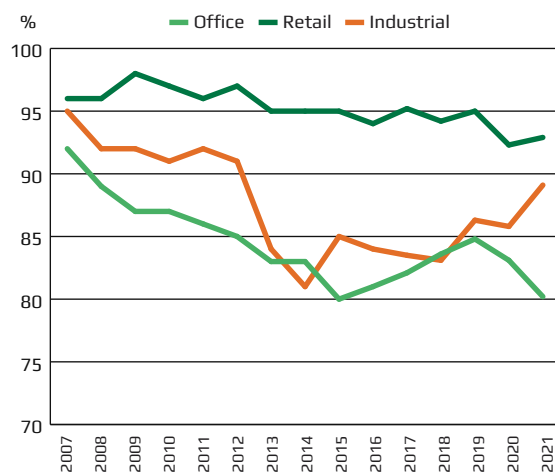
Source: KTI Rental database

In 2021, several smallish industrial and office property transactions were carried out in Herttoniemi between domestic investors. The year's largest transaction in the area was carried out by the Swedish Heimstaden, who invested 21 million euros in a residential property comprising 242 dwellings.

South of Herttoniemi is the Laajasalo residential area, which accommodates the 8,500 sqm retail centre Saari.

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

OCCUPANCY RATES OF OFFICES, RETAIL AND INDUSTRIAL IN THE HELSINKI METROPOLITAN AREA



Source: KTI Rental database

Further east at the junction of Ring Road I and the eastern radial route, as well as by the eastern metro line is the Itäkeskus area. Itäkeskus is also at the eastern end of the new Jokeri Light Rail line. The 100,000 sqm Itis and Kesko's 20,000 sqm Easton shopping centres are located in Itäkeskus.

"Several large transactions were carried out in Vuosaari in 2021"

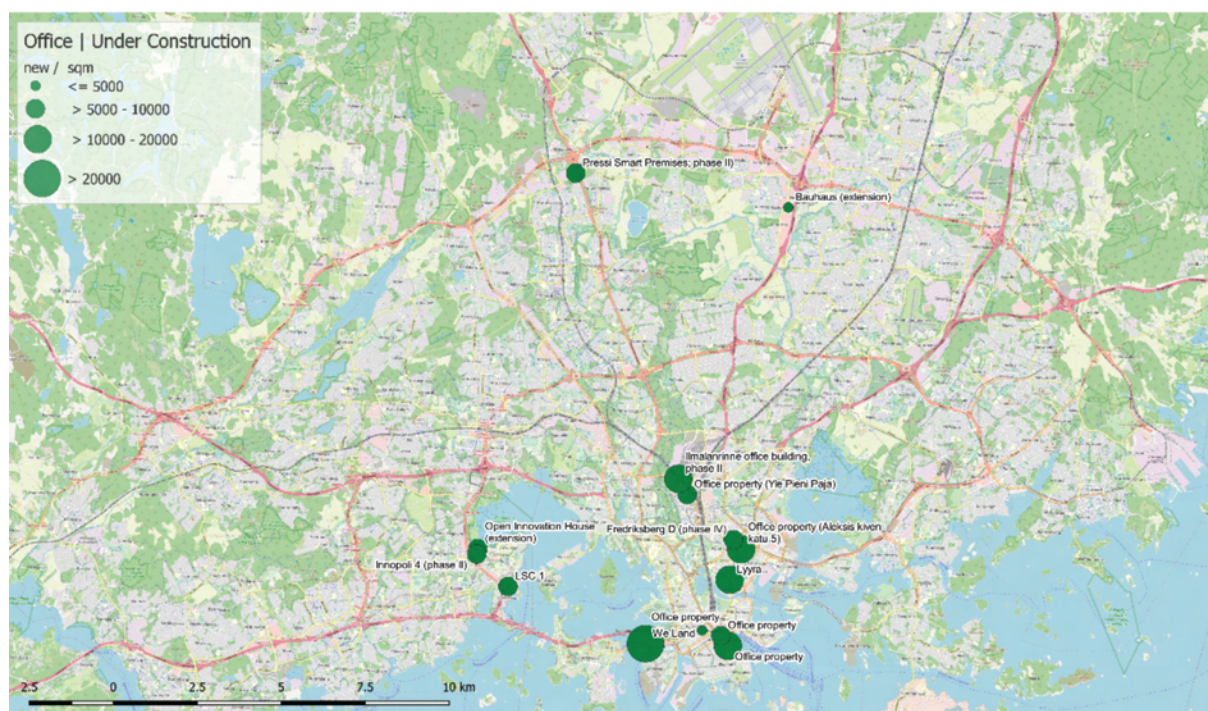
Vuosaari currently accommodates some 38,000 residents and continues to grow. Several large property transactions were carried out in Vuosaari in 2021. In the fourth quarter, NREP acquired the 21,000 sqm shopping centre Columbus, close to the metro station, from Citycon. The €106 million transaction was the largest retail property deal in 2021. Union Investment acquired two large residential properties under construction in Vuosaari from Skanska. Altogether, the properties comprise more than 500 rental apartments, and the combined transaction price amounted to €174 million. In addition, Cofinimmo invested in a nursing and care home in the area, and the shipping company Finnlines acquired a 15,000 sqm office and terminal building in the harbour area from Logisor.

5.2.2 Espoo

Espoo, Finland's second biggest city, has commercial property stock scattered within five regional centres: Leppävaara and Espoo centre are located by the western railway, and Tapiola and Matinkylä-Olari by the western metro line. The fifth centre, Espoonlahti, will also be served by the metro when the extension is completed in 2023. Espoo's commercial property stock is multifaceted, which can also be seen in the diversity 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. After a couple of years of positive development, the occupancy rate of offices started to decrease in 2020, and in autumn 2021, it stood at 77% in the KTI rental database. Areas suffering from high vacancies include, for instance, the Kilo-Mankkaa and Olari-Niittykumpu areas.

NEW OFFICE PROJECTS UNDER CONSTRUCTION IN THE HELSINKI METROPOLITAN AREA DECEMBER 2021



Additions to the map by KTI.
OpenStreetMap Finland, licenced under CC BY 4.0. Map: QGIS OpenLayers -plugin. Data: OpenStreetMap contributors.

Source: KTI, RPT Byggfakta Oy

Keilaniemi – Otaniemi – Tapiola – Matinkylä

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

Keilaniemi is a modern office area accommodating several major head office properties as well as some modern business park concepts. Rents have increased in the area together with the modernization of the supply. Average office rents in the area exceeded €25 per sqm in 2021 in the KTI database. Vacancy rate remains low in Keilaniemi, and stood at approximately 7% at the end of 2021.

Property development activity remains high in the area. NCC's Keilaniemi Next office property development project was completed in late 2021. The building accommodates the head office of Fiskars Group, and has been sold to Warburg-HIH Invest. Pension insurer Elo completed the extension of the Swing office complex between Keilaniemi and Otaniemi by a 5,400 sqm multi-user office property. The project also includes a 260-room hotel property, which is planned to be opened in 2022. Niam's 8,000 sqm Life Science Centre project is underway and scheduled for completion in 2023. Other major office projects in Keilaniemi are being planned by, for instance, Varma, Regenero as well as by AB Invest, who also plans to develop a major hotel in the area.

"Development activity remains high in Keilaniemi"

In 2021, Skanska bought the headquarter property of the pharmaceutical company MSD Finland in a sale-and-leaseback deal amounting to €22.6 million. Skanska will refurbish the 5,000 sqm building and will also investigate the possibilities to use the remaining 3,000 sqm building rights on the plot.

The Otaniemi area next to Keilaniemi accommodates the main campus of Aalto University. There are several business parks targeted at high-tech companies in Otaniemi. Technopolis's Innopoli campus is now being extended by its fourth phase, to be completed in late 2022. Alma Property Partners is carrying out a major redevelopment project in its office property, which has been rented to furnishing company Martela. Senate Properties' and Aalto University's development and extension projects are also underway. Due to more diversified office stock, average rents in Otaniemi are clearly lower than in Keilaniemi, and there is also plenty of vacant space in the area. According to the Helsinki Research Forum, Otaniemi's vacancy rate increased in 2021 and stood at almost 20% at the end of the year.

Tapiola is a traditional retail, office and residential area, which has undergone major redevelopment in recent years. The 50,000 sqm Ainoa shopping centre is located in Tapiola metro station. In the vicinity, the traditional Heikintori shopping center is planned to be redeveloped, but the project has been postponed due to planning issues.

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

Two office transactions were carried out in Tapiola in 2021. Firstly, in the beginning of the year, NREP invested €90 million in a 20,000 sqm office property, and secondly, Altaal acquired a 7,000 sqm property from Schroders in the fourth quarter.

"Rental residential supply continues to grow in Espoo"

Residential development activity has been high in all new metro station areas in Espoo in recent years. Rental residential supply has increased markedly, which has resulted in a slight increase in vacancy rates and negative development of rents in older stock in particular.

Matinkylä

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

Next to Iso Omena, a hybrid development project consisting of hotel, residential and parking facilities was completed in early 2021. The pension insurance company Veritas has invested in one of the two hotel properties. The City of Espoo is building a new high school in the area.

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

Further west, along the extension of the metro line, is the Espoonlahti area. Citycon is carrying out Helsinki metropolitan area's largest ongoing retail development project in the area. The Lippulaiva shopping centre has been demolished and replaced by a temporary 10,000 sqm Pikkulaiva centre. A new 44,000 sqm Lippulaiva centre is currently under construction and scheduled for completion in spring 2022. The project also includes a metro station, bus terminal and some 550 residential apartments.

Leppävaara

North of Otaniemi, along Ring Road I and the Turku motorway and also by the western railroad is the Leppävaara area, comprising a diversified office stock, the 100,000 sqm Sello shopping centre, some older retail premises and an increasing residential stock. In recent years, residential development activity has been high in Leppävaara area and its surroundings.

"The first two phases of the OOPS project were completed in 2021 in Perkkää"

The Leppävaara area is characterised by business park complexes with several buildings, which have been built in phases. The first two phases of NCC's OOPS office project, comprising some 18,500 sqm of lettable space, were completed in late 2021. Varma has invested in the project and Trimble Solutions Corporation is the main tenant in the building. In total, the project is planned to comprise five office properties, a hotel, 30,000 sqm of retail and leisure premises and 15,000 sqm of residential space.



According to the Helsinki Research Forum, Leppävaara accommodates an approximately 265,000 sqm office stock. Space demand strengthened in the area in 2021, and the vacancy rate stood at 12% at the end of the year. In the KTI database, the average office rents in Leppävaara stood at €21 per sqm in 2021.

Espoo centre

Espoo centre, an area accommodating the administrative buildings of the city as well as various retail buildings, is situated west of Leppävaara, close to the Turku motorway and alongside the western railway route. The traditional shopping centres Espoontori and Entresse are located in Espoo centre. Next to Espoo centre, the Lommila area is situated at the junction of the Turku motorway and Ring Road III. The area mainly accommodates retail space taken up by car, furniture and electronics stores and other large retail units. Residential construction activity also remains high in Espoo centre and in areas surrounding it.

5.2.3 Vantaa

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

Aviapolis

The Aviapolis area around the Helsinki-Vantaa Airport has developed rapidly during the past few years. The airport area is surrounded by five districts: Pakkala, Tammisto, Veromies, Viinikkala and Ylästö. The main players in the area include the City of Vantaa, Finavia, Avia Real Estate, all major property developers and several property companies.

There are currently almost 20,000 inhabitants in the area and there are plans for significant growth. The area accommodates about 37,000 jobs, and further growth of some additional 15,000 jobs is estimated. The Ring Rail Line has stations at the airport as well as in Aviapolis, thus linking the area with the city centre and main railway connections.

Commercial property stock in the Aviapolis area includes modern office premises, an increasing hotel stock and abundant retail supply. Aviapolis also forms an important logistics hub with rather modern space supply. Logistics property development has been active in the area in recent years, and this segment has also attracted investors. In 2021, the 22,000 sqm K3 Logistics North project was completed in Viinikkala. The property is rented by online food store ODA Finland and it has been sold to an unnamed foreign investor. In the vicinity, in Ylästö, SRV completed a 10,000 sqm logistics project in 2021, and Sagax has invested in the project. West of the airport area at Vantaanpuisto, another 20,000 sqm office and logistics property was completed in spring 2021. A. Ahlström Kiinteistöt and Terrieri Kiinteistöt Ky have invested in the project, which has been rented to machinery rental firm Cramo.

The largest ongoing logistics property development project is being carried out by a fund managed by abrdn, who is developing a 33,000 sqm Avialogis property for the Barona warehousing service company in Viinikkala. The project is scheduled for completion in the latter half of 2022. In the

vicinity, EKE-Rakennus is carrying out another logistics property project, and several logistics and industrial properties are being extended or redeveloped in the area.

"Logistics property development continues to be active in the airport area"

The airport area is currently undergoing major development, where Finavia and Avia Real Estate are the main players. For instance, terminal buildings are being extended and renewed, and new parking facilities are being constructed. At the end of 2021, Avia Real Estate started the development of the largest hotel in Finland at the airport. The 13-floor and more than 700-room hotel is scheduled for completion in 2024 and it will be operated by Nordic Choice Hotels. Two other hotel projects are being planned in the area by NREP, but their starts have been postponed.

"The largest hotel in Finland is being built at the airport"

There are several office projects being planned in the airport area with a scheduled start in 2022, being developed by, for instance Technopolis, Lujatalo (Grand Wing Business Park), NCC (Mondo) and Avia Real Estate (Avia City). Some of these have been postponed and are dependent on the space demand. In the Aviapolis station area, retail and residential properties are also being planned.

South of the airport, by Ring Road III, there are several modern business park complexes. Investors in these properties include both domestic and international investors. In total, the Aviapolis area accommodates an office stock of approximately 200,000 sqm. The area has suffered from an increasing vacancy rate, which stood at almost 16% in 2021. In the KTI database, office rents stood at 19-20 euros per sqm on average in 2021.

In the vicinity of the airport, in the Vantaankoski area located in the junction of Ring Road III and Hämeenlinnanväylä and by the Ring Rail, SRV is developing the Pressi project. The second phase of the project is currently underway and scheduled for completion by the end of 2022. Julius Tallberg-Kiinteistöt has invested in the project.

South of the airport, the Jumbo-Flamingo shopping and leisure centre is situated, comprising retail, hotel, leisure and office premises. The centre has a gross leasable area of approximately 140,000 sqm.

In the southern part of the Aviapolis area, the Pakkala and Tammisto areas are also important retail areas favoured by retail parks and big-box retail units such as outlets for motor vehicles, furniture and gardening. The Koivuhaka area, just east of Aviapolis, accommodates large retail units, some logistics and office properties, and is also an expanding residential area.

Tikkurila

Tikkurila is the main urban centre and – alongside the airport area – the most important office and retail area in Vantaa. Tikkurila also accommodates most of the city's administration buildings. Tikkurila serves as a hub for

rail connections between the airport, long-distance trains and Helsinki centre. The retail and office centre Dixi accommodates the Tikkurila train station and bus terminal.

The City of Vantaa is developing its infrastructure, and several property investors are carrying out new investments in the area. Rental residential construction activity remains high in the area.

In 2021, Sponda completed the development of the second phase of an office and retail property complex in Värитеhtaankatu. The 13,600 sqm property was sold to two funds managed by eQ in late 2021. In the vicinity, in the Jokiniemi area, Senate Properties is carrying out an office project for the Radiation and Nuclear Safety Authority and is about to start another project for the police.

Also in the vicinity, in Hakkila, a 15,000 sqm logistics property is being developed by YIT. Logistics company PostNord will be the tenant of the property, which has been sold to an unnamed foreign investor.

Kivistö

Kivistö is located close to Ring Road III and the Hämeenlinna motorway alongside the Ring Rail Line. Kivistö is a rapidly developing area, which currently accommodates some 15,000 residents, but is expected to grow to some 50,000 inhabitants and nearly as many jobs. Residential development has been abundant in the area in recent years.

At the Kivistö station, a shopping and service centre has been planned for many years, but the developers and the city have had to postpone and diminish the project several times. Lehto Tilat started the development of the project comprising 12,000 sqm of lettable space in early 2021. The project has been sold to the special investment fund eQ Commercial properties and it is scheduled for completion in late 2022.

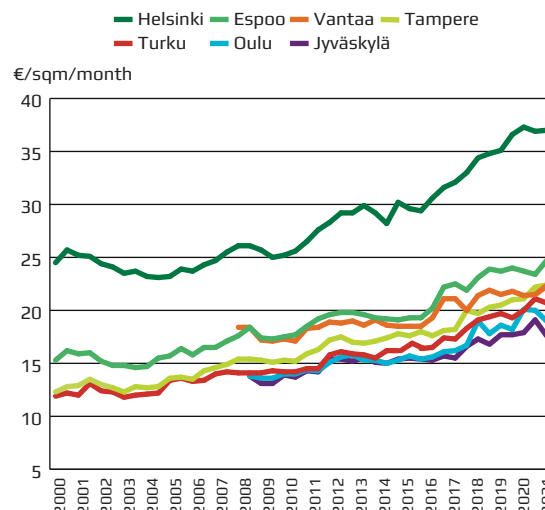
"The construction of the Kivistö retail centre will be completed in 2022"

Myyrmäki

Myyrmäki is a regional centre in western Vantaa by the Ring Rail Line. The growing area currently accommodates some 17,000 inhabitants, and the greater Myyrmäki region nearly 58,000. Residential construction activity remains high in Myyrmäki and in the neighbouring areas of Martinlaakso, Vapaala and Kaivoksela.

The 40,000 sqm Myyrmanni shopping centre is located in Myyrmäki centre, next to the railway station. Citycon's other shopping centre, the 15,000 sqm Isomyyri, is also located in Myyrmäki, slightly north of Myyrmanni. The area also accommodates some older office stock. NREP completed a 322-room hotel project in the area in late 2021. The property comprises both normal hotel rooms and longer-term accommodation, as well as a spa, lounge and working facilities.

PRIME OFFICE RENTS IN FINNISH CITIES



Source: RAKLI-KTI Property Barometer

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

Tampere

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

Tampere is the largest inland city in the Nordic countries. Tampere is an old industrial city that has recently attracted high technology businesses as well as service companies. Technology expertise areas in the Tampere region include information technology, machinery and automation and healthcare technology. The unemployment rate in Tampere increased rapidly in 2020, but turned downwards in 2021. At the end of the year, it stood at 13.1%, according to the Ministry of Economic Affairs and Employment.

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

The Tampere region consists of eight municipalities with a total population of nearly 400,000 inhabitants. By 2030, the city of Tampere itself is expected to accommodate more than 250,000 inhabitants.

The growth of the city requires the development of new areas and the redevelopment of old industrial areas into new uses. Examples of these kinds of areas include the Hakametsä sports campus, the old industrial Hiedanranta area and the areas close to the city centre.

A new tramway started operations in Tampere in summer 2021. The two lines combine Hervanta in the south and the University hospital area on the eastern side of the city centre with Pyynikintori. In the city centre, new underground parking facilities are being planned along with a plan to turn the centre itself into mainly light transportation and pedestrian areas.

Tampere office stock amounts to some 1.1 million sqm. Modern office space is found in, for instance, Ratina, Hatanpää, Tulli and Kauppi areas. In the best office locations in modern buildings, rental levels are well above €20 per sqm per month, whereas in older stock the rents typically are at some €15-16 per sqm per month. Due to active development, the office occupancy rate has decreased in recent years, and stood at only 84% in the KTI database in September 2021.

Next to the railway station, the construction of the first phases of the 120,000 multi-use complex Tampereen Kansi (Deck and Arena) project were completed in 2021. Local Tapiola and OP Group's insurance companies as well as Ilmarinen have invested in the project. The project comprises a multi-use arena for 13,000 people and a hotel, which were opened in late 2021. The first office tower was also completed in 2021, and the second is due for completion in 2022. In addition, the complex comprises five residential towers as well as parking facilities. The project will be built in phases and the whole project is scheduled to be completed by 2023.

"The first phases of the Tampere Deck and Arena project were completed in late 2021"

Another office and event property project was started in the vicinity of the railway station by Jatke Oy in 2021. A. Ahlström Kiinteistöt has invested in the GO21 project, scheduled for completion in 2023. The main tenant will be Gofore Plc, and the project also comprises the refurbishment of the old cargo station, which will accommodate event facilities and a local distillery.

The prime retail locations in Tampere include the main street, Hämeenkatu, and the Koskikeskus and Ratina shopping centres in the vicinity. The 115,000 sqm Ideapark shopping centre is located in Lempäälä, south of Tampere.

In 2021, eQ's fund completed the development of a 14,500 sqm retail centre in Kaleva, east of the city centre. In the Tammela area, close to the GO21 project, Terrieri Kiinteistöt is developing the Tammela Stadion retail premises. Otherwise, retail development has in recent years mainly concentrated on smaller retail units.

Industrial property construction in the Tampere region has been concentrated in Pirkkala, south of Tampere and close to the airport, and in Ylöjärvi, west of the city, and, to some extent in the Lielähti area in the western part of Tampere. In 2021, two smallish industrial property projects were completed in Lielähti, and in Pirkkala, NREP completed a new logistics facility for PostNord. The largest ongoing project is DB Schenker's 15,000 sqm logistics property in Lempäälä, south of Tampere. There are some smaller projects underway in Ylöjärvi, Pirkkala, Kangasala and Nokia.

Hotel stock in Tampere has increased markedly in recent years. In 2021, Lapland Hotels opened a new hotel in the Tampereen Kansi project, comprising 285 rooms. A new 150-room hotel is underway in Pyynikki, next to the city centre, and hotel Ilves in the centre is under major refurbishment.

Residential development activity is also high in Tampere, which is one of the fastest growing city regions in Finland. In recent years, rental development in Tampere has been more positive than in most other large cities, and despite the increase in supply, rents have continued to increase steadily. In 2021, rents in new agreements increased by 2.0%, according to the KTI rental indices, and occupancy rate remained the highest among the large cities.

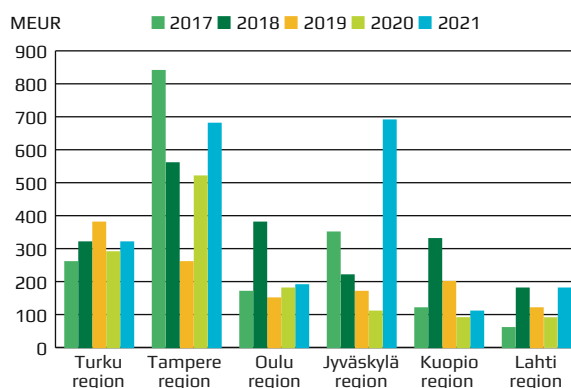
"Residential rental demand is strong in Tampere"

In the transactions market, Tampere typically holds the position of the second most active market area after the Helsinki metropolitan area. In 2021, the transaction volume amounted to €680 million, up from €520 million in 2020. There were several transactions in the residential property sector, mostly carried out by domestic investors. In the commercial property market, new investments in Tampere were made by, for instance, the Swedish Castellum, as well as by Nyfosa, in co-operation with Brunswick Real Estate.

Oulu

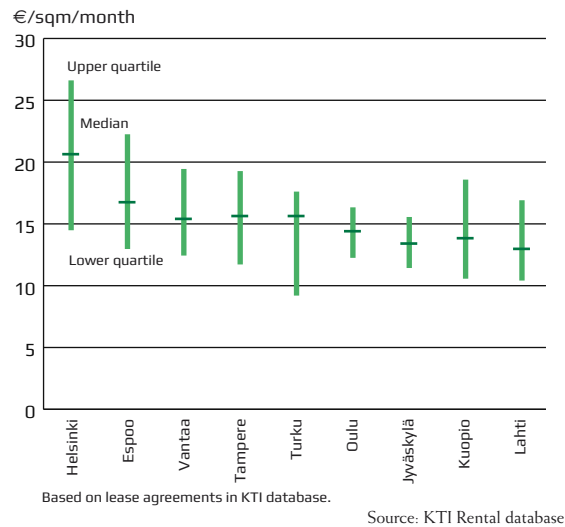
Oulu is a university, science and technology city whose influence covers all of northern Finland – about one-half of the area of the entire country. There are currently some 210,000 inhabitants in the city of Oulu, and approximately 255,000 in the whole region.

TRANSACTION VOLUME IN CITIES OUTSIDE THE HELSINKI METROPOLITAN AREA

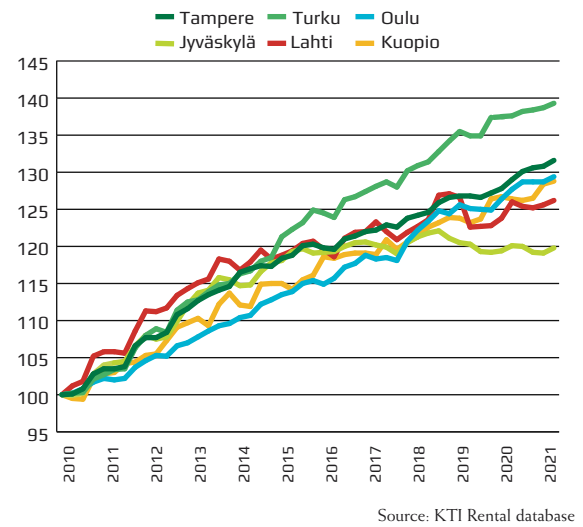


Source: KTI

OFFICE RENTS IN MAJOR CITY CENTRES 1.9.2021 (PREVAILING RENTS, UPPER AND LOWER QUANTILES)



RESIDENTIAL RENT INDEXES IN TAMPERE, TURKU, OULU, JYVÄSKYLÄ, LAHTI AND KUOPIO INDEX SPRING 2010 = 100



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

After a couple of years of positive development, unemployment has increased in Oulu during the pandemic. However, during 2021, the employment market improved and the unemployment rate decreased from 14.5% at the end of 2020 to 13% in December 2021.

Metsä Fibre Oy, part of the Finnish Metsä Group, is currently developing a new bioproduct mill in Kemi, some 100 kilometres north of Oulu. The value of the investment is €1.85 billion and it is the largest investment ever made by the

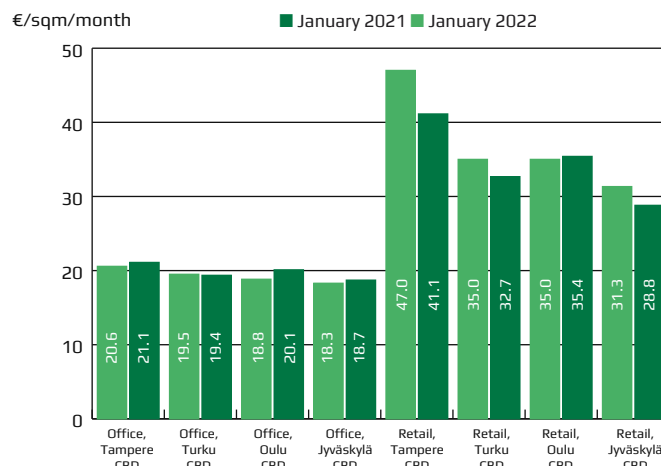
Finnish forest industry in Finland. The construction phase will take approximately two and a half years, and the mill will be completed in late 2023. The project will have a positive impact on employment in the whole northern Finland and is estimated to create approximately 1,500 new jobs.

Oulu's real estate market players include, for instance, domestic pension funds, domestic funds and also some specialised foreign investors. The specialised office property investor Technopolis was originally founded in Oulu and is still an important player in the office market.

The total office stock of Oulu amounts to some 690,000 sqm. The most important office areas include, in addition to the city centre, Peltola just east of the city centre and the Linnanmaa area north of the city centre, which accommodates several high-tech companies and Oulu University.

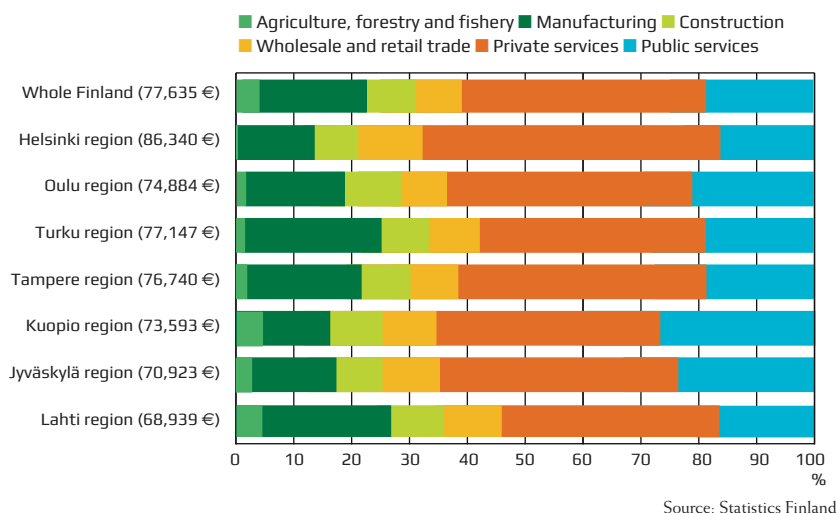
The office occupancy rate remained stable in Oulu in 2021 and stood at 89% in the KTI database in September. In the best locations, office rents are above €20 per sqm per

PRIME OFFICE AND RETAIL RENTS IN CITY CENTRES OF TAMPERE, TURKU, OULU AND JYVÄSKYLÄ



Source: KTI Regional Barometer

VALUE ADDED BY SECTOR AND REGION 2019 VALUE ADDED BY EMPLOYEE (€) IN PARENTHESES



month. On average, office rents stand at some €15 per sqm in the KTI database.

In 2021, there was only one smallish office project completed in Oulu. At the year-end, there were two office projects under construction: the state's Senate Properties develops a new Courthouse in the city centre, and in the Limingantulli area, Movitek's office and retail project was underway.

Oulu's retail occupancy rate continued to improve in 2021, and stood at about 96% in the KTI database. In 2021, two supermarket and two big box properties were completed, and, at the year-end, five projects were underway. In the city centre, prime retail rents stand at some €35-40 per sqm.

In the city centre, the construction of the 130-room Torihotelli hotel property is underway but has been delayed several times. The construction permit is valid until mid-2022, but, due to the developer's financial difficulties, the construction work has been suspended for several months.

"Residential construction activity remains high in Oulu"

Public sector property development remains active in Oulu, with, for instance, the Ouluhalli sports arena having been completed in 2021 and a new hospital being currently under construction. The Swedish Hemsö has invested in two fire station buildings in the region, the first one of which was completed in late 2021 and the second in early 2023.

"Transaction volume amounted to €190 million in Oulu in 2021"

Residential construction activity has remained high in Oulu. In 2020, new residential construction starts increased to approximately 2,300, and the volume continued to increase in 2021. The demand for rental dwellings remained brisk in 2021, and residential rents increased by some 1.3%.

Property transaction activity in Oulu remained at the same level in 2021 compared to the previous year, at some €190 million. The volume consisted mainly of smallish

transactions by domestic and local players, as well as properties included in larger portfolios. The year's largest transaction was carried out by special investment fund UB Nordic Properties, who acquired the 24,000 sqm Ideapark shopping centre from the Swedish Alma Property Partners for €60 million. Non-Finnish investors acquiring properties in Oulu in 2021, included, for instance, Nyfosa together with Brunswick Real Estate, Hemsö and Sagax. LähiTapiola's public use property fund also acquired two properties in Oulu in 2021.

Turku

Turku is a strong traditional university city, accommodating, for example, the main Swedish-language university in Finland. The region's current competence areas include businesses around the sea cluster and biotechnology. Metal industries in the region are supported by an extensive shipbuilding business as well as by the automotive industry located in Ulusikaupunki, some 60 kilometres north of Turku.

Also in Turku, unemployment has increased markedly during the pandemic, but turned downwards in 2021. At the end of 2021, unemployment stood at 13.8%, having been 15.4% at the end of the previous year.

The most important infrastructure development project being planned in Turku is the development of the fast train connection between Turku and Helsinki, which would decrease the travel time to one hour and create a unified commuting area for 1.5 million people. The planning of the project was started in 2021, and should be completed by the end of 2023.

The development of local public transport connections is also being discussed. In 2020, the city council decided to pursue plans for a tram line connecting the developing harbour area with the city centre, Science Park area and the Varissuo residential area. The investment decision is expected to be made in 2024.

Property development has been active in Turku in recent years. In the city centre, the reconstruction of the main marketplace area is about to be completed, and an underground parking facility for 600 cars was opened in late 2020. By the marketplace, the traditional Hamburger

Börs Hotel has been demolished and was replaced by a new 270-room Scandic hotel, which was opened in late 2021.

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 mainly consists of office and high-quality manufacturing space.

Turku Technology Properties is the major owner and developer in Kupittaa. In 2021, the company completed a 4,000 sqm head office property for Turku Energia, and is currently developing another office property in the area, where the local office of Kela, the Social Insurance Institution of Finland, will be the main tenant. In the vicinity, a local property developer is developing an office and retail property in the former railway station area.

"Property development continues to be active in Kupittaa"

Also in Kupittaa, the construction of a new University hospital building is scheduled for completion in early 2022. In the university area nearby, University Properties Finland completed a new educational property in 2021.

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

Office demand is strong in the Kupittaa area in particular. In the whole of Turku, the office occupancy rate decreased slightly in 2021, and stood at approximately 90% in late 2021 in the KTI database. Office rents in Turku are slightly lower than in Tampere on average. In the RAKLI-KTI Property Barometer, the estimated prime office rent was slightly below 21 euros per square metre in late 2021.

The most important retail space submarkets in the Turku area include the city centre, the Hauninen area in Raisio as well as the Skanssi area east of the city centre. In Hauninen, the abundant supply of large units is occupied by, for instance, furniture and car retailers. The 58,000 sqm shopping centre Mylly is also located in the area. The Skanssi area accommodates the 38,000 sqm shopping centre Skanssi as well as other large retail units. In the city centre, the most expensive retail space can be found in the shopping centre Hansa and in its vicinity. Retail property development volumes have remained low in the region in recent years. In 2021, no new retail projects were completed, and at the year-end, the only ongoing project was the 2,000 sqm extension of shopping centre Mylly in Raisio.

Logistics and industrial property development has been rather active in recent years. In 2021, the largest completed logistics project was NREP Logicenter's 12,000 sqm property for Finnish Design Shop at the intersection of Turku bypass and Tampere highway. At the year-end, there were three industrial or logistics property projects underway.

Next to the railway station, an approximately 90,000 sqm entertainment and event centre is being planned, comprising a multi-purpose arena, sports facilities and a hotel. The area would also comprise approximately 70,000 sqm of residential properties. The project is scheduled for completion in 2026, but its financing has not, however, been confirmed yet.

"The rental residential market has performed strongly in Turku"

Turku's residential property market has performed well during the pandemic. In recent years, the increase in residential prices has been almost as strong as in Helsinki, and amounted to 5.8% in 2021. According to Statistics Finland's price indices, housing prices have increased by 22.8% in Turku since 2015, compared to 8.7% in the whole country on average. Strong demand has been reflected in housing construction, where the number of new starts reached new annual records in 2020 and 2021, amounting to almost 2,700 and 2,600 dwellings, respectively.

Strong housing demand is also reflected in the rental markets, where the increase in rents since 2010 has been the strongest in Turku among the largest cities. In 2021, the increase in rents, however, slowed down to 1.3%.

"German funds invested in logistics properties in Turku in 2021"

The property transaction volume in Turku amounted to some €320 million in 2021, compared to €290 million in 2020. The transactions in 2021 comprise a colorful mix of different property sectors and were carried out by both international and domestic players. Foreign investors active in Turku included, for instance, the German funds managed by MEAG and Hansalvest, who both invested in logistics properties at the end of the year. The Swedish Sagax, Cibus and Castellum also made new investments in Turku in 2021. Of the domestic investors, special investment funds managed by eQ, Taaleri and S-Bank also acquired properties in Turku.

Jyväskylä

Jyväskylä's economic structure emphasises both traditional industries and new technology. The Jyväskylä region's industry areas cover wood and construction materials, ICT and healthcare industries. The unemployment rate decreased in Jyväskylä in 2021, but remained among the highest in major cities, at 14.2%.

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

The old paper mill area Kangas, next to Tourula, is a developing area for residential and office construction. In 2021, the 6,000 sqm Kankaan Arkki office property was completed in the area. Aktia's fund is the investor in the project. At the year-end, there were no new office construction projects underway. In the RAKLI-KTI Property Barometer, the office rent in Jyväskylä was assessed at 17-18 euros per square metre.

The main retail areas in Jyväskylä include the city centre and the Seppälä area north of the centre, where the 24,000 sqm shopping centre Seppä is located. The traditional Forum retail centre's refurbishment was completed in 2021. Otherwise, retail construction activity comprised smallish units outside the city centre.

Jyväskylä's commercial property construction is currently focused on industrial properties. In the Eteläportti area, south of the city centre, there are two industrial property projects underway, both developed by the regional development company Jykie. An almost 10,000 sqm manufacturing and logistics property will be completed for DBSantasalo in the autumn, and later in 2022, an 11,500 sqm manufacturing, laboratory and office property for a group of local companies. Some smaller industrial property projects are under construction by local developers.

The Hippos area south of the city is another significant area under development in Jyväskylä. The project's volume is currently based on a plan of some €170 million investment and 100,000 sqm of sports, educational, research and service facilities. The construction is scheduled to be started in early 2022. Investors in the project include the domestic investment company Sepos, the City of Jyväskylä and Lehto Group.

"Large portfolio transactions boosted the volume to €700 million in Jyväskylä in 2021"

Property transaction market was exceptionally active in Jyväskylä in 2021, and the volume increased to almost €700 million, having stood at only €110 million in 2020. More than three quarters of the total volume consisted of three large portfolio transactions, two of which concerned the same office portfolio. In the summer, the Swedish Castellum acquired Kielo AB's entire real estate portfolio from Brunswick Real Estate and Blackstone. The portfolio included 22 properties, of which nine office properties and one development project were located in Jyväskylä. Right after the publication of the transaction, Castellum split the portfolio by selling the Jyväskylä properties further to another Swedish investor, Nyfosa. The value of this transaction was €208 million, and it became the largest real estate transaction in the Jyväskylä region in the history of KTI's statistics. The third real estate transaction of more than €100 million was carried out in autumn, when the City of Jyväskylä sold three educational and three fire station properties to the Special Investment Fund eQ Social Properties. The portfolio comprised approximately 55,000 square meters and the purchase price amounted to €141 million.

Residential construction activity reached its highest levels in Jyväskylä in 2017-2019, when 1,700-2,000 dwellings were completed annually. In 2020, the construction of approximately 1,100 dwellings was started, and in 2021 the volume increased to almost 1,500 dwellings already between January and November.

The residential rental market in Jyväskylä has, in recent years, suffered from over-supply, which was further highlighted by the pandemic in 2020 and 2021. Since the beginning of 2020, the KTI rental index has remained stable or declined slightly. In 2021, the index showed a decrease of 0.2%. In the KTI database, Jyväskylä's vacancy rate was the highest among the largest cities. However, towards the end of 2021, the number of vacant dwellings started to decrease and rents increased slightly. Despite a slight positive turn in expectations, the rental outlook remained negative in the RAKLI Residential rental barometer in autumn 2021.

Kuopio

Kuopio is a university city and the capital of the province of Pohjois-Savo, situated in eastern Finland. Traditional industry areas are mostly related to wood. Of the jobs in the region, some 8% are in manufacturing industries. The proportion of occupations in the public sector is greater than in other major cities. In its strategy, the city emphasises the food, health, bio and environmental industry sectors. In recent years, the unemployment in Kuopio has remained at a lower level than in other main cities outside the Helsinki metropolitan area. In 2021, unemployment even fell below its pre-pandemic level and stood at 11.2% at the end of the year.

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

The Kuopio office stock is concentrated in the city centre as well as close to the University and hospital areas. KPY Novapolis is a major office investor in Kuopio with approximately 90,000 sqm of premises.

Office development activity has been rather active in Kuopio. In 2021, the second phase of Lapti Group's Kuopion Portti project was completed, and the third phase is under construction. The second phase is owned by a fund managed by DEAS Asset Management, whereas the third phase was sold to Nyfosa in late 2021.

"Kuopio office stock continues to increase"

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. The largest ongoing retail construction project is being carried out by the hardware department store Carlson, together with a local construction company, who are developing a 5,500 sqm retail property south-west of the city centre. A local developer is constructing a 7,500 sqm logistics property in the Neulamäki area, west of the city centre.

Transaction volume in Kuopio amounted to €110 million in 2021. In addition to the €12 million office acquisition, Nyfosa also invested almost €20 million in a mixed use property in Kuopio in 2021. In the public use property sector, Cofinimmo invested €17 million senior nursing home, and also Hoivatilat and SBB increased their investments. Otherwise, the transaction volume comprised mainly residential properties, and a couple of larger portfolio transactions also included assets in Kuopio.

"Residential rents increased by almost 2% in Kuopio in 2021"

In 2020, the construction of some 1,300 new residential dwellings was started in Kuopio, and in 2021, the volume increased to almost 1,700 dwellings. The residential rental market has developed positively with occupancy rates remaining healthy and rents showing stable development. In 2021, rents increased by almost 2% in Kuopio, and the outlook remained stable.

Lahti

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

The region's favourable location has attracted logistics operators in the region. Services and trade occupations currently represent around 60% of the jobs in the region, while industry's share has decreased to 30%. Among the largest cities, unemployment remains the highest in Lahti, and, despite the slight decrease in 2021, still exceeded 16% at the end of the year.

In the city centre, old industrial buildings have been redeveloped into other uses, and the area's attractiveness has also been increased by a new underground parking facility, a public transport terminal and an increasing number of pedestrian areas.

Retail supply in the city centre is concentrated around the Trio shopping centre and along the main street. In the Karisto area, there is shopping centre Karisma with a leasable area of 34,000 sqm. In 2021, there was only one smallish retail construction project completed, and, at the year-end, there were no projects under construction.

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

In the city centre, on the site of the former courthouse, the local property developer Superion is planning to start the development of a new 7,500 sqm office property concept Business Park Aisti, scheduled for completion in 2023.

Industrial and logistics property development has been rather active in Lahti in recent years. In 2021, two logistics/

warehouse projects were completed in the Kujala area, south-east of the city centre. One of the properties has been sold to a fund managed by OP, and the other is owned by TT Estate. At the year-end, two projects were underway.

In the public use property sector, Superion, together with its investment partner Kinoss Property Investment, is developing 3,000 sqm of sports facilities in the Salpausselkä area. A new 33,000 sqm hospital property project is underway and scheduled for completion in 2022.

"Hemsö invested in educational facilities in Lahti in 2021"

Lahti's transaction volume doubled from the previous year and amounted to €180 million in 2021. The largest transaction was carried out by Hemsö, who acquired the Paavola campus in the city centre from the City of Lahti for €80 million. The campus will comprise approximately 30,000 sqm of educational facilities and the city signed a 20-year lease for the premises. Otherwise, the transaction volume comprised mainly residential properties and smallish commercial properties, which were often included in larger portfolios.

"Residential rents remained stable in Lahti in 2021"

The annual residential construction activity has varied between 500 and 1,000 dwellings. In 2020, approximately 500 dwellings were started, and in 2021, the volume amounted to almost 600 already during the first three quarters of the year. Residential rental markets have reacted to the increasing supply, and, in recent years, rents have remained stable or decreased slightly. In 2021, the KTI residential rental index increased by 0.2%.

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

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



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

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RE Finland on November 10-11, is one of our main events. With over 600 participants, combining seminars and extensive networking it is The Finnish Real Estate Summit gathering executive and expert level representatives from real estate related businesses in Finland.

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www.ncc.fi/www.ncc.com

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

Newsec was founded in 1994 and is today a partner-owned company with 2,400 co-workers spread across the seven Nordic and Baltic markets. In Finland we have over 650 employees. Great Place to Work Institute® Finland has certified Newsec Finland again in 2021. Newsec has been among top workplaces in Finland now for 15 years.

Internationally Newsec has approximately €68 billion under management and it annually signs lease agreements of some 1,5 million square meters, is advisor in transactions of some €3 billion and does real estate valuations of underlying property worth €265 billion. Thanks to large volumes, local presence combined with in-depth understanding of a range of businesses, Newsec has a unique expertise in the Northern European real estate market.

The market report Newsec Property Outlook Nordics has been published since 2001 and Newsec Property Outlook Finland since 2012. The latest issue can be downloaded at <https://www.newsec.com/insights/reports/>

RAKLI

RAKLI, The Finnish Association of Property Owners and Construction Clients, is the most comprehensive and prominent association of professional property owners, real estate investors, corporate real estate managers and construction clients in Finland. The members represent both the private and the public sector, and member organisations number over 230 in total.

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

Welcome to our website: www.rakli.fi.

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www.sebgroup.com or www.seb.fi



Sirius Capital Partners focuses on opportunistic and value-add real estate investments in Finland. The aim of the value-add approach is to turn our investments into attractive investment products. We make funds or club deals based on an investment theme. Our investors range from global institutions to multi managers and fund of funds.

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

Sirius has to date raised three proprietary funds with a total of €270 million in commitments from international institutional investors. The first two funds, Sirius Fund I Grocery and Sirius Fund II, were exited through an IPO in March 2018 as Cibus Nordic Real Estate AB (publ) was listed on Nasdaq First North in Stockholm. The two funds have thereafter been liquidated. Sirius Fund III is fully invested and focuses on office properties in Helsinki. As the business plans of these funds have been mostly completed, Sirius has in the last year been investigating the Finnish residential sector for a portfolio build-up strategy. An affiliate of Sirius Capital Partners has so far signed agreements to acquire residential buildings, comprising a total of more than 1500 apartments.

www.sirius.fi

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We offer sustainable and attractive property development projects for investors, owners, tenants and end-users. We are focused especially on modern office and logistics space, hybrid projects in dense urban environments, commercial space, development of social infrastructure premises and development of wind power plants. We are creating investment vehicles built around our development projects or residential properties and co-invest with our capital partners. We are the first Finnish construction company to commit to reducing emissions from both our own operations and our value chain in accordance with the SBTi.

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